

Waterstones Booksellers Limited

Annual Report and Financial Statements

52 weeks ended 27 April 2019



WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2019****Company Number: 00610095**

COMPANY INFORMATION**DIRECTORS**

A J Daunt

J Molloy

P Best (appointed 12 September 2018 as an alternate director to J Molloy)

SECRETARY

A Campbell

REGISTERED OFFICE

203-206 Piccadilly

London

W1J 9HD

COMPANY NUMBER

00610095

AUDITORS

Ernst & Young LLP

1 Colmore Square

Birmingham

B4 6HQ

STRATEGIC REPORT**Principal activities**

The Company is part of the Waterstones group of companies ("Waterstones"). Waterstones operates as a leading retailer of books, stationery and other related products through a chain of bookshops in the United Kingdom, the Republic of Ireland, Isle of Man, Jersey, Holland and Belgium and online through the Waterstones.com e-commerce website. Waterstones also sells coffee and food from cafés and restaurants within some of its shops, hosts public and private events and supports a large number of literary festivals.

Review of the business

In the period under review, on 1 June 2018, Waterstones was sold to Book Retail Bidco Limited ("Bidco"), a private limited company incorporated and registered in England and Wales (registered company number: 11284041). As a result of this transaction, Bidco became the immediate parent company of and material source of funding for Waterstones.

Waterstones continues to seek to improve the standards of bookselling within its shops by the training and enhanced career development of its booksellers and to support this with investment in the shops themselves and the operational infrastructure. Capital investment has continued at £7.0m (2018: £8.8m). In the period under review, 4 new shops were opened, all of which are trading successfully, and a further café has been added to the Café W estate.

Sales for the 52 week period ended 27 April 2019 were £392.8m (2018: £385.7m) in a period absent of significant bestselling titles. Sales of non-book items continued to grow in absolute terms and as a percentage of total sales, as did sales through Café W. Consistent operational performance and steady margins resulted in an operating profit before exceptional items of £29.7m, an improvement from a profit of £24.0m in the prior period. Exceptional operating charges totalled £1.2m (2018: £nil) comprising additional directors' remuneration arising from the transaction detailed above.

The profit after taxation amounted to £22.7m (2018: £16.3m). No dividend was paid or declared during the period (2018: £nil) with the profit being transferred to reserves.

During the period under review, 5 shops were closed and, as previously noted, 4 shops were opened, resulting in a total estate of 277 shops at 27 April 2019 (2018: 278).

Following the period end, Bidco undertook an exercise to refinance the existing indebtedness of Bidco and its subsidiary companies (the "Group") to provide funds for its general corporate and working capital purposes. In August 2019, Bidco entered in to new external borrowings with Credit Suisse AG, London Branch ("Credit Suisse"), comprising: (i) a £165m loan, repayable after 5 years, upon which interest is charged at LIBOR plus 6.0%, and (ii) a revolving credit facility of £25m, also repayable after 5 years, upon which interest is charged at LIBOR plus 5%. A fixed annual fee of £0.1m plus a commitment fee charge is payable in addition to interest to Credit Suisse in connection with the supply of the revolving credit facility. The commitment fee charge is calculated on the basis of 35% of the agreed margin, which equates to a 1.75% charge on any unutilised amount. The Company shares the benefits and responsibilities of these financing arrangements with Bidco.

In August 2019, the Company provided an additional loan of £5.2m to its parent undertaking, Bidco.

Key performance indicators ("KPIs")

The Directors consider the key indications of the performance of the Company, both financial and non-financial, to be turnover, gross profit percentage and adjusted EBITDA (earnings before interest, tax, depreciation, amortisation and any one-off exceptional costs).

STRATEGIC REPORT (CONTINUED)**Principal risks and uncertainties**

The principal risks relevant to the Company are identified as follows:

- (i) the competitive nature of its markets, with particular emphasis on the e-commerce strength of Amazon and developing methods of digital delivery of products and content;
- (ii) the general sensitivity to changes in economic conditions with the notable risk that Brexit causes further damage to consumer confidence;
- (iii) the seasonality of the business, with Christmas performance key to annual profitability;
- (iv) maintaining appropriate commercial agreements with key suppliers;
- (v) the reliability of the Company's and key suppliers' supply chains;
- (vi) a failure to sustain or protect the Company's reputation and brand;
- (vii) the maintenance and development of information technology systems; and
- (viii) attracting, motivating and retaining key staff.

The Directors ensure that management of these principal risks and uncertainties is addressed in the preparation of, and subsequent monitoring of performance against, Waterstones' strategic and operational plans and policies.

On behalf of the Board



A J Daunt

Director

Date: 27 January 2020

DIRECTORS' REPORT

The Directors submit their report and audited financial statements for the 52 weeks ended 27 April 2019, which were approved on behalf of the Board on 27 January 2020.

Directors

The names of the Directors who served throughout the period under review and up to and including the date of this Report are shown on page 1.

Directors' liabilities

The Company has granted an indemnity to its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party provision remains in force as at the date of approving the Directors' Report.

Dividends

The Company does not have distributable reserves and therefore no dividend was paid or declared during the period (2018: £nil).

Future developments

The Directors aim to continue the programme of investment and change to secure the future of Waterstones as a quality bookselling business.

Subsequent events

Following the period end, the Company's immediate parent company, Bidco, undertook an exercise to refinance the existing indebtedness of the Group to provide funds for its general corporate and working capital purposes. In August 2019, Bidco entered in to new external borrowings with Credit Suisse AG, London Branch ("Credit Suisse"), comprising: (i) a £165m loan, repayable after 5 years, upon which interest is charged at LIBOR plus 6.0%, and (ii) a revolving credit facility of £25m, also repayable after 5 years, upon which interest is charged at LIBOR plus 5%. A fixed annual fee of £0.1m plus a commitment fee charge is payable in addition to interest to Credit Suisse in connection with the supply of the revolving credit facility. The commitment fee charge is calculated on the basis of 35% of the agreed margin, which equates to a 1.75% charge on any unutilised amount. The Company shares the benefits and responsibilities of these financing arrangements with Bidco.

In August 2019, the Company provided an additional loan of £5.2m to its parent undertaking, Bidco.

Financial risk factors

The Company's exposure to, and management of, liquidity risk, interest rate risk, credit risk and foreign exchange risk is set out in Note 25.

Employee policies

The Company operates a decentralised HR function. This provides greater accountability to employees and aids the development of flexible and entrepreneurial book teams that can thrive under the competitive market pressures in which the Company trades. Decentralised employee policies support a flexible local service, improving response times and maximising the use of available resources, whilst minimising costs.

Employees are provided with information about the Company through the intranet site "Watson" where employees are encouraged to present their questions, suggestions and views. Employees have an opportunity to share directly in the success of the business through an all employee bonus scheme.

The Company is committed to maintaining and improving an equal and diverse workplace, free from discrimination on the grounds of age, gender, nationality, religion, non-job related disability, sexual orientation or marital status. It also aspires to be an employer of choice and aims to provide opportunities for individuals to develop and contribute through employee forums and focus groups.

DIRECTORS' REPORT (CONTINUED)**Employee policies (continued)***Disabled employees*

The Company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled, it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Donations

The Company made charitable donations of £236,000 (2018: £426,000) in the period under review. It is Company policy not to make donations to political parties and therefore no political donations were made.

Auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 1. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- (i) to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- (ii) each Director has taken all steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

A statement of the Directors' responsibilities for the financial statements can be found on page 6, which is deemed to be incorporated by reference in (and shall be deemed to form part of) this report.

Elective resolutions to dispense with holding annual general meetings and the laying of accounts before the Company in a general meeting are currently in force. Ernst & Young LLP are therefore deemed to continue as auditors of the Company.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the business review section of the Strategic Report on page 2 and the financial risk section of the Directors' Report on page 4. The Company is expected to continue to generate positive cash flows for the foreseeable future. The Company's immediate parent company, Bidco, is the primary contracting party for the Group's financing arrangements with Credit Suisse AG, London Branch, set out on page 39. The Company shares the benefits and responsibilities of these financing arrangements with Bidco, Bidco's immediate parent company, Book Retail Midco Limited ("Midco"), a private limited company incorporated and registered in England and Wales (registered company number: 11309674) and its subsidiaries. At the time of approving the financial statements on pages 9 to 39, the Directors of the Company have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern or its ability to continue with its current financing arrangements. On the basis of their assessment of the Company's financial position and forecasts over a period exceeding one year from the date of signature of these financial statements, the Company's Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

On behalf of the Board



A J Daunt

Director

Date: 21 January 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable United Kingdom law and regulations. Company law requires the Directors to prepare financial statements for each financial period. Under that law, the Directors are required to prepare financial statements under International Financial Reporting Standards as adopted by the European Union (IFRS).

Under Company Law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the financial performance and the cash flows of the Company for that period. In preparing those financial statements, the Directors are required to:

- (i) select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Estimates and then apply them consistently;
- (ii) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- (iii) provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- (iv) state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- (v) make judgements and estimates that are reasonable and prudent.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 as well as Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We confirm that, to the best of our knowledge:

- (i) the financial statements, prepared in accordance with IFRS, present fairly the assets, liabilities, financial position and profit of the Company; and
- (ii) the Strategic Report and the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company may face.

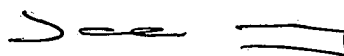
On behalf of the Board



A J Daunt

Director

Date: 27 January 2020



J Molloy

Director

Date: 27 January 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WATERSTONES BOOKSELLERS LIMITED

Opinion

We have audited the financial statements of Waterstones Booksellers Limited for the period ended 27 April 2019 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes In Equity, the Cash Flow Statement and the related notes 1 to 34, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- ▶ give a true and fair view of the Company's affairs as at 27 April 2019 and of its profit for the period then ended;
- ▶ have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- ▶ the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- ▶ the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WATERSTONES BOOKSELLERS LIMITED (CONTINUED)

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

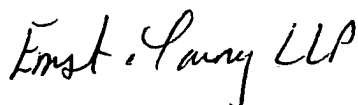
Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditors' report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Nigel Meredith (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham

Date:

30 January

2020

INCOME STATEMENT
For the 52 weeks ended 27 April 2019 and 52 weeks ended 28 April 2018

		Before exceptional items 2019	Exceptional items 2019	Total 2019
	Notes	£000	£000	£000
Revenue	3	392,776	-	392,776
Cost of sales		(349,300)	-	(349,300)
Gross profit		43,476	-	43,476
Other operating expenses	6	(13,798)	(1,202)	(15,000)
Operating profit	5	29,678	(1,202)	28,476
Finance income	10	570	-	570
Finance costs	11	(2,546)	-	(2,546)
Profit before taxation		27,702	(1,202)	26,500
Income tax expense	12	(4,002)	228	(3,774)
Profit for the financial period attributable to the shareholders of the Company		23,700	(974)	22,726

		Before exceptional items 2018	Exceptional items 2018	Total 2018
	Notes	£000	£000	£000
Revenue	3	385,715	-	385,715
Cost of sales		(346,424)	-	(346,424)
Gross profit		39,291	-	39,291
Other operating expenses		(15,261)	-	(15,261)
Operating profit	5	24,030	-	24,030
Finance income	10	51	-	51
Finance costs	11	(4,097)	-	(4,097)
Profit before taxation		19,984	-	19,984
Income tax expense	12	(3,662)	-	(3,662)
Profit for the financial period attributable to the shareholders of the Company		16,322	-	16,322

These financial statements are made up to the Saturday on or immediately preceding 30 April each year. Consequently, the financial statements for the current period cover the 52 weeks ended 27 April 2019 and the comparative period covered the 52 weeks ended 28 April 2018.

For details of the exceptional items included above, see Note 6.

The Company has initially applied IFRS 15 Revenue from contracts with customers, using the modified retrospective method. Under this method, the comparative information is not restated, see Note 4.

All results in the current and prior period relate to continuing activities.

STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 27 April 2019 and 52 weeks ended 28 April 2018

	2019	2018
	£000	£000
Profit for the period attributable to the shareholders of the Company	22,726	16,322
Total comprehensive income for the period attributable to the shareholders of the Company	22,726	16,322

The Company has initially applied IFRS 15 Revenue from contracts with customers, using the modified retrospective method. Under this method, the comparative information is not restated, see Note 4.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2019**

Company Number: 00610095

BALANCE SHEET

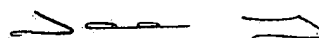
	Notes	As at 27 April 2019 £000	As at 28 April 2018 £000
Assets			
Non-current assets			
Plant and equipment	13	40,737	45,438
Intangible assets	14	651	1,091
Investments in subsidiaries	15	27,261	27,261
Deferred tax asset	12	4,728	4,967
		73,377	78,757
Current assets			
Inventories	16	55,898	57,669
Contract assets	17	148	-
Trade and other receivables	18	47,440	35,821
Cash and cash equivalents	19	18,267	16,561
		121,753	110,051
Total assets		195,130	188,808
Liabilities			
Current liabilities			
Amounts due to group undertakings	20	(56,930)	(39,584)
Trade and other payables	21	(77,432)	(93,322)
Contract liabilities	22	(17,114)	-
Corporation tax payable		(1,700)	(671)
Provisions	23	(701)	(1,717)
		(153,877)	(135,294)
Non-current liabilities			
Amounts due to group undertakings	20	-	(33,831)
Provisions	23	(1,094)	(1,187)
		(1,094)	(35,018)
Total liabilities		(154,971)	(170,312)
Net assets		40,159	18,496
Equity			
Share capital	27	71,014	71,014
Accumulated losses		(30,855)	(52,518)
Total equity		40,159	18,496

The Company has initially applied IFRS 15 Revenue from contracts with customers, using the modified retrospective method. Under this method, the comparative information is not restated, see Note 4.

The financial statements were approved by the Board of Directors on 27 January 2020 and were signed on its behalf by:



A.J. Daunt
Director



J. Molloy
Director

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital £000	Other reserves £000	Accumulated losses £000	Total £000
At 29 April 2017		71,014	1,200	(68,840)	3,374
Profit for the period		-	-	16,322	16,322
Total comprehensive income		-	-	16,322	16,322
Share based awards	28	-	(1,200)	-	(1,200)
At 28 April 2018		71,014	-	(52,518)	18,496
At 29 April 2018		71,014	-	(52,518)	18,496
Change in accounting policy	4	-	-	(1,312)	(1,312)
Tax impact of change in accounting policy		-	-	249	249
Adjusted balance at 29 April 2018		71,014	-	(53,581)	17,433
Profit for the period		-	-	22,726	22,726
Total comprehensive income		-	-	22,726	22,726
At 27 April 2019		71,014	-	(30,855)	40,159

The Company has initially applied IFRS 15 Revenue from contracts with customers, using the modified retrospective method. Under this method the comparative information is not restated, see Note 4.

CASH FLOW STATEMENT

For the 52 weeks ended 27 April 2019 and 52 weeks ended 28 April 2018

	Notes	2019 £000	2018 £000
Cash flows from operating activities			
Profit before tax		26,500	19,984
Net finance costs		1,976	4,046
Operating profit		28,476	24,030
Depreciation and amortisation	13,14	11,747	12,279
Impairment charges	13	89	306
Loss on disposal of plant and equipment	5	-	479
Net foreign exchange (gains) losses	5	(154)	301
		40,158	37,395
Movement in inventories		1,771	554
Movement in trade and other receivables		(11,582)	(1,233)
Movement in contract assets		(148)	-
Movements in amounts due to group undertakings		(16,845)	(32,180)
Movement in trade and other payables		(15,073)	7,116
Movement in contract liabilities		17,114	-
Movement in provisions		(808)	212
Impact of new accounting standard	4	(1,312)	-
Cash generated from operations		13,275	11,864
Income tax paid		(2,257)	(1,171)
Net cash flows from operating activities		11,018	10,693
Cash flows from investing activities			
Purchase of plant and equipment and intangible assets		(7,825)	(7,835)
Interest received		533	51
Net cash flows from investing activities		(7,292)	(7,784)
Cash flows from financing activities			
Interest paid		(1,874)	(10,413)
Repayment of capital element of finance leases		-	(528)
Net cash flows from financing activities		(1,874)	(10,941)
Net increase (decrease) in cash and cash equivalents			
	26	1,852	(8,032)
Opening cash and cash equivalents	19	16,561	24,566
Effects of exchange rate changes	26	(146)	27
Closing cash and cash equivalents	19	18,267	16,561

The Company has initially applied IFRS 15 Revenue from contracts with customers, using the modified retrospective method. Under this method, the comparative information is not restated, see Note 4.

NOTES TO THE FINANCIAL STATEMENTS**1. Corporate information**

The financial statements of Waterstones Booksellers Limited (the "Company") for the period ended 27 April 2019 were authorised for issue by the Board on 29 January 2020. The Company is a limited company, incorporated and domiciled in England and Wales. Its registered office is at 203-206 Piccadilly, London, W1J 9HD.

2. Accounting policies**Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as they apply to the financial statements of the Company for the 52 weeks ended 27 April 2019 and in accordance with the provisions of the Companies Act 2006.

These financial statements are made up to the Saturday on or immediately preceding 30 April each year. Consequently, the financial statements for the current period cover the 52 weeks ended 27 April 2019, whilst the comparative period covered the 52 weeks ended 28 April 2018.

The financial statements have been prepared on a historical cost basis. The financial statements are prepared in pounds sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

The Company is exempt from preparing group financial statements as it is itself a subsidiary undertaking under Section 400 of the Companies Act 2006. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the business review section of the Strategic Report on page 2 and the financial risk section of the Directors' Report on page 4. The Company is expected to continue to generate positive cash flows for the foreseeable future. The Company's immediate parent company, Bidco, is the primary contracting party for Waterstones' financing arrangements with Credit Suisse AG, London Branch, set out on page 39. The Company shares the benefits and responsibilities of these financing arrangements with Bidco, Bidco's parent company, Midco, and its subsidiaries. At the time of approving the financial statements on pages 9 to 39, the Directors of the Company have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern or its ability to continue with its current financing arrangements. On the basis of their assessment of the Company's financial position and forecasts over a period exceeding one year from the date of signature of these financial statements, the Company's Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**2. Accounting policies (continued)****Revenue**

Revenue represents the value of the consideration received or receivable for goods sold to customers, net of discounts given and returns received, excluding value added tax ("VAT") and similar sales-related taxes. It includes book, related product and event ticket sales income.

Sales of goods

The sale of goods to customers in store represents the majority of the Company's revenue. For goods sold in store, revenue is recognised at the point of sale. For goods sold on the internet, revenue is recognised on delivery/collection to/by the customer when the customer is deemed to have control of the goods. Deferred revenue relating to goods in transit at the period end is recognised as a contract liability.

A refund liability is recognised for expected refunds due to customers arising from returns and a contract asset recognised for the Company's right to recover the goods from the customer. Returns are estimated based on expected value.

Gift cards

Sales of gift cards are treated as contract liabilities with the revenue recognised when the gift cards are redeemed. The Company recognises breakage, being the amount attributable to customers' rights to future goods that is expected will never be exercised, in proportion to customers' pattern of redemption.

Loyalty schemes

The Company issues loyalty rewards to customers when they purchase goods which entitles them to a future discount. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on their relative stand-alone selling price and recognized as a contract liability until the points are redeemed. Revenue is recognised upon redemption of loyalty points by the customer.

When estimating the stand-alone selling price of the loyalty points, the Company considers the likelihood that the customer will redeem the points. The Company annually reviews the estimates of the points that will be redeemed and any adjustments to the contract liability balance are charged against revenue.

Dividend and interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and the applicable effective interest rate.

Dividend income is recognised when the right to receive payment is established.

Investments in subsidiaries

Investments in subsidiary undertakings are carried at cost, net of impairment losses, if any.

Foreign currency translation*Transactions and balances*

Transactions and balances are initially recorded by the Company at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rates at the reporting date.

All differences arising on settlement or retranslation of monetary items are taken to the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

Plant and equipment

The capitalised cost of plant and equipment includes only those costs that are directly attributable to bringing an asset to its working condition for its intended use.

Plant and equipment is stated at cost, net of accumulated depreciation and/or impairment losses, if any.

Depreciation of plant and equipment is calculated on cost, at rates estimated to write off the cost, less the estimated residual value, of the relevant assets by equal annual amounts over their estimated useful lives.

The annual rates used are:

Plant and equipment	10 to 33 $\frac{1}{3}$ %
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Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost.

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring into use the specific software. An internally generated intangible asset arising from the Company's development of computer systems (including websites) is recognised only if the costs are directly associated with the production of identifiable and unique software products which are controlled by the Company and it is probable that future economic benefits will flow to the Company. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

Website costs and software costs are determined to have a finite useful life and are amortised over their estimated useful lives of 5 years using the straight line method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**2. Accounting policies (continued)****Impairment of non-financial assets**

The Company assesses at each reporting date whether there are indicators that an asset may be impaired. Assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets (cash-generating units). If any indicator of impairment exists, or when annual impairment testing is required, the Company makes an estimate of the asset's recoverable amount, being the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash inflows expected to be derived from the asset. Where the asset does not generate cash inflows that are independent from other assets, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, an impairment loss is recognised in the income statement.

If there is an indication at the reporting date that previously recognised impairment losses no longer exist or may have decreased, the recoverable amount is again estimated. To the extent that the recoverable amount has increased, the previously recognised impairment loss is reversed. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately in the income statement. An impairment loss in respect of goodwill is not reversed.

Leases

In respect of property operating leases, benefits received and receivable as an incentive to sign a lease, such as rent-free periods, premiums payable and capital contributions, are spread on a straight line basis over the lease term. All operating lease payments are charged directly to the income statement on a straight line basis over the lease term. Where the rent payable is contingent on revenue, the charges are expensed in the period in which they are incurred.

Rental income from sub-let properties is recognised on a straight line basis over the period of the sublease.

Inventories

Inventories are stated at the lower of cost and net realisable value on a first-in, first-out basis. Net realisable value is based on estimated selling prices less further costs to be incurred to disposal.

Cash and short-term deposits

Cash and short-term deposits comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and short-term deposits less bank overdrafts that are payable on demand.

Interest bearing loans and borrowings

Interest bearing loans and borrowings are initially recognised at fair value less directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects the risks specific to the liability.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**2. Accounting policies (continued)****Exceptional items**

The Company presents as exceptional items on the face of the income statement, those material items of income and expense which, because of the nature, expected infrequency or quantum of the events giving rise to them, merit separate presentation to allow shareholders to better understand the elements of financial performance in the period, facilitate comparison with prior periods and better assess trends in financial performance. Exceptional items recognised in arriving at operating profit include (but are not limited to) those costs associated with integrating a newly acquired business, impairment losses, reversal of impairments and costs associated with restructuring the business.

Taxation*Current tax*

Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside of the income statement is recognised outside of the income statement. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**2. Accounting policies (continued)****Share-based payments**

In the previous periods, the Company made an equity-settled non-market share-based award to a Director. The performance award was the entitlement to a proportion of the fully diluted issued share capital of the Waterstones group, or in certain circumstances, to a cash payment. The share-based award was valued based on the anticipated cash entitlement in the absence of an objectively reliable method to value the business. The value was recognised as an expense over the vesting period by calculating the cumulative expense and recognising the movement in the cumulative expense in the income statement. A corresponding entry was made to equity.

This award was reassessed in the prior period and was no longer expected to be settled by a proportion of the fully diluted issued share capital of the Waterstones group. The entitlement was expected to be settled by a cash payment. As a result, this award was accounted for as cash-settled and the previous periods' entries reversed.

This award was settled by a cash payment in the current period.

Pension costs

The Company operates a defined contribution pension scheme. Contributions to the scheme are charged in the income statement as they become payable in accordance with the rules of the scheme.

Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the period. The nature of estimation means that actual outcomes could differ from those estimates.

The judgements and key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial period are as follows:

Revenue recognition in respect of customer loyalty schemes - revenue recognition is based on the fair value of loyalty rewards, the calculation of which is based on expected redemption rates. This calculation requires judgements to be made regarding future redemption rates, however, the Company launched a new loyalty scheme in the period and therefore there is limited historical information available. As a result, expected redemption rates are based on current run rates and are regularly monitored.

Revenue from the sale of gift cards - breakage, being the amount attributable to a customer's rights to future goods that it is expected will never be exercised, is recognised in proportion to the customers' pattern of redemption. The calculation of breakage requires redemption rates to be estimated. Historical statistics are used to estimate redemption rates.

Impairment of plant and equipment and investments - plant and equipment and investments are reviewed for impairment/reversal of an impairment if events or changes in circumstances indicate that the carrying value may not be recoverable or that a previously recognised impairment loss may have reversed. When a review for impairment/reversal of an impairment is conducted, the recoverable amount of an asset or a cash generating unit ("CGU") is based on the value in use calculation prepared using management assumptions and estimates. Key assumptions for the value in use calculation include revenue, margin, operating costs and discount rate. Identification of a CGU involves significant judgement regarding largely independent cash flows and geographical proximity of stores.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**2. Accounting policies (continued)****Judgements and key sources of estimation uncertainty (continued)**

Inventory valuation – inventories are valued at the lower of cost and net realisable value, which includes, where necessary, provisions for slow moving and obsolete inventory. Calculation of provisions requires judgements to be made regarding future customer demand, future sales prices and inventory loss trends. Historical sales performance statistics are used in the formulation of these judgements.

Taxation – calculation of the Company's total tax charge requires a degree of estimation and judgement in respect of certain transactions whose ultimate tax treatment is uncertain and also in respect of the probability that future taxable profits will be available to support the recognition of deferred tax assets. Where the final outcome of these tax matters differs from the amounts that were initially recorded, the tax charge and deferred tax provisions will be impacted.

Provisions – Provisions for store closures, onerous leases and restructuring costs are estimates and the actual costs and timing of future cash flows are dependent on future events. Expectations are revised in each period, with any difference accounted for in the period in which the revision is made. Key assumptions for the estimated costs and timing of future cash flows are those regarding revenue, margin, operating costs, dilapidations, rental income and the discount rate.

New accounting standards

The Company has adopted the following amended accounting standards which were mandatory for the first time for the financial period ending 27 April 2019. They have no material impact on the Company with the exception of IFRS 15 Revenue from contracts with customers, the impact of which is set out in Note 4.

- IFRS 7 Financial instruments: Disclosures: Additional hedge accounting disclosures (and consequential amendments resulting from the introduction of the hedge accounting chapter in IFRS 9), effective when IFRS 9 is applied;
- IFRS 9 Financial instruments: Finalised issue, effective for annual periods beginning on or after 1 January 2018;
- IFRS 15 Revenue from contracts with customers: Original issue and Clarifications to IFRS 15, both effective for annual periods beginning on or after 1 January 2018;
- IAS 39 Financial instruments: Recognition and measurement: Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets and financial liabilities when IFRS 9 is applied and to extend the fair value option to certain contracts that meet the 'own use' scope exception, effective when IFRS 9 is applied; and
- IFRIC 22 - Foreign currency transactions and advance consideration, effective for annual periods beginning on or after 1 January 2018.

The Company has not adopted early the requirements of the following accounting standards and interpretations, which have an effective date after the start date of these financial statements.

- IFRS 9 Financial instruments: Amendments regarding prepayment features with negative compensation and modifications of financial liabilities, effective for annual periods beginning on or after 1 January 2019;
- IFRS 16 Leases: Original issue, effective for annual periods beginning on or after 1 January 2019;
- IAS 8 Accounting policies, changes in accounting estimates and errors: Amendments regarding the definition of material, effective for annual periods beginning on or after 1 January 2020;
- IAS 12 Income taxes: Amendments resulting from Annual Improvements 2015-2017 Cycle (income tax consequences of dividends), effective for annual periods beginning on or after 1 January 2019;
- IAS 23 Borrowing costs: Amendments resulting from Annual Improvements 2015-2017 Cycle (borrowing costs eligible for capitalisation), effective for annual periods beginning on or after 1 January 2019; and
- IFRIC 23 — Uncertainty over income tax treatments, effective for annual periods beginning on or after 1 January 2019.

The Company intends to adopt these standards when they become effective.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**2. Accounting policies (continued)****New accounting standards (continued)**

As the Company prepares its financial statements in accordance with IFRS as adopted by the European Union, the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU endorsement mechanism.

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Company's financial statements, with the exception of IFRS 16 Leases.

The Company is adopting IFRS 16 Leases for the 52 weeks ending 25 April 2020 with a transition date of 28 April 2019. The standard replaces IAS 17 and removes the classification of leases as either operating or finance leases. Instead, an asset (the right to use the leased item) and the liability of payments relating to the lease period are discounted to take account of the time value of money and recognised in the balance sheet. Depreciation of the right of use asset and interest on the liability are recognised in the income statement.

The application of IFRS 16 will have a material impact on the Company's accounts for the 52 weeks ending 25 April 2020. The Company has applied the modified retrospective approach to transition as at 28 April 2019 and so comparative amounts for the prior year will not be restated on first adoption. The right of use asset has been measured at the amount of lease liability on adoption (adjusted for any prepaid or accrued leases expense).

As at 27 April 2019, the Company had operating lease commitments of £224.5m (see Note 31).

At transition date (28 April 2019) IFRS 16 lease commitments are anticipated to be within a range of £199.5m to £211.8m.

The adoption of IFRS 16 will have no impact on how the business is run or on the overall cash flows for the Company.

3. Revenue

Revenue disclosed in the income statement is analysed as follows:

	2019	2018
	£000	£000
Sale of goods – UK	392,776	385,715
	392,766	385,715

The Company has initially applied IFRS 15 Revenue from contracts with customers, using the modified retrospective method. Under this method, the comparative information is not restated, see Note 4.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**4. Change in accounting policy**

The Company has adopted IFRS 15 Revenue from contracts with customers, during the period.

IFRS 15 applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard provides a single, principles-based five-step model that should be applied to determine how and when to recognise revenue from contracts with customers. The core principle of the standard is that a company should recognise revenue at an amount that reflects the consideration to which the company expects to be entitled to in exchange for transferring goods or services to a customer.

As a result, the Company has changed its accounting policy for revenue recognition for certain sales of goods, the sale of gift cards, loyalty schemes and customer returns, as detailed below, with a date of initial application of 29 April 2018.

Sales of goods

The sale of goods to customers in store represents the majority of the Company's revenue.

For goods sold in store, revenue is recognised at the point of sale. For goods sold on the internet, the sale is recognised on delivery/collection to/by the customer when the customer is deemed to have control of the goods. Previously the Company recognised internet sales revenue when the goods were despatched. Under IFRS 15, deferred revenue relating to goods in transit at the period end is recognised as a contract liability.

For customer returns, a provision is made for expected refunds due to customers arising from returns and an asset recognised for the Company's right to recover the goods from the customer. Previously, the provision for customer returns was calculated net of the value of goods to be returned. Returns continue to be estimated based on expected value.

Gift cards

Under IFRS 15, sales of gift cards are treated as contract liabilities with the revenue recognised when the gift cards are redeemed. Breakage, being the amount attributable to the customers' rights to future goods that is expected will never be exercised, is recognised in proportion to the customers' pattern of redemption.

Previously, the Company recognised all breakage upfront when the gift card was sold and recognised the future obligation to provide goods to the customer within trade and other payables.

Loyalty schemes

The Company issues loyalty rewards to customers when they purchase goods which entitles them to a future discount. Under IFRS 15, the total transaction price is allocated between the fair value of the goods sold and the rewards issued based on their standalone fair values. The fair value of the loyalty rewards is adjusted for expected breakage, being the amount attributable to a customer's rights to future goods that it is expected will never be exercised. The amount attributed to the loyalty rewards is deferred within the contract liabilities balance.

Previously, the loyalty scheme was accounted for in accordance with IFRIC 13 Customer loyalty programmes. Revenue was recognised based on the customers expected redemption rate and the amount attributed to the loyalty rewards included within trade and other payables.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Change in accounting policy (continued)

Summary of adjustments

The Company has applied IFRS 15 using the modified retrospective method – i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 29 April 2018. Therefore the comparative information has not been restated and continues to be reported under IAS 18 Revenue.

The impact on the opening balance sheet for the period ended 27 April 2019 is set out below:

	At 29 April 2018 Prior to adoption of IFRS 15	Impact of IFRS 15	At 29 April 2018 Following adoption of IFRS 15
	£000	£000	£000
Inventories	57,669	33	57,702
Contract assets	-	155	155
Trade and other payables	(93,322)	14,468	(78,854)
Contract liabilities	-	(15,968)	(15,968)
Net assets	18,496	(1,312)	17,184
Retained losses	(52,518)	(1,312)	(53,830)
Total equity	18,496	(1,312)	17,184

5. Operating profit

Operating profit is stated after charging (crediting):

	2019	2018
	£000	£000
Depreciation and amortisation (see Notes 13 and 14)	11,747	12,279
Impairment charges (see Note 13)	89	306
Loss on disposal of plant and equipment	-	479
Cost of inventories recognised as an expense	182,029	181,707
Movement in inventory provision	(487)	(198)
Net foreign exchange losses	(154)	301
Operating lease rentals:		
Minimum rentals	44,911	46,920
Percentage rentals	118	119
Sublease rentals	(428)	(524)

The Company leases stores and office premises under non-cancellable operating lease agreements that are generally subject to periodic rent review. These agreements provide for either or both, minimum rentals and percentage rentals based on sales performance.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**6. Exceptional items**

Recognised in arriving at operating profit:

	2019	2018
	£ 000	£ 000
Exceptional Directors' remuneration	1,202	-
	1,202	-

Included within other operating expenses is an exceptional charge of £1,202,000 (2018: £nil) arising from exceptional Directors' remuneration payable as a result of the sale of the Company, see Notes 8 and 33.

A tax credit of £228,000 (2018: £nil) arose in respect of this charge.

7. Fees to auditors

	2019	2018
	£ 000	£ 000
Audit of the financial statements	191	200
Non audit services	14	2

The audit fee disclosed above represents the statutory audit fee for the Company.

8. Directors' emoluments

	2019	2018
	£000	£000
Emoluments	1,839	2,016
Pension contributions	20	16
	1,859	2,032

One (2018: one) of the Directors is accruing benefits under the Company's defined contribution pension arrangements.

The amounts in respect of the highest paid Director were as follows:

	2019	2018
	£000	£000
Emoluments	1,736	1,601
	1,736	1,601

The amounts above exclude amounts recharged to other group companies for services provided to other group companies.

P Best received no remuneration during the period for services to the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Employee costs

	2019	2018
	£000	£000
Employee costs, including Directors' emoluments:		
Wages and salaries	54,695	50,334
Social security costs	4,422	3,826
Other pension costs	1,748	1,367
	60,865	55,527

The average monthly number of people employed by the Company during the period was 3,169 (2018: 3,123).

10. Finance income

	2019	2018
	£000	£000
Bank interest receivable	104	51
Interest receivable from group undertakings	466	-
	570	51

11. Finance costs

	2019	2018
	£000	£000
External loans and overdrafts	-	37
Interest payable to group undertakings	2,546	4,060
	2,546	4,097

12. Taxation

	2019	2018
	£000	£000
Taxation recognised in the income statement:		
Current tax, current period	3,271	1,834
Current tax, prior periods	15	104
Total current tax	3,286	1,938
Deferred tax, current period	474	1,996
Deferred tax, prior periods	14	(272)
Total deferred tax	488	1,724
	3,774	3,662

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Taxation (continued)

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

	2019	2018
	£000	£000
Profit before taxation	26,500	19,984
Corporation tax at UK average statutory rate of 19% (2018: 19%)	5,035	3,797
Effects of:		
Expenses not deductible for tax purposes	210	320
Tax rate differences	(27)	(27)
Group relief claimed	(1,473)	(260)
Adjustment in respect of prior periods	29	(168)
Total tax charge	3,774	3,662

The tax charge includes a credit of £228,000 (2018: £nil) in relation to the exceptional operating charge of £1,202,000 (2018: £nil), details of which can be found in Note 6.

Deferred tax

Provided deferred tax

The deferred tax asset recognised in the balance sheet is as follows:

	2019	2018
	£000	£000
Decelerated capital allowances	4,728	4,967
	4,728	4,967

There are no provided deferred tax liabilities.

Unprovided deferred tax

There are no unprovided deferred tax assets or liabilities.

Factors that may affect future tax charges

The Finance Act 2016 reduced the main rate of corporation tax from 19% to 17% with effect from 1 April 2020. Current corporation tax has therefore been provided for at 19% (2018: 19.0%) and deferred tax at 17% or 19% (2018: 17% or 19%), the rates expected to be effective when the deferred tax assets are anticipated to be utilised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Plant and equipment

	Plant and equipment £000
Cost at 29 April 2017	178,752
Disposals	(8,233)
Additions	8,737
Cost at 28 April 2018	179,256
Disposals	(2,118)
Additions	6,950
Cost at 27 April 2019	184,088
Depreciation at 29 April 2017	129,781
Charge for period	11,695
Impairment	306
Disposals	(7,964)
Depreciation at 28 April 2018	133,818
Charge for period	11,261
Impairment	89
Disposals	(1,817)
Depreciation at 27 April 2019	143,351
Net book value at 27 April 2019	40,737
Net book value at 28 April 2018	45,438

Plant and equipment was written down by £89,000 (2018: £306,000) following an impairment review based on prevailing market trading conditions. The recoverable amounts of assets were determined from value in use calculations that incorporated five-year cash flow estimates discounted at an appropriate pre-tax discount rate of 10%. Key assumptions for the value in use calculations were those regarding revenue, margin, operating costs and discount rate. The cash flows reflected management's best estimates of revenue, margin, operating costs and discount rate over the forecast period and no reasonably possible change in assumptions would have resulted in further impairment. The total recoverable amount of the assets impaired was £nil.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Intangible assets

	Goodwill £000	Website costs £000	Software costs £000	Total £000
Cost at 29 April 2017	69,347	965	2,650	72,962
Additions	-	-	57	57
Disposals	-	-	(5)	(5)
Cost at 28 April 2018	69,347	965	2,702	73,014
Additions	-	-	46	46
Disposals	-	-	(5)	(5)
Cost at 27 April 2019	69,347	965	2,743	73,055
Amortisation at 29 April 2017	69,347	427	1,570	71,344
Charge for period	-	194	390	584
Disposals	-	-	(5)	(5)
Amortisation at 28 April 2018	69,347	621	1,955	71,923
Charge for period	-	194	292	486
Disposals	-	-	(5)	(5)
Amortisation at 27 April 2019	69,347	815	2,242	72,404
Net book value at 27 April 2019	-	150	501	651
Net book value at 28 April 2018	-	344	747	1,091

Goodwill of £69,347,000, which arose on the acquisition of the trade and assets of the subsidiary undertaking Waterstones Overseas Limited on 26 April 2008, was capitalised. This goodwill was subject to an annual impairment review so as to ensure that the carrying amount was not greater than the recoverable amount. On the basis of such a review, provision was made at 30 April 2011 against the full value of the goodwill. This reflected the valuation of the Company inherent in the sale of the business by HMV plc on 28 June 2011 for £53.5m on a cash-free, debt-free basis.

15. Investments in subsidiaries

	Cost £000	Provision £000	Net book value £000
At 27 April 2019	27,261	-	27,261
At 28 April 2018	27,261	-	27,261

The Company's direct and indirect subsidiary undertakings, which are 100% owned, are as follows:

Name of undertaking	Country of incorporation	Status
Waterstones Overseas Limited	England & Wales	Non-trading
Hatchards UK Limited	England & Wales	Dormant
Waterstones Academic Bookstores Limited	England & Wales	Dormant
Ottakar's Limited	England & Wales	Dormant
Ottakar's Town Limited	England & Wales	Dormant
The Waterstones Pension Trustee (Ireland) Limited	Ireland	Non-trading

All of the above shareholdings are held directly with the exception of Ottakar's Limited and Ottakar's Town Limited.

The registered address of all subsidiaries, with the exception of The Waterstones Pension Trustee (Ireland) Limited, is 203-206 Piccadilly, London, W1J 9HD. The registered address for The Waterstones Pension Trustee (Ireland) Limited is Sixth Floor, 2 Grand Canal Square, Dublin 2, Ireland.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**16. Inventories**

Inventories primarily comprise finished goods and goods for resale. The replacement cost of inventories is considered to be not materially different from the balance sheet value.

17. Contract assets

Contract assets comprise the Company's right to recover goods from the customer under its returns policy.

The Company uses the expected value method to estimate the value of goods that will be returned. The revenue relating to expected returns is deferred and recorded in trade and other payables. The carrying value of the stock expected to be returned is recorded as a contract asset.

	2019	2018
	£000	£000
Contract assets	148	-
	148	-

The Company has initially applied IFRS 15 Revenue from contracts with customers, using the modified retrospective method. Under this method, the comparative information is not restated, see Note 4.

18. Trade and other receivables

	2019	2018
	£000	£000
Current:		
Trade receivables	467	968
Amounts due from fellow subsidiary undertakings	817	372
Amounts due from parent undertaking	14,037	-
Other receivables	4,667	4,344
Prepayments and accrued income	27,452	30,137
	47,440	35,821

The carrying value of trade and other receivables approximates to fair value.

Trade receivables are stated net of a provision for impairment of £19,000 (2018: £56,000). Trade receivables are non-interest bearing and are generally on 30 day terms. Other receivables are also non-interest bearing.

The amounts due from fellow subsidiary undertakings relates to intercompany trading and is usually settled monthly with no interest charged.

The amounts due from parent undertaking relates to an intercompany loan which has no fixed repayment date and accrues interest at LIBOR plus 6.5%.

Credit risk is limited as the Company has minimal levels of trade receivables due to the nature of its retailing business. See Note 25 for a discussion of credit risk.

19. Cash and cash equivalents

	2019	2018
	£000	£000
Cash at bank and in hand	18,267	16,561
	18,267	16,561

Cash at bank earns interest at floating rates based on daily bank deposit rates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Amounts due to group undertakings

	2019	2018
	£000	£000
Non-current:		
Loans due to UK parent undertaking	-	33,831
	-	33,831
Current:		
Loans due to UK parent undertakings	10,693	-
Loans due to fellow subsidiary undertakings	14,416	8,255
Other amounts due to overseas parent undertakings	492	-
Other amounts due to subsidiary undertakings	31,329	31,329
	56,930	39,584

At the prior period end, the loans due to the Company's UK parent undertaking, Lynwood Retail UK Limited (formerly Waterstones Holdings Limited) ("Lynwood"), were repayable by no later than 22 June 2021. Interest was chargeable on £25,867,000 of this balance at 7.28% and on £7,964,000 of this balance at 7%. On 1 June 2018 (in the period under review), the Company was sold by Lynwood to Bidco. On this date, the loans between the Company and Lynwood were repaid and replaced with funding from Bidco.

At the current period end the loans due to UK parent undertakings are due on demand. Interest accrues on these balances at the base rate of Barclays Bank plc at date of advance plus 4%, or 7% per annum, whichever is higher.

The loans due to fellow subsidiary undertakings are repayable on demand. Interest is chargeable on £5,720,000 (2018: £nil) of this balance at 4% and on £8,696,000 (2018: £8,255,000) of this balance at the base rate of Barclays Bank plc at date of advance plus 4% or 7% per annum, whichever is higher.

The other amounts due to parent undertakings and subsidiary undertakings are non-interest bearing with no fixed repayment date.

21. Trade and other payables

	2019	2018
	£000	£000
Current:		
Trade payables	31,423	30,453
Other payables	25,297	42,414
Accruals and deferred income	20,712	20,455
	77,432	93,322

The carrying value of trade and other payables approximates to fair value. Trade payables are non-interest bearing and are generally on 30-60 day terms. Other payables are also non-interest bearing.

The Company has initially applied IFRS 15 Revenue from contracts with customers, using the modified retrospective method. Under this method the comparative information is not restated and therefore the comparative balances stated above include amounts which are now included in contract assets and contract liabilities at the current period end, see Note 4.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Contract liabilities

Contract liabilities comprise consideration received for performance obligations that have not been satisfied by the Company at the period end arising from loyalty schemes, the sale of gift cards and internet sales.

Loyalty schemes

The Company issues loyalty rewards to customers when they purchase goods which entitles them to a future discount. The total transaction price is allocated between the fair value of the goods sold and the rewards issued based on their standalone fair values. The fair value of the loyalty rewards is adjusted for expected breakage, being the amount attributable to a customer's rights to future goods that it is expected will never be exercised. The amount attributed to the loyalty rewards is deferred within the contract liabilities balance.

Gift cards

Sales of gift cards are treated as contract liabilities with the revenue recognised when the gift cards are redeemed. The Company recognises breakage, being the amount attributable to a customer's rights to future goods that it is expected will never be exercised, in proportion to the customers' pattern of redemption.

Internet sales

For goods sold on the internet, the sale is recognised on delivery/collection to/by the customer when the customer is deemed to have control of the goods. Deferred revenue relating to goods in transit at the period end is recognised as a contract liability.

Balances and movement in the period

	2019	2018
	£000	£000
Contract liabilities	17,114	-
Revenue recognised in the period from:		
Amounts recognised in contract liabilities at the beginning		-
of the period (following IFRS 15 adjustment)	6,660	
	6,660	-

The Company expects to recognise the revenue arising from contract liabilities over a period of 8 years.

The Company has initially applied IFRS 15 Revenue from contracts with customers, using the modified retrospective method. Under this method the comparative information is not restated, see Note 4.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Provisions

	Total
	£000
At 28 April 2018	2,904
Provisions created in the period	961
Provisions utilised	(1,529)
Provisions released	(541)
At 27 April 2019	1,795
Analysed as:	
Current	701
Non-current	1,094
	1,795

Provisions almost entirely consist of amounts in respect of onerous leases and store closures. Of the total provisions, £601,000 (2018: £495,000) is expected to be utilised after 5 years from the balance sheet date.

24. Derivative financial instruments

Currency derivatives

The Company can use derivative instruments as part of a policy of managing foreign currency exchange risk arising on expected future purchases of internationally sourced products. The implementation of these derivative instruments is negotiated to match expected purchases and they therefore qualify for hedge accounting. The fair value of cash flow hedges in place at 27 April 2019 was £nil (2018: £nil).

The total notional amount of outstanding foreign currency contracts to which the Company was committed at 27 April 2019 was £nil (2018: £nil).

25. Financial risk factors

The Company's business exposes it to certain financial risks, such as liquidity risk, interest rate risk, credit risk and foreign exchange risk.

Liquidity risk

During the period under review the Company had sufficient funds and access to funding facilities from its parent undertaking, Lynwood and then (from 1 June 2018) Bidco, available to satisfy its current requirements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. Financial risk factors (continued)

Liquidity risk (continued)

Analysis of the maturity profile of the Company's financial liabilities at 27 April 2019 and 28 April 2018 is shown below:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	£000	£000	£000	£000	£000	£000
Trade and other payables	375	77,057	-	-	-	77,432
Contract liabilities	17,028	86	-	-	-	17,114
Amounts due to group undertakings	56,930	-	-	-	-	56,930
At 27 April 2019	74,333	77,143	-	-	-	151,476
Trade and other payables	14,623	78,699	-	-	-	93,322
Amounts due to group undertakings	39,584	-	-	33,831	-	73,415
At 28 April 2018	54,207	78,699	-	33,831	-	166,737

The Company has initially applied IFRS 15 Revenue from contracts with customers, using the modified retrospective method. Under this method, the comparative information is not restated, see Note 4.

Interest rate risk

The Company is exposed to interest rate risk from its borrowings and cash deposits. The net exposure is monitored on a regular basis.

Credit risk

The Company's credit risk arises from its cash and outstanding receivables. During the period the Company managed cash balances by repaying drawings under the facilities it had with its parent undertaking.

Due to the nature of the Company's retailing business, credit risk from trade receivables is limited. Allowances are made for doubtful debts based on the age of the debt and the customer's financial circumstances.

Foreign exchange risk

The Company is exposed to foreign exchange risk from its financing and operating activities.

Forward foreign exchange contracts are used to hedge the foreign exchange risk of imports where volumes are significant. No speculative positions are entered into. There were no currency contracts outstanding at the current or prior balance sheet dates (see Note 24).

The Company is also exposed to foreign currency translation risk through its borrowings in foreign currency. The Company does not hedge this exposure.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. Financial risk factors (continued)

Sensitivity analysis

The following sensitivity analysis illustrates the sensitivity to changes in market variables of the Company's financial instruments and shows the impact on profit before tax and shareholders' equity.

Interest rate sensitivity

Based on the Company's net funds position at the period end, and including interest bearing intercompany loans, a 100 basis points movement in interest rates would affect the Company's result before tax by approximately £0.1m (2018: £0.3m) and shareholders' equity by approximately £0.1m (2018: £0.2m).

Foreign exchange rate sensitivity

A 10% change in the value of Euro against Sterling would affect the Company's result before tax by approximately £1.6m (2018: £1.1m) and shareholders' equity by approximately £1.3m (2018: £0.9m).

A 10% change in the value of Dollar against Sterling would affect the Company's result before tax by approximately £0.1m (2018: £nil) and shareholders' equity by approximately £nil (2018: £nil).

Capital management

During the period under review, the core objective of the Company was to ensure that it would be able to continue to operate as a going concern, as well as having sufficient funds available to grow the business for the benefit of its parent company and other stakeholders. The capital structure of the Company comprises cash and cash equivalents (see Note 19), loans and borrowings through its intra-group facilities (see Note 18 and Note 20) and equity attributable to the parent company (see Note 27).

26. Additional cash flow information

Movements in the Company's net funds position are as follows:

	At 28 April 2018 £000	Cash flow £000	Other non- cash changes £000	At 27 April 2019 £000
Cash at bank and in hand	16,561	1,852	(146)	18,267
Cash and cash equivalents	16,561	1,852	(146)	18,267
Net funds	16,561	1,852	(146)	18,267

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**26. Additional cash flow information (continued)**

	At 29 April 2017	Cash flow	Other non- cash changes	At 28 April 2018
	£000	£000	£000	£000
Cash at bank and in hand	24,566	(8,032)	27	16,561
Cash and cash equivalents	24,566	(8,032)	27	16,561
Loans and borrowings – current	(528)	528	-	-
Total loans and borrowings	(528)	528	-	-
Net funds	24,038	(7,504)	27	16,561

Other non-cash changes represents foreign exchange rate changes during the period.

27. Share capital

	2019	2018	2019	2018
	Number '000	Number '000	£000	£000
Authorised				
Ordinary Shares of £1 each	121,014	121,014	121,014	121,014
Allotted, called up and fully paid				
Ordinary Shares of £1 each	71,014	71,014	71,014	71,014

The Company has one class of share capital, namely £1 ordinary shares, of which there are 71,014,000 allotted and called up, all fully paid. There are no special rights or preferences attaching to the shares, and there are no restrictions on the distribution of dividends and the repayment of capital.

28. Other reserves

In the period ended 29 April 2017, the reserve arose as a result of a share-based award that was anticipated to be equity-settled. This award was reassessed in the prior period and was no longer expected to be settled by a proportion of the fully diluted issued share capital of the Waterstones group. The entitlement was expected to be settled by a cash payment. As a result, this award was accounted for as cash-settled and the previous periods' entries reversed.

This award was settled by a cash payment in the current period.

29. Contingent liabilities

The management of Waterstones Booksellers Limited is not aware of any legal or arbitration proceedings pending or threatened against the Company which may result in any liabilities significantly in excess of provisions in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**30. Pension arrangements**

The Waterstones Group Personal Pension Plan, a defined contribution scheme offered by the Company to all employees in the UK, is established under a trust. The Plan provides members with individual pension saving accounts in their own name, with a range of investment options available. Under the auto-enrolment element of the Plan, employees have to pay 4% of qualifying earnings into the scheme which is matched by the Company. There is also a voluntary element to the Plan under which members can choose to pay a percentage of pensionable pay, with the members' contributions matched by the Company up to a maximum of 6.5% of pensionable pay. Employer contributions to the scheme during the period were £1,748,000.

31. Obligations under leases**Obligations under operating leases**

The Company leases stores under non-cancellable operating lease agreements that are generally subject to periodic rent review. These agreements provide for either, or both, minimum rentals and percentage rentals based on sales performance. No operating lease commitments disclosures are required for percentage rental arrangements, as future lease payments represent contingent rental payments:

These leases have an average remaining duration of five years.

At the end of the period, future minimum rentals payable under non-cancellable operating leases were as follows:

	Land and buildings		Other		Total	
	2019	2018	2019	2018	2019	2018
	£000	£000	£000	£000	£000	£000
Expiry:						
Not later than one year	40,202	44,302	142	138	40,344	44,440
Later than one year and not later than five years	106,783	111,433	206	209	106,989	111,642
Later than five years	77,210	85,989	-	-	77,210	85,989
	224,195	241,724	348	347	224,543	242,071

The Company has also sublet space in certain properties. The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 27 April 2019 was £180,000 (2018: £393,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**32. Related party transactions**

Transactions entered into with related parties during the period are as follows:

	Net interest payable accrued during the period £000	Services rendered to related party £000	Fixed assets transferred to related party £000	Goods sold to related party £000
<i>With ultimate European parent undertaking to 1 June 2018:</i>				
Lynwood Investments CY Limited				
2019	-	-	-	-
2018	402	-	-	-
<i>With ultimate UK parent undertaking to 1 June 2018:</i>				
Lynwood Retail UK Limited				
2019	217	-	-	-
2018	3,653	-	-	-
<i>With UK parent undertaking from 1 June 2018:</i>				
Book Retail Bidco Limited				
2019	1,069	-	-	-
2018	-	-	-	-
<i>With fellow subsidiary undertakings:</i>				
Waterstones Booksellers Ireland Limited				
2019	582	142	-	462
2018	4	194	-	449
Waterstone's Booksellers Amsterdam B.V.				
2019	61	44	-	69
2018	-	48	-	70
Waterstone's Booksellers Belgium SA				
2019	151	44	-	52
2018	1	47	-	47
W. & G. Foyle Limited				
2019	-	308	-	1,643
2018	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**32. Related party transactions (continued)**

Balances outstanding with related parties at the end of the period are as follows:

	Amounts owed by related party £000	Amounts owed to related party £000
<i>With ultimate UK parent undertaking to 1 June 2018:</i>		
Lynwood Retail UK Limited		
2019	-	-
2018	-	33,831
<i>With UK parent undertaking from 1 June 2018:</i>		
Book Retail Bidco Limited		
2019	14,037	10,693
2018	-	-
<i>With overseas parent undertaking from 1 June 2018:</i>		
Book Retail Topco Limited		
2019	-	492
2018	-	-
<i>With fellow subsidiary undertakings:</i>		
Waterstones Booksellers Ireland Limited		
2019	281	10,937
2018	240	5,665
Waterstone's Booksellers Amsterdam B.V.		
2019	49	1,121
2018	64	640
Waterstone's Booksellers Belgium SA		
2019	60	2,358
2018	68	1,950
Hatchards UK Limited		
2019	-	20,000
2018	-	20,000
Ottakar's Limited		
2019	-	196
2018	-	196
Waterstones Overseas Limited		
2019	-	11,133
2018	-	11,133
W. & G. Foyle Limited		
2019	427	-
2018	-	-

See Notes 18 and 20 for details of the terms and conditions relating to the related party balances.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**32. Related party transactions (continued)****Remuneration of key management personnel**

The remuneration of the Directors of the Company is set out below. The Directors comprise the key management personnel of the Company.

	2019	2018
	£000	£000
Short term employment benefits	718	714
Other long term benefits	623	-
Post employment benefits	20	16
Share-based payment transactions	498	1,302
Total compensation paid to key management personnel	1,859	2,032

33. Ultimate parent undertaking and controlling party

During the prior period, the immediate parent undertaking of the Company undertook an exercise to sell a majority equity stake in Waterstones. The sale completed during the period under review on 1 June 2018 and control of the Company passed to its new owner, Bidco, on this date.

Following sale completion, the immediate parent undertaking of the Company is Bidco and the ultimate parent company is Book Retail Investco Limited (incorporated in Jersey). Book Retail Investco Limited is wholly owned and controlled by the Elliott funds. The Elliott funds receive investment advice, directly and indirectly, from their investment adviser Elliott Management Corporation, incorporated in Delaware, U.S.A., and its affiliates.

For the period before sale completion, the largest and smallest group, including the Company, for which consolidated accounts are prepared is that headed by Lynwood Retail UK Limited. Copies of these financial statements can be obtained from the Company Secretary, 4 Hill Street, London, England, W1J 5NE.

Following sale completion, the largest group, including the Company, for which consolidated accounts are prepared is that headed by Book Retail Midco Limited, the smallest group is that headed by Bidco. Copies of the financial statements for both of these companies can be obtained from the Company Secretary, 203-206 Piccadilly, London, W1J 9HD.

34. Post balance sheet events

Following the period end, the Company's immediate parent company, Bidco, undertook an exercise to refinance the existing indebtedness of the Group to provide funds for its general corporate and working capital purposes. In August 2019, Bidco entered in to new external borrowings with Credit Suisse AG, London Branch ("Credit Suisse"), comprising: (i) a £165m loan, repayable after 5 years, upon which interest is charged at LIBOR plus 6.0%, and (ii) a revolving credit facility of £25m, also repayable after 5 years, upon which interest is charged at LIBOR plus 5%. A fixed annual fee of £0.1m plus a commitment fee charge is payable in addition to interest to Credit Suisse in connection with the supply of the revolving credit facility. The commitment fee charge is calculated on the basis of 35% of the agreed margin, which equates to a 1.75% charge on any unutilised amount. The Company shares the benefits and responsibilities of these financing arrangements with Bidco.

In August 2019, the Company provided an additional loan of £5.2m to its parent undertaking, Bidco.