Company Number: 00610095

Waterstones Booksellers Limited

Financial Statements

52 weeks ended 28 April 2018

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COMPANY INFORMATION

DIRECTORS

A J Daunt
J Molloy
P Best (appointed 12 September 2018)
R D J Manning (resigned 29 January 2018)

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 operates as a bookseller through a chain of general bookshops in the United Kingdom and through the Waterstones.com e-commerce website.

Review of the business

The Company is part of the Waterstones group of companies ("Waterstones") which operates as a bookseller through a chain of bookshops in the United Kingdom, Ireland, Holland and Belgium, and through the Waterstones.com e-commerce website.

Waterstones continues to follow the same strategy that it adopted following its acquisition from HMV Group in June 2011. It seeks 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 remained consistent with that of recent years at £8.8m (2017: £9.5m). 11 new shops were opened, all of which are trading successfully, and a further 2 café's were added to the Café W estate.

Sales for the 52 week period ended 28 April 2018 were £385.7m (2017: £388.0m) in a year 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 of £24.0m, consistent with a profit of £24.5m in the prior period.

The profit after taxation amounted to £16.3m (2017: £17.8m). The Company does not have distributable reserves and therefore no dividend was paid or declared during the period (2017: £nil) with the profit being transferred to reserves.

During the period under review, 2 shops were closed and, as noted, 11 shops were opened, resulting in a total estate of 278 shops at 28 April 2018 (2017: 269).

During the period under review, an exercise to sell a majority equity stake in Waterstones was undertaken successfully, albeit with an adverse impact on the performance of the Company as a consequence of the diversion of management time and associated costs. The sale completed shortly after the year-end on 1 June 2018.

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 developing methods of digital delivery of products and content;

(ii) the general sensitivity to changes in economic conditions;

(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 and subsequent execution of Waterstones' strategic and operational plans and policies.

On behalf of the Board

A J Daunt
Director

22 January 2019

DIRECTORS' REPORT

The Directors submit their report and audited financial statements for the 52 weeks ended 28 April 2018, which were approved on behalf of the Board on 22 January 2019.

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 (2017: £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

During the period under review, the Company's immediate parent undertaking, Lynwood Retail UK Limited (formerly Waterstones Holdings Limited), undertook an exercise to sell a majority equity stake in Waterstones. The sale completed shortly after the year-end on 1 June 2018. Further details of this post balance sheet event are given in Note 31.

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 22.

Policy on payment of creditors

During the period under review, the Company did not impose standard payment terms on its suppliers but agreed specific terms with each and ensured that each supplier was made aware of such terms. It was the Company's policy to pay its suppliers in accordance with the terms that they had agreed. The Company had 60 (2017: 56) days' purchases outstanding as payable at 28 April 2018.

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.

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.

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.

DIRECTORS' REPORT (CONTINUED)

Donations

The Company made charitable donations of £426,000 (2017: £280,000) 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 5, 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 Directors consider that, having reviewed current performance and forecasts, they have a reasonable expectation that the Company has adequate resources and access to funding, through the revolving working capital funding facility provided by Book Retail Bidco Limited (the Company's parent undertaking from 1 June 2018, see Note 31) to continue in operational existence for the foreseeable future. On this basis, they continue to adopt the going concern basis in preparing the financial statements.

On behalf of the Board

A J Daunt
Director
22 January 2019

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 year. 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

22 January 2019

P Best
Director

22 January 2019

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WATERSTONES BOOKSELLERS LIMITED

Opinion

We have audited the financial statements of Waterstones Booksellers Limited for the year ended 28 April 2018 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 31, 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 28 April 2018 and of its profit for the year 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 parent 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 5, 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.

Ernst & Young LLP

Nigel Meredith (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
Date: 23 January 2019

INCOME STATEMENT

For the 52 weeks ended 28 April 2018 and 52 weeks ended 29 April 2017

	Notes	2018 £000	2017 £000
Revenue	3	**385,715**	387,973
Cost of sales		**(346,424)**	(348,802)
Gross profit		**39,291**	39,171
Administrative expenses		**(15,261)**	(14,701)
Operating profit	4	**24,030**	24,470
Finance income	8	**51**	53
Finance costs	9	**(4,097)**	(5,366)
Profit before taxation		**19,984**	19,157
Taxation	10	**(3,662)**	(1,381)
Profit for the period		**16,322**	17,776

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 28 April 2018, whilst the comparative period covered the 52 weeks ended 29 April 2017.

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

STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 28 April 2018 and 52 weeks ended 29 April 2017

	2018 £000	2017 £000
Profit for the period attributable to the shareholders of the Company	**16,322**	17,776
Total comprehensive income for the period attributable to the shareholders of the Company	**16,322**	17,776

BALANCE SHEET

	Notes	As at 28 April 2018 £000	As at 29 April 2017 £000
Assets			
Non-current assets			
Plant and equipment	11	**45,438**	48,971
Intangible assets	12	**1,091**	1,618
Investments in subsidiaries	13	**27,261**	27,261
Deferred tax asset	10	**4,967**	6,691
		78,757	84,541
Current assets			
Inventories	15	**57,669**	58,223
Trade and other receivables	14	**35,821**	34,588
Current tax receivable		**-**	96
Cash and short-term deposits	16	**16,561**	24,566
		110,051	117,473
Total assets		**188,808**	202,014
Liabilities			
Non-current liabilities			
Amounts due to group undertakings	17	**(33,831)**	(72,734)
Provisions	20	**(1,187)**	(1,181)
		(35,018)	(73,915)
Current liabilities			
Amounts due to group undertakings	17	**(39,584)**	(38,849)
Trade and other payables	18	**(93,322)**	(84,047)
Corporation tax payable		**(671)**	-
Interest bearing loans and borrowings	19	**-**	(528)
Provisions	20	**(1,717)**	(1,301)
		(135,294)	(124,725)
Total liabilities		**(170,312)**	(198,640)
Net assets		**18,496**	3,374
Equity			
Share capital	24	**71,014**	71,014
Other reserves	25	**-**	1,200
Accumulated losses		**(52,518)**	(68,840)
Total equity		**18,496**	3,374

The financial statements were approved by the Board of Directors on 22 January 2019 and were signed on its behalf by:

A J Daunt
Director

P Best
Director

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital £000	Other reserves £000	Accumulated losses £000	Total £000
At 30 April 2016		71,014	-	(86,616)	(15,602)
Profit for the period		-	-	17,776	17,776
Total comprehensive income		-	-	17,776	17,776
Share based awards		-	1,200	-	1,200
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	**25**	-	**(1,200)**	-	**(1,200)**
At 28 April 2018		**71,014**	-	**(52,518)**	**18,496**

CASH FLOW STATEMENT

For the 52 weeks ended 28 April 2018 and 52 weeks ended 29 April 2017

	Notes	2018 £000	2017 £000
Cash flows from operating activities			
Profit before tax		19,984	19,157
Net finance costs		4,046	5,313
Operating profit		24,030	24,470
Depreciation and amortisation	11,12	12,279	12,406
Impairment charges	11	306	-
Loss on disposal of plant and equipment	4	479	492
Equity-settled share-based award		-	1,200
Net foreign exchange losses	4	301	484
		37,395	39,052
Movement in inventories		554	(1,773)
Movement in trade and other receivables		(1,233)	397
Movements in amounts due to group undertakings		(32,180)	12,378
Movement in trade and other payables		7,116	(8,623)
Movement in provisions		212	(651)
Cash generated from operations		11,864	40,780
Income tax paid		(1,171)	(96)
Net cash flows from operating activities		10,693	40,684
Cash flows from investing activities			
Purchase of plant and equipment and intangible assets		(7,835)	(10,132)
Interest received		51	53
Net cash flows from investing activities		(7,784)	(10,079)
Cash flows from financing activities			
Interest paid		(10,413)	(24,049)
Repayment of capital element of finance leases		(528)	(528)
Net cash flows from financing activities		(10,941)	(24,577)
Net (decrease) increase in cash and cash equivalents	23	(8,032)	6,028
Opening cash and cash equivalents	16	24,566	18,519
Effects of exchange rate changes	23	27	19
Closing cash and cash equivalents	16	16,561	24,566

NOTES TO THE FINANCIAL STATEMENTS

1. Authorisation of financial statements and statement of compliance with IFRS

The financial statements of Waterstones Booksellers Limited for the period ended 28 April 2018 were authorised for issue by the Board on 22 January 2019 and the Balance Sheet was signed on the Board's behalf by A J Daunt and P Best.

Waterstones Booksellers Limited is incorporated and domiciled in England and Wales. The Company is part of the Waterstones group of companies ("Waterstones") which operates as a bookseller through a chain of bookshops in the United Kingdom, Ireland, Holland and Belgium, and through the Waterstones.com e-commerce website.

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 28 April 2018 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 28 April 2018, whilst the comparative period covered the 52 weeks ended 29 April 2017.

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 Directors consider that, having reviewed current performance and forecasts, they have a reasonable expectation that the Company has adequate resources and access to funding, through the revolving working capital funding facility provided by Book Retail Bidco Limited (the Company's parent undertaking from 1 June 2018, see Note 31) to continue in operational existence for the foreseeable future. On this basis, they continue to adopt the going concern basis in preparing the financial statements.

Revenue

Revenue represents the value of goods supplied, net of discounts given and returns, and is recognised when goods are despatched and title has passed. Revenue excludes value added tax ("VAT") and similar sales-related taxes.

The Company operates a customer loyalty scheme which allows customers to accumulate points when they purchase goods from the Company. Consideration received is allocated to the points equal to their fair value. The fair value of the points issued is deferred and recognised as revenue when the points are redeemed based on the number of points redeemed relative to the number of points expected to be redeemed.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

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.

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 $33^1/_3$%

Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

Intangible assets

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.

Costs recognised as assets will be 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 to the carrying value it would have been if the impairment had not been recognised in prior years. 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 other 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.

Assets held under finance leases, which transfer to the Company substantially all the risks and benefits of ownership of the leased assets, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

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)

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 year 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 prior year 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 has been reassessed in the current year and it is no longer expected to be settled by a proportion of the fully diluted issued share capital of the Waterstones group. The entitlement is now expected to be settled by a cash payment. As a result, this award is now accounted for as cash-settled and the prior year entries have been reversed.

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 year. 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 year are as follows:

Revenue recognition in respect of customer loyalty schemes - revenue recognition is based on the number of points redeemed relative to the number of points expected to be redeemed. This calculation requires judgements to be made regarding future points redemption which are based on historical redemption patterns.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

New accounting standards

The Company has adopted the following amended accounting standards which were mandatory for the first time for the financial period ending 28 April 2018. They have no material impact on the Company.

- IAS 7 Statement of cash flows: Amendments as a result of the disclosure initiative, effective for annual periods beginning on or after 1 January 2017; and
- IAS 12 Income taxes: Amendments regarding the recognition of deferred tax assets for unrealised losses, effective for annual periods beginning on or after 1 January 2017.

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 2 Share based payment: Classification and measurement of share-based payment transactions, effective for annual periods beginning on or after 1 January 2018;
- 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;
- IFRS 16 Leases: Original issue, effective for annual periods beginning on or after 1 January 2019;
- 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;
- 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;
- IFRIC 22 — Foreign currency transactions and advance consideration, effective for annual periods beginning on or after 1 January 2018; 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.

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 15 Revenue from contracts with customers and IFRS 16 Leases.

The Company is in the process of assessing the impact of IFRS 15 and has identified that it will materially impact accounting for breakage from gift cards. Breakage is the amount attributable to a customer's rights to future goods or services that it is expected will never be exercised. Historically the Company has recognised all expected breakage upfront when the gift card is sold, however, under IFRS 15 breakage will be recognised in proportion to the customers' pattern of redemption. The total amount of breakage recognised will be unchanged.

IFRS 16 is expected to have a material impact on the Company's balance sheet and income statement for the year ended 25 April 2020, however, the Company is yet to complete its assessment of the impact of this new standard.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Revenue

Revenue disclosed in the income statement is analysed as follows:

	2018	2017
	£000	£000
Sale of goods – UK	385,715	387,973
	385,715	387,973

4. Operating profit

Operating profit is stated after charging (crediting):

	2018	2017
	£000	£000
Depreciation and amortisation (see Notes 11 and 12)	12,279	12,406
Impairment charges (see Note 11)	306	-
Loss on disposal of plant and equipment	479	492
Cost of inventories recognised as an expense	181,707	184,497
Movement in inventory provision	(198)	(167)
Net foreign exchange losses	301	484
Operating lease rentals:		
Minimum rentals	46,920	46,194
Percentage rentals	119	87
Sublease rentals	(524)	(547)

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.

5. Fees to auditors

	2018	2017
	£000	£000
Audit of the financial statements	200	122
Non audit services	2	5

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Directors' emoluments

	2018	2017
	£000	£000
Emoluments	**2,016**	1,866
Pension contributions	**16**	16
	2,032	1,882

One (2017: two) 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:

	2018	2017
	£000	£000
Emoluments	**1,601**	1,430
	1,601	1,430

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

In the prior year, the Company made an equity-settled non-market share-based award to a Director. The performance award was the entitlement to a proportion of 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. This award has been reassessed in the current year and it is no longer expected to be settled by a proportion of the fully diluted issued share capital of the Waterstones group. The entitlement is now expected to be settled by a cash payment. As a result, this award is now accounted for as cash-settled.

7. Employee costs

	2018	2017
	£000	£000
Employee costs, including Directors' emoluments:		
Wages and salaries	**50,334**	49,599
Social security costs	**3,826**	3,565
Other pension costs	**1,367**	1,388
	55,527	54,552

The calculation of the employment costs disclosure has been reviewed in the current period. This review highlighted that certain employee costs had been omitted from this disclosure in the prior period in error. This has now been corrected and has resulted in an additional £940,000 employee costs being included in the prior year disclosure. This correction has no impact on the profit for the prior year as previously reported.

Included in wages and salaries in the prior year was a total expense of £1,200,000 which arose from transactions accounted for as equity-settled share-based awards. The performance award was the entitlement to a proportion of 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. This award has been reassessed in the current year and it is no longer expected to be settled by a proportion of the fully diluted issued share capital of the Waterstones group. The entitlement is now expected to be settled by a cash payment. As a result, this award is now accounted for as cash-settled.

The average monthly number of people employed by the Company during the period was 3,123 (2017: 3,195).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Finance income

	2018	2017
	£000	£000
Bank interest receivable	**51**	53
	51	53

9. Finance costs

	2018	2017
	£000	£000
External loans and overdrafts	**37**	37
Interest payable to group undertakings	**4,060**	5,329
	4,097	5,366

10. Taxation

	2018	2017
	£000	£000
Taxation recognised in the income statement:		
Current tax, current year	**1,834**	-
Current tax, prior year	**104**	-
Total current tax	**1,938**	-
Deferred tax, current year	**1,996**	(380)
Deferred tax, prior year	**(272)**	1,761
Total deferred tax	**1,724**	1,381
	3,662	1,381

The standard rate of UK corporation tax was reduced from 20% to 19% from 1 April 2017. Further, the Finance Act 2016 reduced the main rate of corporation tax to 17% from 1 April 2020. Current tax has therefore been provided at 19% (2017: 19.92%) and deferred tax at 17% or 19% (2017: 17% or 19%), the rates expected to be effective when the deferred tax assets are anticipated to be utilised.

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

	2018	2017
	£000	£000
Profit before taxation	**19,984**	19,157
Corporation tax at UK average statutory rate of 19.00% (2017: 19.92%)	**3,797**	3,816
Effects of:		
Expenses not deductible for tax purposes	**320**	433
Tax rate differences	**(27)**	603
Utilisation of previously unrecognised tax losses	**-**	(3,829)
Recognition of deferred tax asset	**-**	(1,403)
Group relief claimed	**(260)**	-
Adjustment in respect of prior periods	**(168)**	1,761
Total tax charge	**3,662**	1,381

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Taxation (continued)

Deferred tax

Provided deferred tax

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

	2018	2017
	£000	£000
Decelerated capital allowances	4,967	5,288
Other temporary differences	-	1,403
	4,967	6,691

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 to 17% from 1 April 2020.

11. Plant and equipment

	Plant and equipment
	£000
Cost at 30 April 2016	173,758
Disposals	(4,345)
Additions	9,339
Cost at 29 April 2017	178,752
Disposals	(8,233)
Additions	8,737
Cost at 28 April 2018	**179,256**
Depreciation at 30 April 2016	121,422
Charge for period	11,926
Disposals	(3,567)
Depreciation at 29 April 2017	129,781
Charge for period	11,695
Impairment	306
Disposals	(7,964)
Depreciation at 28 April 2018	**133,818**
Net book value at 28 April 2018	**45,438**
Net book value at 29 April 2017	48,971

Plant and equipment was written down by £306,000 (2017: £nil) 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)

12. Intangible assets

	Goodwill	Website costs	Software costs	Total
	£000	£000	£000	£000
Cost at 30 April 2016	69,347	965	2,464	72,776
Additions	-	-	186	186
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**
Depreciation at 30 April 2016	69,347	234	1,283	70,864
Charge for period	-	193	287	480
Depreciation at 29 April 2017	69,347	427	1,570	71,344
Charge for period	-	194	390	584
Disposals	-	-	(5)	(5)
Depreciation at 28 April 2018	**69,347**	**621**	**1,955**	**71,923**
Net book value at 28 April 2018	**-**	**344**	**747**	**1,091**
Net book value at 29 April 2017	-	538	1,080	1,618

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.

13. Investments in subsidiaries

	Cost	Provision	Net book value
	£000	£000	£000
At 28 April 2018	**27,261**	**-**	**27,261**
At 29 April 2017	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)

14. Trade and other receivables

	2018	2017
	£000	£000
Current:		
Trade receivables	**968**	1,064
Amounts due from fellow subsidiary undertakings	**372**	530
Other receivables	**4,344**	3,119
Prepayments and accrued income	**30,137**	29,875
	35,821	34,588

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

Trade receivables are stated net of a provision for impairment of £56,000 (2017: £24,000). Trade receivables are non-interest bearing and are generally on 30 day terms. Other receivables are also non-interest bearing.

Amounts due from fellow subsidiary undertakings relate to intercompany trading and are usually settled monthly with no interest charged.

Credit risk is limited as the Company has minimal levels of trade receivables due to the nature of its retailing business. See Note 22 for a discussion of credit risk.

15. 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.

16. Cash and short-term deposits

	2018	2017
	£000	£000
Cash at bank and in hand	**16,561**	24,566
	16,561	24,566

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Amounts due to group undertakings

	2018 £000	2017 £000
Non-current:		
Loans due to UK parent undertaking	**33,831**	72,734
	33,831	72,734
Current:		
Loans due to ultimate European parent undertaking	**-**	7,520
Loans due to fellow subsidiary undertakings	**8,255**	-
Other amounts due to subsidiary undertakings	**31,329**	31,329
	39,584	38,849

At the year-end the loans due to UK parent undertaking were repayable by no later than 22 June 2021. Interest was chargeable on £25,867,000 (2017: £38,118,000) of this balance at 7.28% and on £7,964,000 (2017: £34,616,000) of this balance at 7%. However, during the period under review, the Company's immediate parent undertaking, Lynwood Retail UK Limited (formerly Waterstones Holdings Limited), undertook an exercise to sell a majority equity stake in Waterstones. The sale completed shortly after the year-end on 1 June 2018 and on this date these amounts were repaid and replaced with funding from the new parent company. Further details of this post balance sheet event are given in Note 31.

During the year, the loans due to ultimate European parent undertaking were novated from the ultimate European parent undertaking to the Company's fellow subsidiary undertakings. The interest rates charged were unchanged and interest continues to accrue 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 amounts included in this balance are repayable on demand.

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

18. Trade and other payables

	2018 £000	2017 £000
Current:		
Trade payables	**30,453**	28,383
Other payables	**42,414**	37,500
Accruals and deferred income	**20,455**	18,164
	93,322	84,047

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

In the current year 'Amounts owed to fellow subsidiary undertakings' amounting to £31,329,000 have been reclassified within the balance sheet from 'Trade & Other Payables' to 'Amounts due to group undertakings' (see Note 17). The comparative prior year financial statement amounts have also been restated as follows:

- Current liabilities, Amounts due to group undertakings has been restated to £38,849,000 (formerly reported as £7,520,000); and
- Current liabilities, Trade and other payables has been restated to £84,047,000 (formerly reported as £115,376,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Interest bearing loans and borrowings

	2018 £000	2017 £000
Current:		
Obligations under finance leases (see Note 28)	-	528
	-	528

The carrying value of interest bearing loans and other borrowings approximates to fair value.

20. Provisions

	Total £000
At 29 April 2017	2,482
Provisions created in the period	1,619
Provisions utilised	(923)
Provisions released	(274)
At 28 April 2018	**2,904**
Analysed as:	
Current	1,717
Non-current	1,187
	2,904

Provisions almost entirely consist of amounts in respect of onerous leases and store closures. Of the total provisions, £495,000 (2017: £320,000) is expected to be utilised after 5 years from the balance sheet date.

21. 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 28 April 2018 was £nil (2017: £nil).

The total notional amount of outstanding foreign currency contracts to which the Company was committed at 28 April 2018 was £nil (2017: £nil).

22. 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 year under review the Company had sufficient funds and access to funding facilities from its parent undertaking, Lynwood Retail UK Limited (formerly Waterstones Holdings Limited), available to satisfy its current requirements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Financial risk factors (continued)

Liquidity risk (continued)

Analysis of the maturity profile of the Company's financial liabilities at 28 April 2018 and 29 April 2017 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	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**
Finance leases	-	140	420	-	-	560
Trade and other payables	13,459	70,588	-	-	-	84,047
Amounts due to group undertakings	31,329	-	7,520	72,734	-	111,583
At 29 April 2017	44,788	70,728	7,940	72,734	-	196,190

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 year the Company managed cash balances by repaying drawings under the revolving credit facility 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 date (see Note 21).

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)

22. 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 year end, and including interest bearing intercompany loans, a 100 basis points movement in interest rates would affect the Company's result before tax and shareholders' equity by approximately £0.4m (2017: £0.6m).

Foreign exchange rate sensitivity

A 10% change in the value of Euro against Sterling would affect the Company's result before tax and shareholders' equity by approximately £1.1m (2017: £0.8m).

Capital management

During the year 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 16), loans and borrowings through its intra-group facilities (see Note 14 and Note 17) and external sources (see Note 19) and equity attributable to the parent company (see Note 24).

Post balance sheet date changes to financial risk factors

During the period under review, the Company's immediate parent undertaking, Lynwood Retail UK Limited (formerly Waterstones Holdings Limited), undertook an exercise to sell a majority equity stake in Waterstones. The sale completed shortly after the year-end on 1 June 2018 and on this date the amounts due to Lynwood Retail UK Limited (formerly Waterstones Holdings Limited) referred to above were repaid and replaced with funding from the new parent company. Further details of this post balance sheet event are given in Note 31.

23. Additional cash flow information

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

	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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Additional cash flow information (continued)

	At 30 April 2016	Cash flow	Other non-cash changes	At 29 April 2017
	£000	£000	£000	£000
Cash at bank and in hand	18,519	6,028	19	24,566
Cash and cash equivalents	18,519	6,028	19	24,566
Loans and borrowings – non-current	(528)	-	528	-
Loans and borrowings – current	(528)	528	(528)	(528)
Total loans and borrowings	(1,056)	528	-	(528)
Net funds	17,463	6,556	19	24,038

Other non-cash changes represents movements in finance lease funding and foreign exchange rate changes during the year.

24. Share capital

	2018	2017	2018	2017
	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, 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.

25. Other reserves

In the prior year, the reserve arose as a result of the anticipated equity-settled share-based award, see Note 7. This award has been reassessed in the current year and is now expected to be settled by a cash payment. As a result, this award is now accounted for as cash-settled and the prior year credit to other reserves has been reversed.

26. 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.

The Company is a guarantor to an £80m bank loan facility held by the ultimate European parent company. Part of the security for this loan facility is a debenture on the Waterstones brand.

27. Pension arrangements

The Waterstones Group Personal Pension Plan ("the Plan"), a defined contribution scheme, 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 1% of pensionable salary into the scheme which is matched by Waterstones. There is also a voluntary element to the Plan under which members can choose to pay a percentage of pensionable salary, with the members' contributions matched by Waterstones to a maximum of 6.5%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. 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	
	2018	2017	**2018**	2017	**2018**	2017
	£000	£000	**£000**	£000	**£000**	£000
Expiry:						
Not later than one year	**44,302**	42,730	**138**	174	**44,440**	42,904
Later than one year and not later than five years	**111,433**	110,834	**209**	97	**111,642**	110,931
Later than five years	**85,989**	88,181	**-**	-	**85,989**	88,181
	241,724	241,745	**347**	271	**242,071**	242,016

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 28 April 2018 was £393,000 (2017: £725,000).

Obligations under finance leases

The Company has acquired certain plant and equipment under finance lease arrangements. These leases have no terms of renewal, purchase options or escalation clauses. At the end of the period, future minimum payments under finance leases were as follows:

	2018	2017
	£000	£000
Payable:		
Not later than one year	-	560
	-	560
Less:		
Finance charges allocated to future periods	-	(32)
Present value of minimum lease payments	-	528

The present value of minimum lease payments is analysed as follows:

	2018	2017
	£000	£000
Payable:		
Not later than one year	-	528
	-	528

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. Related party transactions

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

	Net interest payable accrued during the period	Services rendered to related party	Fixed assets transferred to related party	Goods sold to related party
	£000	£000	£000	£000
With ultimate European parent undertaking:				
Lynwood Investments CY Limited				
2018	**402**	**-**	**-**	**-**
2017	386	-	-	-
With ultimate UK parent undertaking:				
Lynwood Retail UK Limited (formerly Waterstones Holdings Limited)				
2018	**3,653**	**-**	**-**	**-**
2017	4,943	-	-	-
With fellow subsidiary undertakings:				
Waterstones Booksellers Ireland Limited				
2018	**4**	**194**	**-**	**449**
2017	-	211	-	408
Waterstone's Booksellers Amsterdam B.V.				
2018	**-**	**48**	**-**	**70**
2017	-	46	-	68
Waterstone's Booksellers Belgium SA				
2018	**1**	**47**	**-**	**47**
2017	-	47	-	50

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. Related party transactions (continued)

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

	Amounts owed by related party	Amounts owed to related party
	£000	£000
With ultimate European parent undertaking:		
Lynwood Investments CY Limited		
2018	**-**	**-**
2017	-	7,520
With ultimate UK parent undertaking:		
Lynwood Retail UK Limited (formerly Waterstones Holdings Limited)		
2018	**-**	**33,831**
2017	-	72,734
With fellow subsidiary undertakings:		
Waterstones Booksellers Ireland Limited		
2018	**240**	**5,665**
2017	382	-
Waterstone's Booksellers Amsterdam B.V.		
2018	**64**	**640**
2017	71	-
Waterstone's Booksellers Belgium SA		
2018	**68**	**1,950**
2017	77	-
Hatchards UK Limited		
2018	**-**	**20,000**
2017	-	20,000
Ottakar's Limited		
2018	**-**	**196**
2017	-	196
Waterstones Overseas Limited		
2018	**-**	**11,133**
2017	-	11,133

See Notes 14 and 17 for details of the terms and conditions relating to the related party balances.

At the year end the Company was a guarantor to an £80m bank loan facility held by the ultimate European parent company. Part of the security for this loan facility was a debenture on the Waterstones brand.

Remuneration of key management personnel

The remuneration of the Directors of the Company is set out in Note 6. The Directors comprise the key management personnel of the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. Ultimate parent undertaking

The immediate parent undertaking of the Company is Lynwood Investments CY Limited, registered in Cyprus and the ultimate parent company is Alpha Global (PTC) Limited, registered in the British Virgin Islands. The ultimate controlling parties of the Company are Alpha Global (PTC) Limited (acting in its capacity as a trustee of the Alpha Trust), Nicolai Mamut (who is currently the sole beneficiary of that trust) and Marina Groenberg who has the right to exercise significant influence or control over the activities of that trust.

For the 52 weeks ended 28 April 2018 the largest and smallest group, including the Company, for which consolidated accounts are prepared is that headed by Lynwood Retail UK Limited (formerly Waterstones Holdings Limited). Copies of these financial statements can be obtained from the Company Secretary, 4 Hill Street, London, England, W1J 5NE.

During the period under review, the Company's immediate parent undertaking, Lynwood Retail UK Limited (formerly Waterstones Holdings Limited), undertook an exercise to sell a majority equity stake in Waterstones. The sale completed shortly after the year-end on 1 June 2018. Further details of this post balance sheet event are given in Note 31.

31. Post balance sheet events

During the period under review, the Company's immediate parent undertaking, Lynwood Retail UK Limited (formerly Waterstones Holdings Limited), undertook an exercise to sell a majority equity stake in Waterstones. The sale completed shortly after the year-end on 1 June 2018. Control of the companies did not pass to the new owner until sale completion on 1 June 2018 and therefore there was no change to the controlling parties referred to in Note 30 during the period under review. Following sale completion the next senior holding company of the companies became Book Retail Bidco Limited and the ultimate parent company became 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 the U.S.A., and its affiliates.

On sale completion, the amounts due to Lynwood Retail UK Limited (formerly Waterstones Holdings Limited) were repaid and replaced with a £29,580,000 fixed loan from Book Retail Bidco Limited. Interest is charged on this loan at the base rate of Barclays Bank plc plus 4%, or 7% per annum, whichever is higher. The terms of this loan state that it is repayable on demand, however, as the loan is from the sole shareholder of the Company and, as the parent company has financed this loan through funding agreements which are not repayable on demand, it is not expected to be called in on demand.

In addition, from sale completion, Book Retail Bidco Limited also provided the Company with a £30,000,000 revolving working capital funding facility. This facility is available until 1 June 2023 and interest is due at LIBOR plus 6.5%.