

Waterstones Booksellers Limited

Annual Report and Financial Statements

52 weeks ended 24 April 2021



WATERSTONES BOOKSELLERS LIMITED

REPORT AND ACCOUNTS 2021

Company Number: 00610095

COMPANY INFORMATION

DIRECTORS

A J Daunt
J Molloy
K Skipper

SECRETARY

E Sullivan (appointed 31 December 2021)

REGISTERED OFFICE

203-206 Piccadilly
London
W1J 9HD

COMPANY NUMBER

00610095

AUDITORS

Ernst & Young LLP
One Colmore Square
Birmingham
B4 6HQ

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095**

STRATEGIC REPORT**Introduction**

The Directors present the Strategic Report of Waterstones Booksellers Limited (the "Company") for the 52 week period ended 24 April 2021.

Principal activities

The Company is part of the Waterstones group of companies ("Waterstones"). Waterstones is 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

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 in the operational infrastructure.

The outbreak of Covid-19 has had, and continues to have, a significant adverse impact on Waterstones. Under Government direction, the entire estate of shops was closed in mid-March 2020. The shop in Holland re-opened in April 2020 followed by the Belgium shop in May 2020 and the majority of the remaining shops in mid-June 2020. Subsequent mandated closures were implemented, resulting in the majority of the estate being closed over the key Christmas trading period and not re-opening until April 2021. During the shop closure periods, the online business performed strongly. The Company successfully repurposed the distribution centre as an online fulfilment operation. Margins were lower due to shipping costs and the additional costs associated with social distancing measures within the distribution centre.

Footfall and sales continue to recover but remain depressed, notably in London and other metropolitan city centres. However, the online business continues to deliver a strong performance.

In consequence of these various impacts, sales declined relative to last year adversely impacting profitability, as did the incremental costs associated with the implementation of safe working and trading environments. The business responded to these pressures with discipline and the overall impact on the Company's profitability has been substantially mitigated by early action to curtail costs. The support and hard work of employees in this challenging environment has been highly professional.

In line with other retail companies, Waterstones has utilised government support available in the UK including Job Retention Scheme, Business rates relief, Government business grants and other local support in Ireland, Holland and Belgium. As from October 2021, the Company will not be eligible to receive any further government support with the exception of business rates relief.

Against this backdrop, sales for the 52 week period ended 24 April 2021 were £230.9m (2020: £376.0m) resulting in an operating profit before exceptional items of £14.6m (2020: £32.6m). Exceptional operating charges totalled £1.6m (2020 restated: £2.6m) comprising restructuring costs, impairment of right-of-use assets and tangible fixed assets and system implementation costs incurred in a cloud computing arrangement. In the prior year, exceptional costs comprised impairment of right-of-use assets and tangible fixed assets and system implementation costs incurred in a cloud computing arrangement. This resulted in an operating profit after exceptional items of £13.0m (2020 restated: £30.1m).

The profit after taxation amounted to £2.9m (2020 restated: £19.7m). No dividend was paid or declared during the period (2020: £nil).

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****STRATEGIC REPORT (CONTINUED)****Section 172(1) Statement**

In accordance with the Companies (Miscellaneous Reporting) Regulations 2018 amendments to the Companies Act 2006, the Directors are required to set out how they have had regard to the matters in section 172 (1):

- a) the likely consequences of any decision in the long term;
- b) the interests of the Company's employees;
- c) the need to foster the Company's business relationships with suppliers, customers and others;
- d) the impact of the Company's operations on the community and the environment;
- e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
- f) the need to act fairly between members of the Company.

We have adopted the Wates Corporate Governance Principles for Large Private Companies which provides a framework for the Company to demonstrate how the Company satisfies the requirements of s172(1) duty to promote the success of the Company as well as setting out how the Company engages with key stakeholders and employees. This is set out on below and on the following pages.

Wates corporate governance statement

The Company's corporate governance arrangements are consistent with the Wates Principles and the Company is not aware of any departures.

Purpose and leadership

In a time of unprecedented challenge, the Board remains committed to improving corporate governance. Our vision is to continue to champion good books through our interesting bookshops and good bookselling through the excellence of our booksellers.

We continue also to build our online presence so that the very essence of Waterstones (and its group companies) is available online and through our app.

We have implemented policies and tools to support the execution of our vision. Bookselling proficiency and career progression is a central focus, supported by such initiatives as our Bookseller Development Programme. We work to improve employee engagement including support for mental well-being and refinement of our Code of Conduct.

Board composition

As a subsidiary of Book Retail Bidco Limited ("Bidco") our long-term strategy and objectives are determined at Bidco board level.

The size and composition of our board is appropriate for the scale of the business. We are committed to being an inclusive business and recognise this is an area of continual improvement. Diversity of thought is encouraged through open debate and challenge.

The Board is supported by senior management who govern the day-to-day aspects of the business and ensure information is accurate and is conveyed in a timely manner to the board.

The Directors undertake training, as required, to ensure they are kept abreast of legal and regulatory changes.

Director responsibilities

The Directors appointed have all appropriate skill set and relevant experience to discharge their responsibilities. The Board delegates certain responsibility to senior executives in the Company and regular management meetings are held; following these, information is collated and cascaded up to the Board, including sales and financial information, operational and employee matters.

The Chairman, with support from the Company Secretary, assumes responsibility for the accuracy and timely submission of information to the Board. Key information is verified by external independent groups where appropriate, with our financial statements audited by Ernst & Young.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095**

STRATEGIC REPORT (CONTINUED)**Wates corporate governance statement (continued)***Opportunity and risk*

The Board meets regularly to take decisions intended to promote the ongoing success of the Company. Key decisions were communicated as necessary following such board meetings to all relevant stakeholders including for example in relation to the health and safety of employees and customers, the receipt of government grants and the listing of Bidco's debt.

Strategic opportunities are highlighted at management level and discussed at board level. Risk management is delegated to management and considered at board level. A summary of our principal risks is included on page 5. The Board actively seeks to mitigate and manage the risks identified.

The Board manages risk through internal systems and controls, with rigorous approval processes in place for contracts and expenditure. Focus is given to the data security and I.T. integrity of the Company.

Remuneration

In determining remuneration policies, the Company's primary objective is to attract and retain talent as this is recognised to be the foundation of the Company's success. Authority for remuneration is delegated to senior management, with oversight by the Board where appropriate.

The Company continues to invest in the career rewards available at all levels. In setting our remuneration policy we ensure we operate in accordance with the law and that our approach adheres to principles of equality and fairness. The Board is committed to the continued improvement in reducing the gender pay gap within the Company. Our functions keep abreast of market trends and benchmark as appropriate.

Stakeholder relationships and engagement

As a subsidiary of Bidco, the Chairman of the Bidco board acts as the primary interface between the Company and the Shareholders.

Meaningful engagement with its customer base is core to the purpose of the Company, from the service given by booksellers in shops to the central customer service functions and media presence. The Board ensures that the Company has the requisite policies in place to continually improve this relationship.

Employee engagement and consultations are conducted regularly through delegated authority, with email communications sent daily and by means of the Company intranet. The Company continually seeks to improve this engagement, notably through training and improving employee benefits.

The Company seeks to preserve excellent and collaborative relationships with its suppliers. It abides by agreed commercial terms and works proactively to drive efficiencies to the mutual benefit of all parties.

The Company is committed to social responsibility and community engagement, as part of community investment we partner with local and national charities and actively encourage our employees to promote these partnerships.

There has been increasing interest from stakeholders as to how climate change will impact companies. As a retail business, the Group's activities have a relatively small impact on the environment when compared to companies that operate in more resource intensive industries. The Group has determined that the most significant future impacts from climate change on its operations will be from energy prices as the Group and global economy transition to greener sources. The Group is committed to improving its impact on climate change by adopting energy efficiency measures and has made considerable investment to improve energy consumption (please see SECR reporting on page 7 for further information). We consider that given the nature of the group's activities and locations that physical climate change presents a relatively low risk to the Group's future business operations. As such, no issues were identified that would impact the carrying values of such assets or have any other impact on the financial statements.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****STRATEGIC REPORT (CONTINUED)****Key performance indicators ("KPIs")**

The Directors consider the key indications of the performance of the Company, both financial and non-financial, to be turnover, operating profit, EBITDA and EBITDA % (earnings before interest, tax, depreciation, amortisation, foreign exchange movements on intercompany loans, management charge income and any one-off exceptional costs) pre IFRS 16 lease accounting.

The KPI's are set out below:

	2021	2020 Restated
	£000	£000
Turnover	230,885	376,024
Operating profit	12,983	30,080
EBITDA (Pre IFRS 16 lease accounting)	18,655	38,399
	%	%
EBITDA % (Pre IFRS 16 lease accounting)	8.1%	10.2%

Principal risks and uncertainties

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

- (i) the impact of the Covid-19 pandemic on customer shopping behaviours, including any government actions to limit retail trading;
- (ii) the longer term impact of Covid-19 on customers behavior, particularly in relation to city centres;
- (iii) 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;
- (iv) the general sensitivity of customer confidence and spending in an economic downturn;
- (v) the notable risk that Brexit causes disruption and cost within the supply chain, and further damages consumer confidence;
- (vi) the seasonality of the business, with the reliance on Christmas performance for a high percentage of annual profitability;
- (vii) maintaining appropriate commercial agreements with key suppliers;
- (viii) the reliability of the Company's and key suppliers' supply chains;
- (ix) a failure to sustain or protect the Company's reputation and brand;
- (x) the maintenance and development of information technology systems; and
- (xi) attracting, motivating and retaining key staff, with the impact of Brexit on retention of European staff in the UK a particular consideration.

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: 1 April 2022

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095**

DIRECTORS' REPORT

The Directors submit their report and audited financial statements for the 52 weeks ended 24 April 2021, which were approved on behalf of the Board on 1 April 2022.

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 (2020: £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

On 2 July 2021, £190,000,000 of the debt issued by Bidco, the Company's parent company, was listed on the Official List of The International Stock Exchange. The Company is a guarantor to this debt as detailed 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 26. Further information about liquidity risk is also included under going concern on pages 7 and 8.

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.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****DIRECTORS' REPORT (CONTINUED)****Streamlined energy and carbon reporting ("SECR")**

Disclosures relating to energy and carbon emissions as required by The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (SI 2018/1155) are included within Bidco's financial statements.

Donations

The Company made charitable donations of £162,000 (2020: £209,000) 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 9, which is deemed to be incorporated by reference in (and shall be deemed to form part of) this report.

Ernst & Young LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed in the absence of an AGM.

Going concern

In 2020, the rapid, worldwide spread of Covid-19 required extensive interventions by governments to contain the pandemic. This had a significant impact on the Company, with shops subject to periods of full closure and, even when allowed to open, a significant decline in revenue. This was partly mitigated by the improvement in internet sales, cost reductions and receipt of government support.

In the year ending April 2021, cash was sufficient to meet liabilities as they fell due and the Company did not require any additional funding. Waterstones Booksellers is a cross guarantor (see Note 31) for the £190m debt facility which Book Retail Bidco Limited (parent) holds with Elliott Funds. The profitability decline as a result of Covid-19 led to a breach of the April 2021 covenant associated with the Company's debt facility with Elliott Funds. The covenant test is based on EBITDA (earnings before interest, tax, depreciation, amortisation, foreign exchange movements on intercompany loans and any one-off exceptional costs) pre IFRS 16 lease accounting / net debt for the 12 months to the test date. Whilst Elliott Funds agreed in principle to waive this breach prior to the year-end, it was not formally waived until 19 May 2021 and therefore the loan has been shown as repayable on demand within the accounts of the Company's immediate parent, Book Retail Bidco Limited, at the balance sheet date.

Furthermore, Elliott Funds have confirmed they will, if requested by management as result of an identified financial covenant breach, waive this covenant without limitation, save for the payment of covenant waiver fee up to and including the test date at the end of April 2023.

Since April 2021, the majority of shops have been open. Prior to the Omicron variant, although shop sales were down on pre-Covid levels (actual 19/20 performance to February and forecast for March and April), performance was encouraging. The sales performance of shops varied by location, with the metropolitan and city centre locations seeing a larger decline as people continue to work from home.

There was a significant improvement in internet sales during the lockdown periods. Since shops have reopened, sales levels have declined but remain substantially improved on pre-Covid levels.

At the end of November 2021, with the rapid spread of the Omicron variant, increased Covid measures were implemented by governments. The increased restrictions and concern over the transmissibility of the new variant impacted footfall negatively. Since January 2022, trading improved as infection levels dropped and government guidance relaxed.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095**

DIRECTORS' REPORT (CONTINUED)**Going concern (continued)**

The Directors have reviewed cashflow forecasts to the period ending 1 April 2023. At 19 February 2022, net funds (including all interest bearing and non-interest bearing intercompany and related party balances but excluding IFRS 16 balances) were £72.2m (£95.8m cash and £23.6m net payable intercompany and related party balances). The Company is also a cross guarantor for the debt facility that its parent company, Bidco, holds, the net debt of the group headed by Bidco (excluding IFRS 16 balances) was £84.7m (£106.8m cash, £165.0m term facility and £25.0m working capital facility with £1.5m accrued interest). The base forecast assumes there will be no further lockdowns, with shops across the Company open and trading with limited Covid restrictions. The expectation is that shop sales will be down on pre-Covid levels in the year ending April 2022, with a sales improvement on pre-Covid levels in the following year, along with a continued growth in online sales throughout the going concern period. For the 12-month going concern period, under the base forecast, the Company would have sufficient cash to meet its liabilities as they fall due and will not breach the covenant associated with the debt.

Severe and plausible downside scenarios have been modelled to understand the impact on the liquidity of Waterstones Booksellers Limited. A full lockdown scenario has not been considered, evidenced by the fact that none was required in response to the Omicron variant. However, whilst Omicron did not lead to a full lockdown it did impact consumer confidence resulting in reduced footfall and sales, which has been modelled. The scenarios reviewed include a severe scenario where shop sales (excluding coffee) are down 20% in shops, partly offset by increased sales online where liquidity remained adequate.

In addition, a reverse stress test has been modelled to understand the level to which sales would need to fall for Waterstones Booksellers Limited to run out of cash. Waterstones Booksellers Limited sales would need to decline by over 20% on the most recent pre-Covid equivalent month to require additional financing, which is significantly below current performance and considered implausible.

Although Covid continues to impact sales and provides a degree of uncertainty, the level of uncertainty has reduced from last year, with future lockdowns judged to be improbable. In addition, since the start of the pandemic, the Company has demonstrated the ability to effectively manage cashflows during periods of closure and to maintain an encouraging level of sales outside the periods of enforced lockdown. Directors believe from their analysis of current performance, forecasts, cashflows and scenarios tests that the Company will continue to trade at levels which mean that it is able to meet its liabilities as they fall due throughout the going concern period. The accounts are therefore prepared on a going concern basis.

On behalf of the Board



A J Daunt

Director

Date: 1 April 2022

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****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 in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

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 accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 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 International Accounting Standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements;
- (v) make judgements and estimates that are reasonable and prudent; and
- (vi) prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company will not continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006. 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.

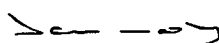
On behalf of the Board



A J Daunt

Director

Date: 1 April 2022



J Molloy

Director

Date: 1 April 2022

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 24 April 2021 which comprise 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 33, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 24 April 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; 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 Auditor's responsibilities for the audit of the financial statements section of our report. 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 related to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We draw attention to note 2 in the financial statements, which describes the ongoing impact of Covid-19 on the Company.

Waterstones Booksellers Limited (the "Company") is a subsidiary of Book Retail Bidco Limited ('Bidco') and is a contracting party for the Bidco Group's financing arrangements which consist of a £165,000,000 of 6% plus SONIA secured facility B loan notes and £25,000,000 of 5% plus SONIA secured original revolving facility loan notes listed on The International Stock Exchange as of July 2021. These loans are not due for repayment until August 2024.

The ultimate holders of the loan notes listed on The International Stock Exchange is the ultimate controlling party of both the Company and Bidco being Elliott Funds. The listed debt maintains the same terms and conditions, including covenants, as the debt previously held with Elliott Funds as at the year-end date, 24 April 2021.

As of the year end date, there was a breach of the April 2021 covenant associated with Bidco's debt facility with Elliott Funds. Whilst Elliott Funds agreed in principle to waive this breach prior to the year-end, it was not formally waived until 19 May 2021 and therefore the loan has been shown as repayable on demand at the balance sheet date.

In March 2022, Elliott confirmed in writing, that they will, if requested by management as result of an identified financial covenant breach, waive this covenant without limitation, save for the payment of covenant waiver fee up to and including the test date at the end of April 2023. Given this agreement, the going concern assessment is focused on the liquidity of the Company.

The Company prepares its financial statements on a going concern basis as the directors consider there to be no plausible scenario that could result in the Company having insufficient liquidity to continue as a going concern for a period through to 1 April 2023 ("the going concern period").

The Company has prepared a range of scenarios through the going concern period, including a base case, severe but plausible downside cases and a reverse stress test to understand the level of revenue decline necessary to cause the Company to exhaust its cash reserves.

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

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- Considered the directors' documented going concern assessment for the Company covering the going concern period, including their assessment of the risks and ongoing impact of Covid-19, as well as the Ukraine conflict, to understand the key assumptions upon which it was based.
- Obtaining the signed agreements for Bidco's credit facilities, including the waiver letter from Elliott Funds for the period ending 24 April 2021, and read these to ensure the terms, including the level of facilities, were consistent with those considered in management's assessment.
- Obtained and read the letter confirming that Elliot Funds would, if requested by management as result of an identified financial covenant breach, waive this covenant without limitation, save for the payment of covenant waiver fee up to and including the test date at the end of April 2023. We also assessed whether Elliot Funds were in a position to offer such a waiver.
- Assessed the liquidity of the Company, including both its current cash resources and forecast cash flows, in order to meet their liabilities as they fall due over a period through 1 April 2023.
- Obtained management's cash flow forecasts for the going concern period. We verified these forecasts were consistent with approved forecasts and reperformed our own sensitivity analysis to test the integrity of the model for clerical accuracy. The Company modelled a base case and downside scenarios including: (a) lower than forecast sales at shops for particular months in the year, resulting from a new variant of Covid-19; (b) lower than forecast sales at shops for the entire year; (c) scenario (a) plus lower sales for the month of December 2022; and (d) a reverse stress test to understand the level to which sales would need to fall for the Company to run out of cash.
- Challenged the forecasts and assumptions made, such as comparing the expected sales growth rates against pre-Covid-19 levels and the expected market related growth rates for the industry, assessing consumer confidence and the UK Government's behaviour in light of new variants of Covid-19, and reviewing for any contra-indicators which could suppress future sales, such as supply chain issues and decreases in disposable income.
- We assessed the achievability of the revenue projections in management's base case and downside scenarios in relation to the Company's actual performance since the onset of the Covid-19 pandemic and also considering other macro-economic factors, including but not limited to the conflict in Ukraine, climate change and the potential impact on supply chains, notably rising energy prices. In addition, we assessed the actual performance since the re-opening of non-essential retail stores in the UK and how it compares against the pre-Covid-19 levels.
- We assessed the adequacy of management's sensitivity analysis to key assumptions to consider the extent that sales need to decline to result in an absence of liquidity. Through this assessment we considered the likelihood of the scenarios arising and whether these are plausible.
- Evaluated the results of management's reverse stress test scenario and assessing whether the changes to key assumptions which resulted in the Company exhausting all of its liquidity were plausible.
- Used our professional scepticism to determine whether management have incorporated any bias within their models to show improved cash flows over the going concern period against pre-Covid-19 levels and sensitising future cash flow forecasts against variances to actual results, where appropriate.
- Inquired of management as to their knowledge of events or conditions beyond the period of their assessment that may cast significant doubt on the entity's ability to continue as a going concern and compared their response to forecast market conditions and other information acquired through our audit that could impact liquidity, such as the profiling of debt repayments.
- Read the going concern disclosures in the financial statements in order to assess they are appropriate and in conformity with the relevant standards.

Based on the work we performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the foreseeable future, through to 1 April 2023.

We agreed that management's disclosures in the financial statements appropriately describe the risks related to the Company's ability to continue to operate as a going concern.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained with the annual report.

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.

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 course of 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 themselves. 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.

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, 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 directors' responsibilities statement 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.

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

Auditor's 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 auditor's 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

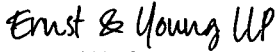
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, the Companies Act 2006 and The Wates Corporate Governance Principles for Large Private Companies) and compliance with the relevant direct and indirect tax regulation in the countries which the Company operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being those laws and regulations relating to its operations including health and safety, employee matters and data protection regulations.
- We understood how Waterstones Booksellers Limited is complying with those frameworks by making enquiries of management, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where they considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management. We considered the programmes and controls that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures also involved journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business. Additionally, we undertook a review of payments to detect unrecorded liabilities. We also involved EY internal specialists to ensure our audit procedures considered laws and regulations in relation to certain tax matters.

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 auditor's report.

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

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 auditor's 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.

DocuSigned by:

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Helen McLeod-Jones (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
Date: April 1, 2022

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****INCOME STATEMENT****For the 52 weeks ended 24 April 2021 and 52 weeks ended 25 April 2020**

		Before exceptional items 2021	Exceptional items 2021	Total 2021
	Notes	£000	£000	£000
Revenue	4	230,885	-	230,885
Cost of sales		(203,977)	(933)	(204,910)
Gross profit		26,908	(933)	25,975
Administrative expenses		(12,320)	(672)	(12,992)
Operating profit	5	14,588	(1,605)	12,983
Finance costs	10	(10,654)	-	(10,654)
Finance income	11	1,843	-	1,843
Profit before taxation		5,777	(1,605)	4,172
Income tax expense	12	(1,596)	305	(1,291)
Profit for the period attributable to equity holders of the Company		4,181	(1,300)	2,881

		Before exceptional items 2020	Exceptional items 2020	Total 2020
	Notes	£000	Restated £000	Restated £000
Revenue	4	376,024	-	376,024
Cost of sales		(329,045)	(2,568)	(331,613)
Gross profit		46,979	(2,568)	44,411
Administrative expenses		(14,331)	-	(14,331)
Operating profit	5	32,648	(2,568)	30,080
Finance costs	10	(10,421)	-	(10,421)
Finance income	11	1,389	-	1,389
Profit before taxation		23,616	(2,568)	21,048
Income tax expense	12	(1,851)	487	(1,364)
Profit for the period attributable to equity holders of the Company		21,765	(2,081)	19,684

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 24 April 2021 and the comparative period covered the 52 weeks ended 25 April 2020.

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

Further details of the restatement are given in Note 3.

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

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****STATEMENT OF COMPREHENSIVE INCOME****For the 52 weeks ended 24 April 2021 and 52 weeks ended 25 April 2020**

	2021	2020
		Restated
	£000	£000
Profit for the period	2,881	19,684
Total comprehensive income for the period	2,881	19,684

Further details of the restatement are given in Note 3.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****BALANCE SHEET**

		As at 24 April 2021	As at 25 April 2020 Restated
	Notes	£000	£000
Assets			
Non-current assets			
Plant and equipment	13	34,634	42,285
Intangible assets	14	910	773
Right-of-use assets	25	127,095	155,192
Deferred tax asset	12	5,218	5,144
Investments in subsidiaries	15	27,261	27,261
Trade and other receivables	18	33,671	-
		228,789	230,655
Current assets			
Inventories	16	65,796	63,178
Right of return assets	17	301	149
Current income tax receivable		276	596
Trade and other receivables	18	16,586	36,833
Cash at bank and on hand	19	38,611	39,187
		121,570	139,943
Total assets		350,359	370,598
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	20	(113,484)	(137,063)
Provisions	21	-	(10)
		(113,484)	(137,073)
Current liabilities			
Trade and other payables	22	(34,635)	(41,896)
Amounts due to group undertakings	23	(73,449)	(72,388)
Contract liabilities	24	(19,280)	(18,629)
Interest-bearing loans and borrowings	20	(45,366)	(39,231)
Provisions	21	(763)	(880)
		(173,493)	(173,024)
Total liabilities		(286,977)	(310,097)
Net assets		63,382	60,501
Equity			
Issued share capital	28	71,014	71,014
Accumulated losses		(7,632)	(10,513)
Total equity		63,382	60,501

Further details of the restatement are given in Note 3.

The financial statements were approved by the Board of Directors 1 April 2022 and were signed on its behalf by:


A J Daunt
 Director


J Molloy
 Director

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****STATEMENT OF CHANGES IN EQUITY****For the 52 weeks ended 24 April 2021 and 52 weeks ended 25 April 2020**

	Issued share capital	Accumulated losses Restated	Total Restated
	£000	£000	£000
At 27 April 2019	71,014	(30,197)	40,817
Profit for the period	-	19,684	19,684
Total comprehensive income	-	19,684	19,684
At 25 April 2020	71,014	(10,513)	60,501
Profit for the period	-	2,881	2,881
Total comprehensive income	-	2,881	2,881
At 24 April 2021	71,014	(7,632)	63,382

Further details of the restatement are given in Note 3.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****CASH FLOW STATEMENT****For the 52 weeks ended 24 April 2021 and 52 weeks ended 25 April 2020**

		2021	2020
			Restated
	Notes	£000	£000
Cash flows from operating activities			
Profit before tax		4,172	21,048
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and impairment of plant and equipment	13	9,435	10,604
Depreciation and impairment of right-of-use assets	25	32,868	38,060
Amortisation of intangible assets	14	307	390
Loss on disposal of plant and equipment, intangible assets and right-of-use assets		19	-
Net foreign exchange differences	5	(145)	113
Finance income	11	(1,843)	(1,389)
Finance costs	10	10,654	10,421
Movement in provisions		(127)	462
Non-cash reduction in lease liabilities recognised in the income statement		(5,678)	-
Working capital adjustments:			
(Increase)/ decrease in trade and other receivables and right of return assets		(13,542)	3,124
Increase in inventories		(2,618)	(7,280)
Decrease in trade and other payables and contract liabilities		(6,159)	(19,830)
Increase in amount due to group undertakings		-	15,548
		27,343	71,271
Income tax paid		-	(4,230)
Net cash flows from operating activities		27,343	67,041
Investing activities			
Purchase of plant and equipment		(2,160)	(12,221)
Purchase of intangible fixed assets		(490)	(486)
Cash flows arising from the inception of new lease contracts included in right-of-use assets		(226)	346
Interest received		1,809	1,328
Net cash flows used in investing activities		(1,067)	(11,033)
Financing activities			
Payment of principal portion of lease liabilities		(16,330)	(24,434)
Interest paid		(10,489)	(10,691)
Net cash flows used in financing activities		(26,819)	(35,125)
Net (decrease)/ increase in cash and cash equivalents		(543)	20,883
Opening cash and cash equivalents		39,187	18,267
Net foreign exchange difference		(33)	37
Closing cash and cash equivalents	19	38,611	39,187

Further details of the restatement are given in Note 3.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS****1. Corporate information**

The financial statements of Waterstones Booksellers Limited (the "Company") for the 52 week period ended 24 April 2021 were authorised for issue by the Board on 1 April 2022. The Company is a limited company, incorporated and resident 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 Accounting Standards in conformity with the requirements of the Companies Act 2006 as they apply to the financial statements of the Company for the 52 weeks ended 24 April 2021.

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 24 April 2021, whilst the comparative period covered the 52 weeks ended 25 April 2020. The financial statements are prepared in accordance with applicable accounting standards and specifically in accordance with the accounting policies set out below.

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 6.

Going concern

In 2020, the rapid, worldwide spread of Covid-19 required extensive interventions by governments to contain the pandemic. This had a significant impact on the Company, with shops subject to periods of full closure and, even when allowed to open, a significant decline in revenue. This was partly mitigated by the improvement in internet sales, cost reductions and receipt of government support.

In the year ending April 2021, cash was sufficient to meet liabilities as they fell due and the Company did not require any additional funding. Waterstones Booksellers is a cross guarantor (see Note 31) for the £190m debt facility which Book Retail Bidco Limited (parent) holds with Elliott Funds. The profitability decline as a result of Covid-19 led to a breach of the April 2021 covenant associated with the Company's debt facility with Elliott Funds. The covenant test is based on EBITDA (earnings before interest, tax, depreciation, amortisation, foreign exchange movements on intercompany loans and any one-off exceptional costs) pre IFRS 16 lease accounting / net debt for the 12 months to the test date. Whilst Elliott Funds agreed in principle to waive this breach prior to the year-end, it was not formally waived until 19 May 2021 and therefore the loan has been shown as repayable on demand within the accounts of the Company's immediate parent, Book Retail Bidco Limited, at the balance sheet date.

Furthermore, Elliott Funds have confirmed they will, if requested by management as result of an identified financial covenant breach, waive this covenant without limitation, save for the payment of covenant waiver fee up to and including the test date at the end of April 2023.

Since April 2021, the majority of shops have been open. Prior to the Omicron variant, although shop sales were down on pre-Covid levels (actual 19/20 performance to February and forecast for March and April), performance was encouraging. The sales performance of shops varied by location, with the metropolitan and city centre locations seeing a larger decline as people continue to work from home.

There was a significant improvement in internet sales during the lockdown periods. Since shops have reopened, sales levels have declined but remain substantially improved on pre-Covid levels.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2. Accounting policies (continued)****Basis of preparation (continued)***Going concern (continued)*

At the end of November 2021, with the rapid spread of the Omicron variant, increased Covid measures were implemented by governments. The increased restrictions and concern over the transmissibility of the new variant impacted footfall negatively. Since January 2022, trading improved as infection levels dropped and government guidance relaxed.

The Directors have reviewed cashflow forecasts to the period ending 1 April 2023. At 19 February 2022, net funds (including all interest bearing and non-interest bearing intercompany and related party balances but excluding IFRS 16 balances) were £72.2m (£95.8m cash and £23.6m net payable intercompany and related party balances). The Company is also a cross guarantor for the debt facility that is parent company, Bidco, holds, the net debt of the group headed by Bidco (excluding IFRS 16 balances) was £84.7m (£106.8m cash, £165.0m term facility and £25.0m working capital facility with £1.5m accrued interest). The base forecast assumes there will be no further lockdowns, with shops across the Company open and trading with limited Covid restrictions. The expectation is that shop sales will be down on pre-Covid levels in the year ending April 2022, with a sales improvement on pre-Covid levels in the following year, along with a continued growth in online sales throughout the going concern period. For the 12-month going concern period, under the base forecast, the Company would have sufficient cash to meet their liabilities as they fall due and will not breach the covenant associated with the debt.

Severe and plausible downside scenarios have been modelled to understand the impact on the liquidity of Waterstones Booksellers Limited. A full lockdown scenario has not been considered, evidenced by the fact that none was required in response to the Omicron variant. However, whilst Omicron did not lead to a full lockdown it did impact consumer confidence resulting in reduced footfall and sales, which has been modelled. The scenarios reviewed include a severe scenario where shop sales (excluding coffee) are down 20% in shops, partly offset by increased sales online where liquidity remained adequate.

In addition, a reverse stress test has been modelled to understand the level to which sales would need to fall for Waterstones Booksellers Limited to run out of cash. Waterstones Booksellers Limited sales would need to decline by over 20% on the most recent pre-Covid equivalent month to require additional financing, which is significantly below current performance and considered implausible.

Although Covid continues to impact sales and provides a degree of uncertainty, the level of uncertainty has reduced from last year, with future lockdowns judged to be improbable. In addition, since the start of the pandemic, the Company has demonstrated the ability to effectively manage cashflows during periods of closure and to maintain an encouraging level of sales outside the periods of enforced lockdown. Directors believe from their analysis of current performance, forecasts, cashflows and scenarios tests that the Company will continue to trade at levels which mean that they are able to meet their liabilities as they fall due throughout the going concern period. The accounts are therefore prepared on a going concern basis.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095**

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.

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/ non-current classification. An asset is current when it is:

- expected to be realised or intended to be sold or consumed in the normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in the normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095**

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 expected, excluding value added tax ("VAT") and similar sales-related taxes. It includes book, related product, coffee shop 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 to/ collection 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 right of return 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 recognised 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.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as a reduction in the related expense on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

During the current and prior periods, government grants have been received to support certain expenses during the Covid-19 pandemic. All conditions attached to the government grants were complied with before recognition in the income statement. The UK Coronavirus Job Retention Scheme ("furlough") operates on a claims basis, where cash is received after the expense has been incurred. The amount received under this scheme has been netted off the relevant wages and salaries expense within the income statement.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2. Accounting policies (continued)****Taxes***Current income tax*

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

Current income tax relating to items recognised directly in other comprehensive income and equity is recognised in other comprehensive income or equity and not in the income statement. 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.

The Company offsets current income tax assets and current income tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the current income tax assets and current income tax liabilities relate to income taxes levied by the same taxation authority and the Company intends either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of income tax liabilities or assets are expected to be settled or recovered.

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 profit 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; or
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 directly in other comprehensive income and equity is recognised in other comprehensive income or equity and not in the income statement.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**2. Accounting policies (continued)****Taxes (continued)***Deferred tax (continued)*

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in the income statement.

The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Sales tax

Expenses and assets are recognised net of the amount of sales tax, except:

- when the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item; or
- when receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2. Accounting policies (continued)****Foreign currency translation***Transactions and balances*

Transactions in foreign currencies are initially recorded 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 translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

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 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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An item of plant and equipment is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

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

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2. Accounting policies (continued)****Leases**

The Company assesses at contract inception whether a contract is, or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases. The Company recognises lease liabilities representing obligations to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the most reasonably certain lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

For rent concessions arising as a direct result of the pandemic, the Company has elected not to assess whether eligible rent concessions are lease modifications. Instead, the concessions have been accounted for as variable lease payments in the period in which the concession is agreed provided that all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- there is no substantive change to other terms and conditions of the lease.

The Company's lease liabilities are included in interest-bearing loans and borrowings (see Notes 20 and 25).

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms. Contingent rents are recognised in the income statement in the period in which they are earned.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2. Accounting policies (continued)****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 their 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 ("CGU") 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. 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 using the straight line method.

The annual rates used are:

Website and software costs	20%
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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. Historical sales performance statistics are used in the formulation of these judgements.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2. Accounting policies (continued)****Impairment of non-financial assets**

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- Disclosures for significant assumptions - Note 2
- Plant and equipment - Note 13
- Intangible assets - Note 14
- Goodwill and intangible assets with indefinite lives - Note 14
- Right-of-use assets – Note 25

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. 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. Such reversal is recognised in the income statement.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095**

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

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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.

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. This allows shareholders to understand the elements of underlying financial performance in the period, so as to facilitate comparison with prior periods and to assess trends in underlying 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.

Insurance

During the pandemic, and in line with other retailers, the Company claimed for compensation related to business interruption under its insurance policies. This compensation has been recognised as a credit within Cost of sales only where there is an unconditional contractual right to receive such amounts.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2. Accounting policies (continued)****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.

Significant judgements made in the preparation of the financial statements are set out below:

- Covid-19 - the outbreak of Covid-19 has had, and continues to have, a significant adverse impact on the Company. The impact is further discussed in the Review of the business on page 2 and Going concern on pages 7 and 8.
- 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 on 20 August 2018 and therefore there is limited historical information available. As a result, expected redemption rates are based on current run rates and are regularly monitored.
- Lease accounting – expected lease terms are estimated and reviewed each year. This estimation requires judgements to be made about the expected lease length taking into account the likelihood of exercising termination and extension options.
- Impairment of plant and equipment, intangible assets, right-of-use assets and investments - plant and equipment, intangible assets, right-of-use assets 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 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 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 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 provisions are those regarding future costs, the timing of those costs and discount rates.

The only key source of estimation uncertainty that has a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial period is the expected redemption rate for customer loyalty schemes. A 5% change in expected redemption rates would have an impact of approximately £1,400,000 on the revenue recognised for the year ended 24 April 2021.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095**

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 24 April 2021. They have no material impact on the Company.

- IFRS 3 Business Combinations: Amendments to clarify the definition of a business;
- IFRS 7 Financial Instruments: Disclosures: Amendments regarding pre-replacement issues in the context of IBOR reform;
- IFRS 9 Financial Instruments: Amendments regarding pre-replacement issues in the context of IBOR reform;
- IAS 1 Presentation of financial statements: Amendments regarding the definition of material;
- IAS 8 Accounting policies, changes in accounting estimates and errors: Amendments regarding the definition of material; and
- IAS 39 Financial Instruments: Recognition and Measurement: Amendments regarding pre-replacement issues in the context of IBOR reform.

The Company has 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 16 Leases: Amendment to provide lessees with an exemption from assessing whether a Covid-19 related rent concession is a lease modification, effective for annual periods beginning on or after 1 June 2020;
- IFRS 16 Leases: Amendments to extend the exemption from assessing whether a Covid-19 related rent concession is a lease modification, effective for annual periods beginning on or after 1 April 2021; and
- The IFRS Interpretations March 2021 agenda decision regarding Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38).

The impact of adopting these amendments is set out in Note 3.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2. Accounting policies (continued)****New accounting standards (continued)**

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 7 Financial Instruments: Disclosures: Amendments regarding replacement issues in the context of the IBOR reform, effective for annual periods beginning on or after 1 January 2021;
- IFRS 9 Financial Instruments: Disclosures: Amendments resulting from Annual Improvements to IFRS Standards 2018-2020 (fees in the '10 percent' test for derecognition of financial liabilities), effective for annual periods beginning on or after 1 January 2022;
- IFRS 16 Leases: Amendments regarding replacement issues in the context of the IBOR reform, effective for annual periods beginning on or after 1 January 2021;
- IAS 1 Presentation of financial statements: Amendments regarding the classification of liabilities, effective for annual periods beginning on or after 1 January 2023;
- IAS 1 Presentation of financial statements: Amendments regarding the disclosure of accounting policies, effective for annual periods beginning on or after 1 January 2023;
- IAS 8 Accounting policies, changes in accounting estimates and errors: Amendments regarding the definition of accounting estimates, effective for annual periods beginning on or after 1 January 2023;
- IAS 12 Income Taxes: Amendments regarding deferred tax on leases and decommissioning obligations, effective for annual periods beginning on or after 1 January 2023;
- IAS 16 Property, plant and equipment: Amendments prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use, effective for annual periods beginning on or after 1 January 2022;
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Amendments regarding the costs to include when assessing whether a contract is onerous; and
- IAS 39 Financial Instruments: Recognition and Measurement: Amendments regarding replacement issues in the context of the IBOR reform, effective for annual periods beginning on or after 1 January 2021.

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

The Directors do not anticipate that the adoption of the remaining standards and interpretations will have a material impact on the Company's financial statements.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3. Change in accounting policy**

The Company has adopted early the requirements of the following accounting standards amendments, which have an effective date after the start date of these financial statements.

- IFRS 16 Leases: Amendment to provide lessees with an exemption from assessing whether a Covid-19 related rent concession is a lease modification, effective for annual periods beginning on or after 1 June 2020;
- IFRS 16 Leases: Amendments to extend the exemption from assessing whether a Covid-19 related rent concession is a lease modification, effective for annual periods beginning on or after 1 April 2021; and
- The IFRS Interpretations March 2021 agenda decision regarding Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38).

IFRS 16 Leases

As a result of the amendments, for rent concessions arising as a direct result of the pandemic, the Company is not required to assess whether eligible rent concessions are lease modifications. Instead, the concessions have been accounted for as variable lease payments in the period in which the concession is agreed provided that all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- there is no substantive change to other terms and conditions of the lease.

The Company has applied the practical expedient to all rent concessions that meet the conditions of the amendment.

The amount recognised in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions to which the Company has applied the practical expedient is £5,678,000. This has been recognised as a non-cash change in lease liabilities in the cash flow statement.

IAS 38 Intangible assets

The IFRS Interpretations March 2021 agenda decision regarding Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38) clarified how to account for implementation costs incurred in a cloud service contract – i.e. when the customer does not control a software intangible asset.

The Company previously capitalised configuration and customisation costs incurred in implementing Software-as-a Service arrangements, however, following the agenda decision, where the Company does not have control over the software and the costs are distinct from the access to the software, the costs are now expensed as the services are received.

The Company has applied this agenda decision retrospectively, however, there is no impact on periods prior to the 52 weeks ended 25 April 2020.

The impact on the 52 weeks ended 25 April 2020 is summarised below:

Impact on the income statement

	At 25 April 2020 As previously reported £000	Impact of of restatement £000	At 25 April 2020 Restated £000
Cost of sales	(330,198)	(1,415)	(331,613)
Operating profit	31,495	(1,415)	30,080
Income tax expense	(1,632)	268	(1,364)
Profit for the period	20,831	(1,147)	19,684

The restatement has been presented as an exceptional item.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3. Change in accounting policy (continued)****IAS 38 Intangible assets (continued)***Impact on the balance sheet*

	At 25 April 2020 As previously reported	Impact of of restatement	At 25 April 2020 Restated
	£000	£000	£000
Intangible assets	2,188	(1,415)	773
Deferred tax asset	4,876	268	5,144
Net assets	61,648	(1,147)	60,501
Accumulated losses	(9,366)	(1,147)	(10,513)
Total equity	61,648	(1,147)	60,501

Impact on the cash flow statement

	At 25 April 2020 As previously reported	Impact of of restatement	At 25 April 2020 Restated
	£000	£000	£000
Net cash flows from operating activities	68,215	(1,174)	67,041
Net cash flows used in investing activities	(12,207)	1,174	(11,033)
Net increase in cash and cash equivalents	20,883	-	20,883

Impact on the 52 weeks ended 24 April 2021

£601,000 of system implementation costs incurred in a cloud computing costs have arisen in the 52 weeks ended 24 April 2021. These costs have been expensed as exceptional items as the services were received, see Note 6.

4. Revenue

Revenue disclosed in the income statement is analysed as follows:

	2021	2020
	£000	£000
Sale of goods - UK	227,569	374,755
Sale of goods – rest of world	3,316	1,269
	230,885	376,024

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5. Operating profit**

Operating profit is stated after charging/(crediting):

	2021	2020
	£000	£000
Depreciation and amortisation (see Notes 13, 14 and 25)	42,296	47,901
Impairment charges (see Notes 13 and 25)	314	1,153
Loss on disposal of plant and equipment, intangible assets and right-of-use assets	19	-
Cost of inventories recognised as an expense	105,741	170,598
Movement in inventory provision	1,027	30
Net foreign exchange differences	(145)	113

In line with other retail companies, the Company has utilised the government support available in the UK including Job Retention Scheme, Business rates relief and Government business grants. This support totals £46,967,000 (2020: £6,166,000).

6. Exceptional items

Recognised in arriving at operating profit:

	2021	2020
	£000	Restated £000
Included in Cost of sales:		
Restructuring costs	18	-
Impairment of right-of-use assets and tangible fixed assets	314	1,153
System implementation costs incurred in a cloud computing arrangement	601	1,415
	933	2,568
Included in Administrative expenses:		
Restructuring costs	672	-
	672	-
	1,605	2,568

The exceptional restructuring costs in the current period comprise payroll costs. Further details of the exceptional impairment charges are provided in Note 13 and 25. The exceptional system implementation costs have arisen as a result of the change in accounting policy detailed in Note 3.

A tax credit of £305,000 (2020 restated: £487,000) arose in respect of the exceptional charges.

The cash flow impact of these exceptional costs is a cash outflow of £1,470,000 (2020 restated: £1,174,000) from operating activities.

7. Fees to auditors

	2021	2020
	£000	£000
Audit of the financial statements	310	174

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****8. Directors' emoluments**

	2021	2020
	£000	£000
Directors' emoluments	559	563
Company contributions to defined contribution pension schemes	38	16
	597	579

Two (2020: two) of the Directors are accruing benefits under the Company's defined contribution pension arrangements.

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

	2021	2020
	£000	£000
Directors' emoluments	239	377
Company contributions to defined contribution pension schemes	25	-
	264	377

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

9. Employee costs

	2021	2020
	£000	£000
Employee costs, including Directors' emoluments:		
Wages and salaries	50,573	56,103
Social security costs	3,634	4,516
Other pension costs	2,242	2,421
	56,449	63,040

	2021	2020
	No.	No.
Monthly average number of people employed by the Company:		
Stores	2,720	3,065
Head office	201	203
	2,921	3,268

10. Finance costs

	2021	2020
	£000	£000
Interest on lease liabilities (see Note 25)	8,317	8,971
Interest payable to group undertakings	2,337	1,450
	10,654	10,421

11. Finance income

	2021	2020
	£000	£000
Bank interest receivable	13	143
Interest receivable from group undertakings	1,830	1,246
	1,843	1,389

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****12. Income tax**

The major components of income tax expense for the 52 weeks ended 24 April 2021 and the 52 weeks ended 25 April 2020 are:

Income statement

	2021	2020
		Restated
	£000	£000
UK current income tax, current period	-	1,936
UK current income tax, current period, group relief payable	1,045	-
UK current income tax, prior period	320	(2)
Total current income tax	1,365	1,934
Deferred tax, current period	(31)	-
Deferred tax, effect of change in rates	-	(556)
Deferred tax, prior periods	(43)	(14)
Total income tax expense reported in the income statement	1,291	1,364

The tax charge includes a credit of £305,000 (2020: £487,000) in relation to the exceptional operating debit of £1,605,000 (2020: £2,568,000), details of which can be found in Note 6.

The reconciliation of tax expense and the accounting profit multiplied by the Company's tax rate for the 52 weeks ended 24 April 2021 and the 52 weeks ended 25 April 2020 is as follows:

	2021	2020
		Restated
	£000	£000
Accounting profit before income tax	4,172	21,048
At the Company's statutory income tax rate of 19% (2020: 19%)	793	3,999
Effects of:		
Expenses not deductible for tax purposes	221	177
Effect of changes in tax rates	-	(555)
Group relief claimed for £nil payment	-	(2,241)
Adjustments in respect of prior periods	277	(16)
At effective tax rate of 30.9% (2020: 6.5%)	1,291	1,364

Deferred tax

Provided deferred tax

Deferred tax relates to the following:

	Balance sheet		Income statement	
	2021	2020	2021	2020
		Restated		Restated
	£000	£000		£000
Fixed assets	4,974	4,932	(42)	(204)
Other timing differences	244	212	(32)	(366)
Deferred tax credit			(74)	(570)
Net deferred tax asset	5,218	5,144		
Reflected in the balance sheet as follows:				
Deferred tax asset	5,218	5,144		
Deferred tax asset, net	5,218	5,144		

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****12. Income tax (continued)****Deferred tax (continued)***Provided deferred tax (continued)*

The movement in the deferred tax balance is set out below:

	£000	£000
At 25 April 2020/ 27 April 2019	5,144	4,574
Tax credit for the period recognised in the income statement	74	570
At 24 April 2021/ 25 April 2020	5,218	5,144

Unprovided deferred tax

There are unprovided deferred tax assets in respect of capital losses of £108,000 (2020: £141,000). These deferred tax assets have not been recognised due to uncertainty over the timing of their recoverability.

Factors that may affect future tax charges

During 2020, the Government announced a change in the enacted corporation tax rate for the financial years ending 31 March 2021 and 2022 to maintain the existing 19% rate (previously this rate had been legislated to reduce to 17% from 1 April 2020). Deferred tax has been calculated using this revised rate and the impact reflected in the income statement tax charge. In the budget on 3 March 2021 by HM Government, legislation to increase the main rate of corporation tax from 19% to 25% from 1 April 2023 was announced. This rate change was substantively enacted in May 2021 and represents a non-adjusting post balance sheet event.

The Company has estimated that if the deferred tax balances as at 24 April 2021 that are expected to unwind after 1 April 2023 were remeasured at 25%, this would result in an increase in the net deferred tax asset of approximately £1.6m.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****13. Plant and equipment**

	Plant and equipment £000
Cost at 27 April 2019	184,088
Disposals	(1,896)
Additions	12,152
Cost at 25 April 2020	194,344
Disposals	(1,851)
Additions	1,784
Cost at 24 April 2021	194,277
Depreciation at 27 April 2019	143,351
Charge for period	10,497
Impairment	107
Disposals	(1,896)
Depreciation at 25 April 2020	152,059
Charge for period	9,382
Impairment	53
Disposals	(1,851)
Depreciation at 24 April 2021	159,643
Net book value at 24 April 2021	34,634
Net book value at 25 April 2020	42,285

Plant and equipment 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. Identification of a CGU involves significant judgement regarding largely independent cash flows and geographical proximity of stores.

An impairment review of plant and equipment was carried out based on prevailing market trading conditions. The recoverable amounts of assets were determined from value in use calculations that incorporated cash flow forecasts covering a 3 year period, with an inflation rate of 1.9% thereafter, discounted at an appropriate pre-tax discount rate of 12.5% (2020: 12.3%). Key assumptions for the value in use calculations were those regarding revenue, margin, operating costs and discount rate. The forecast assumptions, detailed in the going concern statement, reflect management's best estimates in the uncertain circumstances created by Covid-19 of revenue, margin, operating costs and discount rate over the forecast period and do not assume that there will be any further enforced lockdowns. The cash flow also includes assumptions on operating cost savings based on management experience and assumptions. The asset impairment was £53,000 (2020: £107,000) and the total recoverable amount of the assets impaired was £nil (2020: £nil).

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****14. Intangible assets**

	Goodwill	Website costs	Software costs	Total
	£000	£000	Restated £000	Restated £000
Cost at 27 April 2019	69,347	965	2,743	73,055
Additions	-	461	51	512
Disposals	-	-	(3)	(3)
Cost at 25 April 2020 (as restated)	69,347	1,426	2,791	73,564
Additions	-	220	224	444
Disposals	-	-	(1,113)	(1,113)
Cost at 24 April 2021	69,347	1,646	1,902	72,895
Amortisation at 27 April 2019	69,347	815	2,242	72,404
Charge for period	-	213	177	390
Disposals	-	-	(3)	(3)
Amortisation at 25 April 2020	69,347	1,028	2,416	72,791
Charge for period	-	125	182	307
Disposals	-	-	(1,113)	(1,113)
Amortisation at 24 April 2021	69,347	1,153	1,485	71,985
Net book value at 24 April 2021	-	493	417	910
Net book value at 25 April 2020	-	398	375	773

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.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****15. Investments in subsidiaries**

	Cost	Provision	Net book
	£000	£000	value
			£000
At 24 April 2021	27,261	-	27,261
At 25 April 2020	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 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland.

For all trading subsidiaries, the principal place of business is the country of incorporation.

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.

The inventory provision has been increased during the year, predominantly driven by the impact of Covid-19, which is further detailed in the Review of the business on page 2.

17. Right of return assets

Right of return 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 inventory expected to be returned is recorded as a right of return asset.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****18. Trade and other receivables**

	2021	2020
	£000	£000
Non-current		
Amounts due from parent undertaking	33,671	-
	33,671	-
Current:		
Trade receivables	412	620
Amounts due from parent undertaking	-	24,297
Amounts due from fellow subsidiary undertakings	966	700
Amounts due from other related parties	200	157
Other receivables	11,781	9,033
Prepayments	3,227	2,026
	16,586	36,833

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

Trade receivables are stated net of a provision for impairment of £550,000 (2020: £93,000). Trade receivables are non-interest-bearing and are generally on 30 day terms.

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 balance which has no fixed repayment date and which accrues interest at 6.0%.

The amounts due from other related parties have no fixed repayment date and do not accrue interest.

Other receivables include VAT and a number of Covid related receivables. Other receivables are non-interest bearing.

Credit risk is limited as the Company has minimal levels of trade receivables due to the nature of its retailing business. See Note 26 for a discussion of credit risk.

19. Cash at bank and on hand

	2021	2020
	£000	£000
Cash at bank and on hand	38,611	39,187
	38,611	39,187

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

20. Interest-bearing loans and borrowings

	2021	2020
	£000	£000
Non-current:		
Lease liabilities	113,484	137,063
	113,484	137,063
Current:		
Lease liabilities	45,366	39,231
	45,366	39,231

Further information about the lease liabilities is provided in Note 25.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****21. Provisions**

	Provisions
	£000
At 25 April 2020	890
Provisions created in the period	759
Provisions utilised	(634)
Provisions released	(252)
At 24 April 2021	763
Analysed as:	
Current	763
Non-current	-
	763

Provisions comprise amounts in respect of store closures.

22. Trade and other payables

	2021	2020
	£000	£000
Current:		
Trade payables	16,208	27,449
Other payables	10,546	6,299
Accruals and deferred income	7,881	8,148
	34,635	41,896

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.

23. Amounts due to group undertakings

	2021	2020
	£000	£000
Current:		
Loans due to fellow subsidiary undertakings	15,977	15,956
Other amounts owed to UK parent undertaking	25,530	25,103
Other amounts due to fellow subsidiary undertakings	613	-
Other amounts due to subsidiary undertakings	31,329	31,329
	73,449	72,388

The loans due to fellow subsidiary undertakings are repayable on demand. Interest is chargeable on £9,647,000 (2020: £9,731,000) of this balance at 4% and on £6,330,000 (2020: £6,225,000) 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 UK parent undertaking have no fixed repayment date. £25,098,000 (2020: £25,103,000) of this balance accrues interest at 6.0%.

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

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****24. 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 to/ collection 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

	2021	2020
	£000	£000
Contract liabilities	19,280	18,629
Revenue recognised in the period from:		
Amounts recognised in contract liabilities at the beginning of the period	8,295	7,990
	8,295	7,990

The Company expects to recognise the revenue arising from contract liabilities over a period of 16 (2020: 15) years.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****25. Leases****Company as a lessee**

The Company leases stores and motor vehicles for use in its operations.

Right-of-use assets

	Leasehold property	Motor vehicles	Total
	£000	£000	£000
As at 27 April 2019	154,994	368	155,362
Additions	37,580	310	37,890
Depreciation charge for period	(36,826)	(188)	(37,014)
Impairment	(1,046)	-	(1,046)
As at 25 April 2020	154,702	490	155,192
Additions	4,764	26	4,790
Depreciation charge for the period	(32,410)	(197)	(32,607)
Impairment	(261)	-	(261)
Disposals	(19)	-	(19)
As at 24 April 2021	126,776	319	127,095

Right-of-use assets 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. Identification of a CGU involves significant judgement regarding largely independent cash flows and geographical proximity of stores.

An impairment review of leasehold property right-of-use assets was carried out based on prevailing market trading conditions. The recoverable amounts of assets were determined from value in use calculations that incorporated cash flow forecasts covering a 3 year period, with an inflation rate of 1.9% thereafter, discounted at an appropriate pre-tax discount rate of 12.5% (2020: 12.3%). Key assumptions for the value in use calculations were those regarding revenue, margin, operating costs and discount rate. The forecast assumptions, detailed in the going concern statement, reflect management's best estimates in the uncertain circumstances created by Covid-19 of revenue, margin, operating costs and discount rate over the forecast period and do not assume that there will be any further enforced lockdowns. The cash flow also includes assumptions on operating cost savings based on management experience and assumptions. The assets impaired totalled £261,000 (2020: £1,046,000)

Lease liabilities

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	£000	£000
Balance at 25 April 2020/ 27 April 2019	176,294	162,492
Additions	4,564	38,236
Accretion of interest	8,317	8,971
Payments	(24,647)	(33,405)
Non-cash reduction in lease liabilities arising from Covid-19 concessions	(5,678)	-
As at 24 April 2021/ 25 April 2020	158,850	176,294
Current (Note 20)	45,366	39,231
Non-current (Note 20)	113,484	137,063

The maturity analysis of undiscounted lease liabilities is disclosed in Note 26.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****25. Leases (continued)****Company as a lessee (continued)**

The following are the amounts recognised in profit or loss for the 52 weeks ended 24 April 2021 and the 52 weeks ended 25 April 2020:

	2021	2020
	£000	£000
Depreciation expense of right-of-use assets	32,607	37,014
Impairment expense of right-of-use assets	261	1,046
Interest expense on lease liabilities	8,317	8,971
Expense related to rent payments (included in cost of sales)	1,052	311
Variable lease payments (included in cost of sales)	(5,447)	57
Total amount recognised in profit or loss	36,790	47,399

The Company had total cash outflows for leases of £26,156,000 (2020: £34,833,000) in the period.

The Company has several lease contracts that include termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Company's business needs. Management exercises significant judgement in determining whether these termination options are reasonably certain to be exercised.

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of termination options that are not included in the lease term.

	Within 5 years	More than 5 years	Total
	£000	£000	£000
2021			
Termination options expected to be exercised	11,603	5,982	17,585
	11,603	5,982	17,585
2020			
Termination options expected to be exercised	11,938	9,697	21,635
	11,938	9,697	21,635

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****26. 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. Further information about liquidity risk is also included under going concern on pages 7 and 8.

Liquidity risk

During the period under review, the Company had sufficient funds and access to funding facilities from its parent undertaking, Bidco, to satisfy its current requirements.

Analysis of the maturity profile of the Company's financial liabilities at 24 April 2021 and 25 April 2020 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	808	33,827	-	-	-	34,635
Amounts due to group undertakings	73,449	-	-	-	-	73,449
Lease liabilities	16,552	9,008	27,024	88,038	50,475	191,097
At 24 April 2021	90,809	42,835	27,024	88,038	50,475	299,181
Trade and other payables	382	41,514	-	-	-	41,896
Amounts due to group undertakings	72,388	-	-	-	-	72,388
Lease liabilities	8,151	9,732	29,198	104,885	61,371	213,337
At 25 April 2020	80,921	51,246	29,198	104,885	61,371	327,621

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.

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.

Further information about credit risk is also included under going concern on pages 7 and 8.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**26. Financial risk factors (continued)****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.

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

Sensitivity analysis

The following analysis illustrates the Company's sensitivity to changes in market variables and shows the impact on the result 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 but excluding fixed rate borrowings, a 100 basis points movement in interest rates would affect the Company's result before tax by approximately £nil (2020: £nil) and shareholders' equity by approximately £nil (2020: £nil).

Foreign exchange rate sensitivity

A 10% change in the value of Euro against Sterling would affect the Company's result before tax by approximately £1.8m (2020: £1.8m) and shareholders' equity by approximately £1.4m (2020: £1.4m).

A 10% change in the value of Dollar against Sterling would affect the Company's result before tax by approximately £0.1m (2020: £0.1m) and shareholders' equity by approximately £0.1m (2020: £0.1m).

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 short-term deposits (see Note 19), loans and borrowings through its intra-group facilities (see Note 18 and Note 23), interest bearing loans and borrowings (see Note 20) and equity attributable to the parent company (see Note 28).

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****27. Changes in liabilities arising from financing activities**

	At 25 April 2020	Cash flow	Other non- cash changes	At 24 April 2021
	£000	£000	£000	£000
Current lease liabilities (Note 25)	(39,231)	24,647	(30,782)	(45,366)
Non-current lease liabilities (Note 25)	(137,063)	-	23,579	(113,484)
Total liabilities from financing activities	(176,294)	24,647	(7,203)	(158,850)
	At 27 April 2019	Cash flow	Other non- cash changes	At 25 April 2020
	£000	£000	£000	£000
Current lease liabilities (Note 25)	(28,180)	33,405	(44,456)	(39,231)
Non-current lease liabilities (Note 25)	(134,312)	-	(2,751)	(137,063)
Total liabilities from financing activities	(162,492)	33,405	(47,207)	(176,294)

The 'Other' column includes the effect of the reclassification of the non-current portion of lease liabilities to current lease liabilities due to the passage of time, the effect of accrued but not yet paid interest, the non-cash reduction in lease liabilities arising from Covid-19 concessions and the commencement and early termination of leases.

28. Issued share capital

	2021	2020	2021	2020
	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.

29. 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 £2,242,000 (2020: £2,421,000).

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****30. Related party transactions**

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

	Net interest (receivable)/ payable accrued during the period £000	Services rendered to/ (provided from) related party £000	Fixed assets transferred to related party £000	Goods sold to related party £000
<i>With UK parent undertaking:</i>				
Book Retail Bidco Limited				
2021	(334)	39	-	-
2020	(694)	39	-	-
<i>With fellow subsidiary undertakings:</i>				
Waterstones Booksellers Ireland Limited				
2021	665	126	-	343
2020	682	157	-	527
Waterstone's Booksellers Amsterdam B.V.				
2021	-	106	-	47
2020	54	158	-	111
Waterstone's Booksellers Belgium SA				
2021	176	90	-	35
2020	162	107	-	47
W. & G. Foyle Limited				
2021		826	-	3,864
2020	-	601	-	5,873
<i>With other related parties::</i>				
Barnes and Noble, Inc				
2021	-	(59)	-	-
2020	-	-	-	-
Wordery.com Limited				
2021	-	-	-	616
2020	-	-	-	-

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****30. 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 UK parent undertaking:</i>		
Book Retail Bidco Limited		
2021	33,671	25,530
2020	24,297	25,103
<i>With fellow subsidiary undertakings:</i>		
Waterstones Booksellers Ireland Limited		
2021	57	13,292
2020	254	13,408
Waterstone's Booksellers Amsterdam B.V.		
2021	262	-
2020	62	-
Waterstone's Booksellers Belgium SA		
2021	66	2,685
2020	59	2,548
Hatchards UK Limited		
2021	-	20,000
2020	-	20,000
Ottakar's Limited		
2021	-	196
2020	-	196
Waterstones Overseas Limited		
2021	-	11,133
2020	-	11,133
W. & G. Foyle Limited		
2021	581	613
2020	325	-
<i>With other related parties::</i>		
Barnes and Noble, Inc		
2021	78	-
2020	78	-
Waterstones Employee Benefit Trust		
2021	79	-
2020	79	-
Wordery.com Limited		
2021	43	-
2020	-	-

See Notes 18 and 23 for details of the terms and conditions relating to the related party balances.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2021****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****30. Related party transactions (continued)****Remuneration of key management personnel**

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

	2021	2020
	£000	£000
Short term employment benefits	1,178	1,268
Post employment benefits	36	38
Total compensation paid to key management personnel	1,214	1,306

31. Contingent liabilities

The Company is a guarantor to a £190,000,000 bank loan facility held by the immediate parent undertaking of the Company, Bidco. Part of the security for this loan facility is a debenture on the assets of the Company. Including interest, the amount outstanding under this facility at the period end was £194,631,000 (2020: £192,179,000).

32. Post balance sheet events

On 2 July 2021, £190,000,000 of the debt issued by Bidco, the Company's parent company, was listed on the Official List of The International Stock Exchange. The Company is a guarantor to this debt, as detailed in Note 31.

33. Ultimate parent undertaking and controlling party

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 from their investment manager Elliott Investment Management, L.P., incorporated in Delaware, U.S.A., and its affiliates.

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.