

PART I

ITEM 1. BUSINESS

OVERVIEW

Signet is the largest specialty retail jeweler by sales in the US and UK. Signet is incorporated in Bermuda and its address and telephone number are shown on the cover of this document. Its corporate website is www.signetjewelers.com, from where documents that the Company is obliged to file or furnish with the US Securities and Exchange Commission ("SEC") may be viewed or downloaded free of charge.

On September 11, 2008, Signet Group plc became a wholly-owned subsidiary of Signet Jewelers Limited, a new company incorporated in Bermuda under the Companies Act 1981 of Bermuda, following the approval by the High Court of Justice in England and Wales under the UK Companies Act 2006. Shareholders of Signet Group plc became shareholders of Signet Jewelers Limited, owning 100% of that company. Signet Jewelers Limited is governed by the laws of Bermuda.

Effective January 31, 2010, Signet became a foreign issuer subject to the rules and regulations of the US Securities Exchange Act of 1934 ("Exchange Act") applicable to domestic US issuers. Prior to this date, Signet was a foreign private issuer and filed with the SEC its annual report on Form 20-F.

Signet's US division operated 1,471 stores in all 50 states at February 1, 2014. Its stores trade nationally in malls and off-mall locations as Kay Jewelers ("Kay"), and regionally under a number of well-established mall-based brands. Destination superstores trade nationwide as Jared The Galleria Of Jewelry ("Jared"). Signet acquired Ultra Stores, Inc. ("Ultra") on October 29, 2012 (the "Ultra Acquisition"). The majority of the Ultra stores acquired were converted to the Kay brand during Fiscal 2014. In addition, on November 4, 2013, Signet acquired a diamond polishing factory in Gaborone, Botswana. This acquisition expands Signet's long-term diamond sourcing capabilities and provides resources for Signet to cut and polish stones.

Signet's UK division operated 493 stores at February 1, 2014, including 14 stores in the Republic of Ireland and three in the Channel Islands. Its stores trade in major regional shopping malls and prime 'High Street' locations (main shopping thoroughfares with high pedestrian traffic) as "H.Samuel," "Ernest Jones," and "Leslie Davis."

The expression of romance and appreciation through bridal jewelry and gift giving are very important to our customers, as is self reward. Management believes customers associate our brands with high quality jewelry and an outstanding customer experience. As a result, the training of sales associates to understand the customer's requirements, communicate the value of the merchandise selected and ensure customer needs are met remains a high priority. Management increases the attraction of Signet's store brands to customers through the use of branded differentiated and exclusive merchandise, while offering a compelling value proposition in more basic ranges. Signet accomplishes this by utilizing its supply chain and merchandising expertise, scale and balance sheet strength. Management intends to further develop national television advertising, digital media and customer relationship marketing, which it believes are the most effective and cost efficient forms of marketing available to grow its market share. Management follows the operating principles of excellence in execution; testing before investing; continuous improvement; and disciplined investment, in all aspects of the business.

STRATEGY, GOALS AND OBJECTIVES

Fiscal 2014 was another record year for Signet with total sales up 5.7% and diluted earnings per share up 4.8%, driven by merchandise offerings, creative and unique advertising and our sales associates who executed with excellence, discipline and enthusiasm. Our merchandise offerings included an expansion of branded differentiated and exclusive merchandise which represented 31.1% of the US division's merchandise sales. In Fiscal 2014, we successfully integrated stores from the Fiscal 2013 Ultra Acquisition, and continued to accelerate our real estate expansion in the US by increasing net selling space in the US by 5%. In Fiscal 2014, Signet repurchased approximately 1.6 million shares for \$104.7 million, or 1.9% of our outstanding shares at the start of the fiscal year. Since the inception of our share repurchase program in January 2012, which was expanded in June 2013, we have bought back \$404.6 million, or 9.5%, of our outstanding shares. We also increased our quarterly dividend by 25% to \$0.15 per share during Fiscal 2014.

Our goal is to further enhance Signet's position as a leading US and UK specialty retail jewelry retailer by helping our customers "Celebrate Life" and "Express Love" through offering a unique customer experience and driving customer loyalty. To accomplish our goal, we will drive our business into the future through the following strategic priorities:

- Maximize mid-market.
- Best in bridal.
- Best-in-class digital ecosystem.
- Expand geographical footprint.
- People, purpose and passion.

These strategies continue to build profitable market share for each of Signet's leading store brands. Maximizing the mid-market drives our competitive strengths focused on merchandise initiatives, marketing, store growth and productivity. Being the best in bridal will be achieved by continuing to develop unique differentiated bridal jewelry brands, increasing targeted marketing programs, continuing to offer our customers a unique experience via our stores, sales associates and selling systems and offering an in-house credit program in the US. Enhancing our digital ecosystem will simplify and accelerate customers' engagement with our brands, support our physical channels of distribution and expand our geographic footprint enabling cross-collaboration among countries, which creates a global platform to support existing and possible future geographic expansion. In order to truly accomplish our purpose of helping our customers "Celebrate Life" and "Express Love", we must have people with high capability and passion. We will continue to attract, develop and retain the best and the brightest individuals in the jewelry and watch industry.

In setting the financial objectives for Fiscal 2015, consideration was given to the US and UK economic environments and the potential impact of the acquisition of Zale Corporation ("Zale"), which was announced on February 19, 2014. The US economy has improved slightly over the past year with decreasing unemployment, a stronger housing sector and higher consumer confidence. Growth is improving but remains below historical levels. We plan to continue to execute our strategic priorities and continue to make strategic investments for the future. The UK economic environment has improved over the past year with an increase in the GDP and unemployment decreasing but growth remains slow. Commodity pricing remains volatile. Signet's plans are based upon favorable gold price benefits in product cost offset by carryover gold hedge losses and an unfavorable impact from lower recovery gold prices on trade-ins and inventory. Diamond pricing is currently expected to continue to increase at low-to-mid single digit rates. Credit financing will continue to support sales growth and we expect the portfolio to grow with continued strong portfolio performance. Due to growth in the receivable portfolio, we expect bad debt expense to increase slightly as a percentage of sales. We expect to maintain a leading position and plan to continue our strategy to improve results through initiatives around merchandising, real estate optimization, channel expansion and cost control.

Signet's goal in Fiscal 2015 is to deliver strong results building on our recent performance, while making strategic investments necessary for future growth. Financial objectives for the business in Fiscal 2015 are to improve Signet's operating profit as a percentage of sales by:

- Increasing sales and gaining profitable market share.
- Managing gross margin by increasing sales productivity, cost control and asset management.
- Securing additional, reliable and consistent supplies of diamonds for our customers while achieving efficiencies in the supply chain through our diamond polishing factory in Gaborone, Botswana. As the factory operates at a lower gross margin than that of Signet's US and UK division, Signet's overall gross margin rate may be impacted slightly.
- Developing unique multi-channel advertising programs and supporting new initiatives, while appropriately managing the selling, general and administrative expense to sales ratio.
- Investing \$180 million to \$200 million of capital in new stores, remodeling and enhancing our information and technology infrastructure to drive future growth.
- Completing the Zale transaction and planning for a successful integration.

Our operating divisions have the opportunity to take advantage of their competitive positions to grow sales and increase store productivity. Sales growth allows the business to strengthen relationships with suppliers, facilitates the ability to develop further branded differentiated and exclusive merchandise, improves the efficiency of our supply chain, supports marketing expense and improves operating margins. Our financial

flexibility and superior operating margins allow us to take advantage of investment opportunities, including space growth and strategic developments that meet our return criteria.

On February 19, 2014, we announced a definitive agreement to acquire Zale, a specialty jeweler. The addition of Zale will help us maximize the strategies discussed above in a variety of ways around merchandise, innovation and testing, new formats, service programs and geographic expansion. We expect the transaction will generate approximately \$100 million in synergies by the end of the third full fiscal year of operations. While we expect the transaction to close within calendar year 2014, Signet cannot predict whether or when Zale stockholder and regulatory approval will be obtained, or if the closing conditions will be satisfied. The acquisition will result in the realization of incremental expenses prior to the close of the transaction. These expenses will primarily be transaction-related costs, i.e., legal, tax, banking and consulting expenses, which are expensed as incurred.

The transaction provides for the acquisition of all of Zale's issued and outstanding common stock for \$21.00 per share in cash consideration, or approximately \$1.4 billion including net debt, which value may fluctuate depending on the timing of the closing. Signet plans to finance the proposed acquisition with approximately \$1.4 billion of debt, which includes \$600 million in securitization of Signet's US accounts receivables portfolio and \$800 million in other debt financing. Signet has secured fully committed financing for the transaction, which includes an \$800 million 364-day unsecured bridge facility and a \$400 million 5-year unsecured term loan facility. The bridge facility is expected to be replaced by permanent financing in due course. The bridge facility and the term loan facility contain customary fees which will be recorded as an expense in Fiscal 2015, with additional interest expense dependent on the timing of borrowings and closing of the transaction.

BACKGROUND

Business segment

Signet's results principally derive from one business segment – the retailing of jewelry, watches and associated services. The business is managed as two geographical reportable segments: the US division (84% of sales and 93% of operating income) and the UK division (16% of sales and 7% of operating income). Both divisions are managed by executive committees, which report to Signet's Chief Executive Officer, who reports to the Board of Directors of Signet (the "Board"). Each divisional executive committee is responsible for operating decisions within parameters established by the Board. In the fourth quarter of Fiscal 2014, subsequent to the November 4, 2013 acquisition of a diamond polishing factory in Gaborone, Botswana, management established a separate operating segment ("Other"), which consists of all non-reportable segments including subsidiaries involved in the purchasing and conversion of rough diamonds to polished stones. Detailed financial information about Signet's segment information is found in Note 2 of Item 8.

Trademarks and trade names

Signet is not dependent on any material patents or licenses in either the US or the UK. However, it does have several well-established trademarks and trade names which are significant in maintaining its reputation and competitive position in the jewelry retailing industry. These registered trademarks and trade names include the following in Signet's US operations: Kay Jewelers; Kay Jewelers Outlet; Jared The Galleria Of Jewelry; JB Robinson Jewelers; Ultra Diamonds; Marks & Morgan Jewelers; Shaw's Jewelers; Belden Jewelers; Osterman Jewelers; Weisfield Jewelers; LeRoy's Jewelers; Rogers Jewelers; Goodman Jewelers; Jared Jewelry Boutique; Ultra Diamond & Gold Outlet; Every kiss begins with Kay; He went to Jared; Celebrate Life. Express Love.; the Leo Diamond; Peerless Diamond; Hearts Desire; and Charmed Memories. Trademarks and trade names include the following in Signet's UK operations: H.Samuel; Ernest Jones; Leslie Davis; Forever Diamonds; and Perfect Partner.

Seasonality

Signet's sales are seasonal, with the first and second quarters each normally accounting for slightly more than 20% of annual sales, the third quarter a little under 20% and the fourth quarter for about 40% of sales, with December being by far the most important month of the year. Sales made in November and December are known as the "Holiday Season." Due to sales leverage, Signet's operating income is even more seasonal; about 45% to 50% of Signet's operating income normally occurs in the fourth quarter, comprised of nearly all of the UK division's operating income and about 40% to 50% of the US division's operating income.

Employees

In Fiscal 2014, the average number of full-time equivalent persons employed was 18,179. In addition, Signet usually employs a limited number of temporary employees during its fourth quarter. None of Signet's

employees in the UK and less than 1% of Signet's employees in the US are covered by collective bargaining agreements. Signet considers its relationship with its employees to be excellent.

	Year ended		
	Fiscal 2014	Fiscal 2013	Fiscal 2012
Average number of employees ⁽¹⁾			
US	14,856	14,711 ⁽²⁾	13,224
UK.....	3,112	3,166	3,331
Other ⁽³⁾	211	—	—
Total	18,179	17,877	16,555

-

(1) Full-time equivalent.

(2) US average number of employees includes 830 full-time equivalents employed by Ultra.

(3) Includes employees employed at the diamond polishing plant located in Botswana.

COMPETITION

Jewelry retailing is highly fragmented and competitive. We compete against other specialty jewelers as well as other retailers that sell jewelry, including department stores, mass merchandisers, discount stores, apparel and accessory fashion stores, brand retailers, shopping clubs, home shopping television channels, direct home sellers and online retailers and auction sites. The jewelry category competes for customers' share-of-wallet with other consumer sectors such as electronics, clothing and furniture, as well as travel and restaurants. This competition for consumers' discretionary spending is particularly relevant to gift giving. Our competitive strengths are as follows:

- Strong store brands
- Brand differentiated and exclusive merchandise
- Outstanding customer service
- Advertising effectiveness
- Strong supply chain
- High quality store base
- In-house customer financing (US)
- Financial strength and flexibility

US DIVISION

US market

Calendar 2012 estimates are used by Signet to understand the size and structure of the US jewelry market as the provisional estimates for calendar 2013 available at the time of filing have historically been subject to frequent and sometimes large revisions.

Total US jewelry sales, including watches and fashion jewelry, are estimated by the US Bureau of Economic Analysis ("BEA") to have been \$73.7 billion in calendar 2012 in their January 2014 data release. The US jewelry market has grown at a compound annual growth rate of 4.2% over the last 25 years to calendar 2012 with significant variation over shorter term periods.

In calendar 2012, the US jewelry market grew by an estimated 6.3% (source: BEA, January 2014). The specialty jewelry sector is estimated to have grown by 6.0% to \$31.5 billion in calendar 2012 (source: US Census Bureau, January 2014). The specialty sector of the jewelry market share in calendar 2012 was 42.7% as compared to 42.8% in calendar 2011. The Bureau of Labor Statistics estimated that, in calendar 2012, there were 22,080 specialty jewelry stores in the US (2011: 22,237), a reduction of 0.7% compared to the prior year.

The US division's share of sales made by jewelry and watch retailers was 4.4% in calendar 2012 (calendar 2011: 4.4%), and its share of sales made by specialty jewelry retailers was 10.4% in calendar 2012 (calendar 2011: 10.2%), based on estimates by the US Census Bureau.

US store brand reviews

Location of Kay, Jared and regional brand stores by state February 1, 2014:

	<u>Kay</u>	<u>Jared</u>	<u>Regional brand</u>	<u>Total</u>
Alabama	24	1	4	29
Alaska.....	3	—	1	4
Arizona.....	16	7	3	26
Arkansas.....	7	1	—	8
California	82	11	5	98
Colorado.....	15	6	4	25
Connecticut	12	1	3	16
Delaware	4	1	—	5
Florida.....	73	20	12	105
Georgia.....	45	8	7	60
Hawaii.....	6	—	—	6
Idaho.....	4	1	—	5
Illinois	38	10	11	59
Indiana.....	25	5	7	37
Iowa.....	15	1	1	17
Kansas	8	2	2	12
Kentucky	16	3	6	25
Louisiana.....	15	2	1	18
Maine	5	1	1	7
Maryland	31	6	13	50
Massachusetts.....	24	3	8	35
Michigan	34	6	12	52
Minnesota.....	17	4	4	25
Mississippi	10	—	—	10
Missouri	17	4	1	22
Montana	3	—	—	3
Nebraska.....	6	—	—	6
Nevada	9	3	1	13
New Hampshire.....	10	3	4	17
New Jersey	25	5	1	31
New Mexico.....	5	1	—	6
New York.....	51	5	8	64
North Carolina.....	40	8	3	51
North Dakota.....	4	—	—	4
Ohio.....	57	13	33	103
Oklahoma	8	1	1	10
Oregon.....	15	3	1	19
Pennsylvania	63	8	10	81
Rhode Island.....	3	—	—	3
South Carolina.....	21	2	5	28
South Dakota.....	2	—	—	2
Tennessee	24	7	5	36
Texas	67	23	6	96
Utah.....	9	3	—	12
Vermont	2	—	—	2
Virginia	38	8	10	56
Washington	18	3	8	29
West Virginia	9	—	6	15
Wisconsin.....	18	3	5	26
Wyoming.....	2	—	—	2
Total.....	1,055	203	213	1,471

Store activity by brand

	Fiscal 2014	Fiscal 2013	Fiscal 2012
Total stores opened or acquired during the year.....	176	163	25
Kay.....	128 ⁽¹⁾	46 ⁽³⁾	22 ⁽⁵⁾
Jared.....	13	7	3
Regional brands.....	35 ⁽²⁾	—	—
Ultra.....	—	110 ⁽⁴⁾	—
Total stores closed during the year.....	(148)	(38)	(24)
Kay.....	(22)	(17) ⁽³⁾	(10)
Jared.....	—	—	—
Regional brands.....	(16)	(21)	(14) ⁽⁵⁾
Ultra.....	(110) ^(1,2)	—	—
Total stores open at the end of the year.....	1,471	1,443	1,318
Kay.....	1,055	949	920
Jared.....	203	190	183
Regional brands.....	213	194	215
Ultra.....	—	110 ⁽⁴⁾	—
Average sales per store in thousands ⁽⁶⁾	\$ 2,361	\$2,351	\$ 2,250
Kay.....	\$ 2,033	\$2,002	\$ 1,899
Jared.....	\$ 5,299	\$5,201	\$ 5,157
Regional brands.....	\$ 1,243 ⁽⁷⁾	\$1,292	\$ 1,288
Total selling square feet in thousands.....	2,748	2,622	2,367
Kay.....	1,489	1,288	1,210
Jared.....	983	923	889
Regional brands.....	276	241	268
Ultra.....	—	170 ⁽⁴⁾	—
Increase in net store space.....	5%	11%	1%

- (1) Includes 65 Ultra stores converted to the Kay brand in Fiscal 2014.
(2) Includes the remaining 30 Ultra stores not converted to the Kay brand in Fiscal 2014.
(3) Includes five mall stores that relocated to an off-mall location in Fiscal 2013.
(4) Excludes 33 Ultra licensed jewelry departments.
(5) Includes two regional stores rebranded as Kay in Fiscal 2012.
(6) Based only upon stores operated for the full fiscal year and calculated on a 52 week basis.
(7) The average sales per store for the regional brands was lower than Fiscal 2013 due to the inclusion of Ultra stores not converted to the Kay brand.

Sales data by brand

		Change from previous year	
Fiscal 2014	Sales (millions)	Total sales	Same store sales ⁽¹⁾
Kay ⁽²⁾	\$ 2,157.8	9.0%	6.5%
Jared.....	\$ 1,064.7	6.1%	4.7%
Regional brands ⁽³⁾	\$ 295.1	1.2%	(2.4)%
US.....	\$ 3,517.6	7.4%	5.2%

- (1) The 53rd week in Fiscal 2013 resulted in a shift in Fiscal 2014, as the fiscal year began a week later than the previous fiscal year. As such, same store sales are calculated by aligning the weeks of the year to the same weeks in the prior year. Total reported sales are calculated based on the reported fiscal periods.
(2) Includes 65 Ultra stores converted to the Kay brand in Fiscal 2014.
(3) Includes the remaining 30 Ultra stores not converted to the Kay brand in Fiscal 2014.

Kay Jewelers

Kay accounted for 51% of Signet's sales in Fiscal 2014 (Fiscal 2013: 49%) and operated 1,055 stores in 50 states, which include 65 Ultra stores converted to the Kay brand, as of February 1, 2014 (February 2, 2013: 949 stores). Since 2004, Kay has been the largest specialty retail jewelry store brand in the US, based on sales, and has subsequently increased its leadership position. Kay targets households with an income of between \$35,000 and \$100,000, with a midpoint target of approximately \$70,000. Details of Kay's performance over the last three years are shown below:

	Fiscal 2014	Fiscal 2013	Fiscal 2012
Sales (million)	\$2,157.8	\$ 1,953.3	\$ 1,786.8
Average sales per store (million).....	\$ 2.033	\$ 2.002	\$ 1.899
Stores at year end	1,055	949	920
Total selling square feet (thousands).....	1,489	1,288	1,210

Kay mall stores typically occupy about 1,600 square feet and have approximately 1,300 square feet of selling space, whereas Kay off-mall stores typically occupy about 2,200 square feet and have approximately 1,800 square feet of selling space. Kay operates in regional malls and off-mall stores. Off-mall stores primarily are located in outlet malls and power centers. Management believes off-mall expansion is supported by the willingness of customers to shop for jewelry at a variety of real estate locations and that increased diversification is important for growth as increasing the store count further leverages the strong Kay brand, marketing support and the central overhead.

Recent net openings (closures) and current composition are shown below:

	Stores at February 1, 2014	Net openings (closures)		
		Fiscal 2014	Fiscal 2013	Fiscal 2012
Mall	768⁽¹⁾	5 ⁽¹⁾	(3) ⁽³⁾	1 ⁽⁴⁾
Off-mall and outlet	287⁽²⁾	101 ⁽²⁾	32 ⁽³⁾	11
Total	1,055	106	29	12

-
- (1) Includes one Ultra store converted to a Kay mall location in Fiscal 2014.
 - (2) Includes a net of 64 Ultra stores converted to a Kay brand store in Fiscal 2014.
 - (3) Includes five mall stores that relocated to an off-mall location in Fiscal 2013.
 - (4) Includes two regional stores rebranded as Kay in Fiscal 2012.

Jared The Galleria Of Jewelry

With 203 stores in 39 states as of February 1, 2014 (February 2, 2013: 190 in 39 states), Jared is a leading off-mall destination specialty retail jewelry store chain, based on sales. Jared accounted for 25% of Signet's sales in Fiscal 2014 (Fiscal 2013: 25%). The first Jared store was opened in 1993, and since its roll-out began in 1998, it has grown to become the fourth largest US specialty retail jewelry brand by sales. Based on its competitive strengths, particularly its scale, management believes that Jared has significant opportunity to grow. Potential customers who visit a destination store have a greater intention of making a jewelry purchase. Jared targets households with an income of between \$50,000 and \$150,000, with a midpoint target of approximately \$100,000.

Details of Jared's performance over the last three years are shown below:

	Fiscal 2014	Fiscal 2013	Fiscal 2012
Sales (million)	\$1,064.7	\$1,003.1	\$ 956.8
Average sales per store (million).....	\$ 5.299	\$ 5.201	\$ 5.157
Stores at year end	203	190	183
Total selling square feet (thousands).....	983	923	889

Jared offers superior customer service and enhanced selection of merchandise. As a result of its larger size, more specialist sales associates are available to assist customers. In addition, every Jared store has an on-site design and service center where most repairs are completed within the same day. Each store also has at least one diamond viewing room, a children's play area and complimentary refreshments.

The typical Jared store has about 4,800 square feet of selling space and approximately 6,000 square feet of total space. Jared locations are normally free-standing sites with high visibility and traffic flow, positioned close to major roads within shopping developments. Jared stores operate in retail centers that normally contain strong retail co-tenants, including big box, destination stores such as Bed, Bath & Beyond, Dick's Sporting Goods and Home Depot, as well as some smaller specialty units.

US regional brands

Signet also operates mall stores under a variety of established regional nameplates, including the 30 remaining Ultra stores not converted to the Kay brand. Regional brands accounted for 7% of Signet's sales in Fiscal 2014 (Fiscal 2013: 7%) and as of February 1, 2014, include 213 regional brand stores in 36 states (February 1, 2013: 194 stores in 33 states). The leading brands include JB Robinson Jewelers, Ultra Diamonds and Marks & Morgan Jewelers. All of these regional brand stores are located where there is also a Kay location, and target a similar customer. Details of the regional brands' performance over the last three years are shown below:

	Fiscal 2014	Fiscal 2013	Fiscal 2012
Sales (million)	\$ 295.1	\$ 271.8	\$ 290.5
Average sales per store (million).....	\$ 1.243⁽¹⁾	\$ 1.292	\$ 1.288
Stores at year end	213⁽²⁾	194	215
Total selling square feet (thousands).....	276	241	268

— (1) The average sales per store for the regional brands was lower than Fiscal 2013 due to the inclusion of the Ultra stores not converted to the Kay brand.

(2) Includes 30 Ultra stores that were not converted to the Kay brand in Fiscal 2014.

Ultra

On October 29, 2012, Signet acquired Ultra which primarily operated in outlet malls. Ultra accounted for 1% of Signet's sales in Fiscal 2013. At February 2, 2013, there were 110 Ultra stores and 33 Ultra licensed jewelry department stores. During Fiscal 2014, a majority of these stores were converted to the Kay brand, with the remaining open stores being reflected in regional brands. In addition, all licensed jewelry departments were closed in the fourth quarter of Fiscal 2014. Details of Ultra from the date of acquisition through the end of Fiscal 2013 are shown below:

	Fiscal 2013
Sales (million)	\$45.7
Stores at year end	110
Total selling square feet (thousands).....	170 ⁽¹⁾

— (1) Excludes 33 Ultra licensed jewelry departments.

US eCommerce sales

The Kay and Jared websites are among the most visited of the specialty jewelry retailers (source: JCK) and provide potential customers with a source of information about the merchandise available, as well as the ability to buy online. The websites are integrated with the division's stores, so that merchandise ordered online may be picked up at a store or delivered to the customer. The websites make an important and growing contribution to the customer experience at Kay and Jared, and are an important part of the US division's marketing programs. In Fiscal 2014, the US division's eCommerce sales increased by 27.2% to \$129.0 million (Fiscal 2013: \$101.4 million), and represented 3.7% of US sales (Fiscal 2013: 3.1%).

US operating review

Operating structure

While the US division operates under the Kay, Jared and a number of regional store brands, many functions are integrated to gain economies of scale. For example, store operations have a separate dedicated field management team for the mall store brands, Jared and the in-store repair function, while there is a combined diamond sourcing function.

US customer experience and human resources

Management regards the customer experience as an essential element in the success of our business. Therefore the ability to recruit, train and retain qualified sales associates is important in determining sales, profitability and the rate of net store space growth. Accordingly, the US division has in place comprehensive recruitment, training and incentive programs and uses employee and customer satisfaction surveys to monitor and improve performance. A continual priority of the US division is to improve the quality of the customer experience. To enhance customer service, the US division is increasingly using sales-enhancing technology, including customer-assisted selling systems. These computerized tools enable a sales associate to better assist a potential customer to make a purchase decision. Investment in the digital environment such as websites, mobile applications and social media, further adds to the customer's shopping choices.

US merchandising and purchasing

Management believes that merchandise selection, availability and value are critical success factors for its business. In the US business, the range of merchandise offered and the high level of inventory availability are supported centrally by extensive and continuous research and testing. Best-selling products are identified and replenished rapidly through analysis of sales by stock keeping unit. This approach enables the US division to deliver a focused assortment of merchandise to maximize sales and inventory turn, and minimize the need for discounting. Management believes that the US division is better able to offer greater value and consistency of merchandise than its competitors, due to its supply chain strengths discussed below. In addition, in recent years management has continued to develop, refine and execute a strategy to increase the proportion of branded differentiated and exclusive merchandise sold, in response to customer demand.

The scale and information systems available to management and the gradual evolution of jewelry fashion trends allow for the careful testing of new merchandise in a range of representative stores. This enables management to make more informed investment decisions about which merchandise to select, thereby increasing the US division's ability to satisfy customers' requirements while reducing the likelihood of having to discount merchandise.

Merchandise mix

US division merchandise mix (excluding repairs, warranty and other miscellaneous sales)

	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>
	%	%	%
Diamonds and diamond jewelry	75	74	73
Gold and silver jewelry, including charm bracelets.....	11	11	12
Other jewelry	8	9	8
Watches	6	6	7
	<u>100</u>	<u>100</u>	<u>100</u>

The celebration of life and the expression of romance and appreciation are primary motivators for the purchase of jewelry and watches. In the US division, the bridal category, which includes engagement, wedding and anniversary purchases, is estimated by management to account for about 50% of merchandise sales, and is predominantly diamond jewelry. The bridal category is believed by management to experience stable demand, but is still dependent on the economic environment as customers can trade up or down price points depending on their available budget. Outside of the bridal category, jewelry and watch purchases, including for gift giving, have a much broader merchandise mix. Gift giving is particularly important during the Holiday Season, Valentine's Day and Mother's Day.

A further categorization of merchandise is branded differentiated and exclusive, third-party branded and core merchandise. Core merchandise includes items and styles, such as solitaire rings and diamond stud earrings,

which are uniquely designed, as well as items that are generally available from other jewelry retailers. It also includes styles such as diamond fashion bracelets, rings and necklaces. Within this category, the US division has many exclusive designs of particular styles and provides high quality merchandise with great value to customers. Third-party branded merchandise includes mostly watches, but also includes ranges such as charm bracelets produced by Pandora®. Branded differentiated and exclusive merchandise are items that are branded and exclusive to Signet within its marketplaces, or that are not widely available in other jewelry retailers.

Branded differentiated and exclusive ranges

Management believes that the development of branded differentiated and exclusive merchandise raises the profile of Signet's stores, helps to drive sales and provides its well trained sales associates with a powerful selling proposition. National television advertisements for Kay and Jared include elements that drive brand awareness and purchase intent of these ranges. Management believes that Signet's scale and proven record of success in developing branded differentiated and exclusive merchandise attracts offers of such programs from jewelry manufacturers, designers and others ahead of competing retailers, and enables it to achieve its supply chain strengths. Management plans to develop additional branded differentiated and exclusive ranges as appropriate and to further expand and refine those already launched.

Branded differentiated and exclusive merchandise includes:

- the Leo® Diamond collection, which is sold exclusively by Signet in the US and the UK, is the first diamond to be independently and individually certified to be visibly brighter;
- exclusive collections of jewelry by Le Vian®, famed for its handcrafted, unique designs;
- Open Hearts by Jane Seymour®, a collection of jewelry designed by the actress and artist Jane Seymour, was successfully tested and launched in Fiscal 2009;
- Love's Embrace®, a collection of classic, timeless diamond fashion jewelry that was tested and rolled out during Fiscal 2010;
- Charmed Memories®, a create your own charm bracelet collection, tested and rolled out in Fiscal 2011, sold in Kay and the regional brand stores;
- Tolkowsky®, an ideal cut diamond "Invented by Tolkowsky, Perfected by Tolkowsky"®. The collection was tested in Fiscal 2011 and its availability was expanded to the majority of Kay stores during Fiscal 2012 and rolled out to Jared stores in Fiscal 2013;
- Neil Lane Bridal®, a vintage-inspired bridal collection by the celebrated jewelry designer Neil Lane. The collection was tested in Fiscal 2011 and its availability was expanded to all stores during Fiscal 2012. Neil Lane Designs®, hand-crafted diamond rings, earrings and necklaces inspired by Hollywood's glamorous past. This collection was tested in early Fiscal 2013 and expanded to all Kay, Jared and regional brand stores during Fiscal 2013;
- Shades of Wonder®, rare, natural color diamonds, unique wonders of Australia in captivating fashion designs. Tested in late Fiscal 2011 and expanded to all Kay, Jared and regional brand stores during Fiscal 2013;
- Artistry Diamonds®, genuine diamonds in an ultimate palette of colors, tested and successfully rolled out during Fiscal 2014, sold in Kay and regional stores;
- Jared Vivid® Diamonds, the brilliance of diamonds combined with the vitality of color, tested and successfully rolled out in Jared during Fiscal 2014; and
- Lois Hill®, reaches back through the centuries and across the globe to create her collection of jewelry, successfully rolled out in Jared during Fiscal 2014.

Direct sourcing of rough diamonds

Management continues to take steps to advance its rough diamond sourcing and manufacturing through its wholly owned subsidiary Signet Direct Diamond Sourcing Limited. In Fiscal 2013, Signet was appointed by Rio Tinto as a Select Diamantaire, which provides the Company with a contracted allocation of rough diamonds provided by Rio Tinto, as well as entered into other supplier agreements. In Fiscal 2014, Signet acquired a diamond polishing factory in Gaborone, Botswana and established a diamond buying office in India. These developments in Signet's long-term diamond sourcing capabilities mean that Signet is able to buy rough diamonds directly from the miners and then have the stones marked, cut and polished in its own polishing facility. Signet's objective with this initiative is to secure additional, reliable and consistent supplies of diamonds for our customers while achieving further efficiencies in the supply chain.

Direct sourcing of polished diamonds

The US division purchases loose polished diamonds on the world markets and from Signet's wholly owned diamond polishing factory in Botswana, as well as outsources the majority of casting, assembly and finishing operations to third parties. In addition, Signet mounts stones in settings purchased from manufacturers. In combination, these account for 40% of Signet's diamond merchandise. By using these approaches, the cost of merchandise is reduced, and the consistency of quality is maintained, enabling the US division to provide better value to the customer, which helps to increase market share and achieve higher gross merchandise margins. The contract manufacturing strategy also allows Signet's buyers to gain a detailed understanding of the manufacturing cost structures and, in turn, leverage that knowledge with regard to negotiating better prices for the supply of finished products.

Sourcing of finished merchandise

Merchandise is purchased as a finished product where the item is complex, the merchandise is considered likely to have a less predictable sales pattern or where the labor cost can be reduced. This method of buying inventory provides the opportunity to reserve inventory held by vendors and to make returns or exchanges with the supplier, thereby reducing the risk of over- or under-purchasing.

Management believes that the division's scale and strong balance sheet enables it to purchase merchandise at an advantageous price, and on favorable terms.

Merchandise held on consignment

Merchandise held on consignment is used to enhance product selection and test new designs. This minimizes exposure to changes in fashion trends and obsolescence, and provides the flexibility to return non-performing merchandise. All of Signet's consignment inventory is held in the US. At February 1, 2014, the US division held \$312.6 million (February 2, 2013: \$227.7 million) of merchandise on consignment, see Note 11 of Item 8.

Suppliers

In Fiscal 2014, the five largest suppliers collectively accounted for approximately 22% (Fiscal 2013: 23%) of the US division's total purchases, with the largest supplier accounting for approximately 6% (Fiscal 2013: 6%). The US division directly transacts business with suppliers on a worldwide basis at various stages of the supply chain, with third party diamond cutting and jewelry manufacturing being predominantly carried out in Asia.

The division benefits from close commercial relationships with a number of suppliers and damage to, or loss of, any of these relationships could have a detrimental effect on results. Although management believes that alternative sources of supply are available, the abrupt loss or disruption of any significant supplier during the three month period (August to October) leading up to the Holiday Season could result in a materially adverse effect on performance. Therefore a regular dialogue is maintained with suppliers, particularly in the present economic climate.

Luxury and prestige watch manufacturers and distributors normally grant agencies to sell their timepieces on a store by store basis. In the US, Signet sells its luxury watch brands primarily through Jared, where management believes that they help attract customers to Jared and build sales in all categories.

Raw materials and the supply chain

The jewelry industry generally is affected by fluctuations in the price and supply of diamonds, gold and, to a much lesser extent, other precious and semi-precious metals and stones. Diamonds account for about 55%, and gold about 15%, of the US division's cost of merchandise sold, respectively.

The ability of Signet to increase retail prices to reflect higher commodity costs varies, and an inability to increase retail prices could result in lower profitability. Signet has, over time, been able to increase prices to reflect changes in commodity costs due to the visibility of cost increases and the turn of inventory.

Signet undertakes hedging for a portion of its requirement for gold through the use of options, net zero-cost collar arrangements, forward contracts and commodity purchasing. It is not possible to hedge against fluctuations in the cost of diamonds. The cost of raw materials is only part of the costs involved in determining the retail selling price of jewelry, with labor costs also being a significant factor. Management continues to seek ways to reduce the cost of goods sold and enhance the resilience of its supply chain.

The largest product category sold by Signet is diamonds and diamond jewelry. Changes in government policy in a number of African diamond producing countries have caused significant changes in the structure of the diamond supply chain in recent years. In addition, there are changes in the ownership of diamond mines and further major changes are likely.

Inventory management

Sophisticated inventory management systems for merchandise testing, assortment planning, allocation and replenishment are in place, thereby reducing inventory risk by enabling management to identify and respond quickly to changes in customers' buying patterns. The majority of merchandise is common to all US division mall stores, with the remainder allocated to reflect demand in individual stores. Management believes that the merchandising and inventory management systems, as well as improvements in the productivity of the centralized distribution center, have allowed the US division to achieve consistent improvement in inventory turns. The vast majority of inventory is held at stores rather than in the central distribution facility.

Other sales

While custom design and repair services represent less than 10% of sales, they account for approximately 30% of transactions and have been identified by management as an important opportunity to build customer loyalty. All Jared stores have a highly visible Design and Service Center, which is open the same hours as the store. The repair centers meet the repair requirements of the store in which they are located and also provide the same service for the US division's mall brand stores. As a result, nearly all customer repairs are performed in-house, unlike many other retailers, which do this through sub-contractors. The custom design and repair function has its own field management and training structure.

The US division sells, as a separate item, a lifetime repair service plan for jewelry. These plans cover services such as ring sizing, refinishing and polishing, rhodium plating of white gold, earring repair, chain soldering and the resetting of diamonds and gemstones that arise due to the normal usage of the merchandise. Such work is performed in-house.

US digital ecosystem capabilities

In recent years, significant investments and initiatives have been completed to drive growth across all of Signet's selling channels. New Kay and Jared websites with improved functionality in product search and navigation were re-launched in October 2012, increasing product selection by 10 times. Kay.com and Jared.com sites have further evolved from this re-launch, optimizing the customer experiences for both desktop and mobile devices. Fully transactional enhanced mobile sites for Kay and Jared, launched in October 2012, have also further evolved to allow customers to pay their credit balances from their mobile phones. Other initiatives in sales-enhancing technology included digital tablets in all Kay and Jared stores. Signet made significant investments in social media, as customer shopping practices require Signet to provide leading technology applications. The Kay and Jared fan base and followers on Facebook and Twitter continue to climb and social media outlets are driving more traffic to Signet's eCommerce sites. In addition, Signet has also created an online education center, Jewelrywise.com, to provide a resource to customers who want to know more about jewelry.

Virtual inventory

Signet's supplier relationships allow it to display suppliers' inventories on the Jared and Kay websites for sale to customers without holding the items in its inventory until the products are ordered by customers, which are referred to as "virtual inventory." Virtual inventory expands the choice of merchandise available to customers both online and in-store. Virtual inventory reduces the division's investment in inventory while increasing the selection available to the customer.

US marketing and advertising

Management believes customers' confidence in our retail brands, store brand name recognition and advertising of branded differentiated and exclusive ranges, are important factors in determining buying decisions in the jewelry industry where the majority of merchandise is unbranded. Therefore, the US division continues to strengthen and promote its brands by delivering superior customer service and building brand name recognition. The marketing channels used include television, digital media (desktop, mobile and social), radio, print, catalog, direct mail, telephone marketing, point of sale signage and in-store displays.

While marketing activities are undertaken throughout the year, the level of activity is concentrated at periods when customers are expected to be most receptive to marketing messages, which is ahead of Christmas Day,

Valentine's Day and Mother's Day. A significant majority of the expenditure is spent on national television advertising, which is used to promote the Kay and Jared store brands. Within such advertisements, Signet also promotes certain merchandise ranges, in particular its branded differentiated and exclusive merchandise and other branded products. During Fiscal 2014, the US division continued to have the leading share of relevant marketing messages ("share of voice") within the US jewelry sector.

Statistical and technology-based systems are employed to support a customer relationship marketing program that uses a proprietary database of nearly 28.5 million names to build customer loyalty and strengthen the relationship with customers through mail, telephone, eMail and social media communications. The program targets current customers with special savings and merchandise offers during key sales periods. In addition, invitations to special in-store promotional events are extended throughout the year.

Given the size of the marketing budgets for Kay and Jared, management believes this has increased the US division's competitive marketing advantage. The ability to advertise branded differentiated and exclusive merchandise on national television continues to be of growing importance. The US division's three year record of gross advertising spending is shown below:

	Fiscal 2014	Fiscal 2013⁽¹⁾	Fiscal 2012
Gross advertising spending (million)	\$ 233.6	\$ 224.3	\$ 188.4
Percent of US sales (%).....	6.6	6.9	6.2

— (1) Includes \$12.4 million impact from the 53rd week. Excluding this week, gross advertising expense as a percentage of US sales would have been 6.5%.

US real estate

Management has specific operating and financial criteria that have to be satisfied before investing in new stores or renewing leases on existing stores. Substantially all the stores operated by Signet in the US are leased. In Fiscal 2014, net store space increased 5% due to new store growth (Fiscal 2013: increase 11%, due to the Ultra Acquisition and new store growth). The greatest opportunity for new stores is in locations outside traditional covered regional malls.

Recent investment in the store portfolio is set out below:

<i>(in millions)</i>	Fiscal 2014	Fiscal 2013	Fiscal 2012
New store capital investment	\$ 54.0⁽¹⁾	\$ 29.1	\$ 10.9
Remodels and other store capital investment	46.3⁽²⁾	48.3	40.1
Total store capital investment.....	\$100.3	\$ 77.4⁽³⁾	\$ 51.0

— (1) Excludes the 65 Ultra stores converted to the Kay brand and the remaining 30 included within regional brands.

(2) Includes the 65 Ultra stores converted to the Kay brand and the remaining 30 included within regional brands.

(3) Excludes the Ultra Acquisition.

US customer finance

Management believes that in the US jewelry market, offering finance facilities benefits our customers and that managing the process in-house is a strength of Signet's US division. The US division:

- establishes credit policies that take into account the overall impact on the business. In particular, the US division's objective is to facilitate the sale of jewelry and to collect the outstanding credit balance as quickly as possible, minimizing risk and enabling the customer to make additional jewelry purchases using the credit facility. In contrast, management believes that many financial institutions focus on earning interest by maximizing the outstanding credit balance;
- utilizes proprietary authorization and collection models, which consider information on the behavior of the division's customers;
- allows management to establish and implement service standards appropriate for the business;
- provides a database of regular customers and their spending patterns;

- facilitates investment in systems and management of credit offerings appropriate for the business; and
- maximizes cost effectiveness by utilizing in-house capability.

The various customer finance programs assist in establishing and enhancing customer loyalty and complement the marketing strategy by enabling a greater number of purchases, higher units per transaction and greater value sales.

In addition to interest-bearing transactions that involve the use of in-house customer finance, a portion of credit sales are made using interest-free financing for one year, subject to certain conditions. In most US states, customers are offered optional third-party credit insurance.

The customer financing operation is centralized and fully integrated into the management of the US division and is not a separate operating division nor does it report separate results. All assets and liabilities relating to customer financing are shown on the balance sheet and there are no associated off-balance sheet arrangements. Signet's balance sheet and access to liquidity do not constrain the US division's ability to grant credit, which is a further competitive strength in the current economic environment. The US division's customer finance facility may only be used for purchases from the US division.

Allowances for uncollectible amounts are recorded as a charge to cost of goods sold in the income statement. The allowance is calculated using factors such as delinquency rates and recovery rates. A 100% allowance is made for any amount that is more than 90 days aged on a recency basis and any amount associated with an account the owner of which has filed for bankruptcy, as well as an allowance for those amounts 90 days aged and under based on historical loss information and payment performance. The calculation is reviewed by management to assess whether, based on economic events, additional analyses are required to appropriately estimate losses inherent in the portfolio.

Each individual application for credit is evaluated centrally against set lending criteria. The risks associated with the granting of credit to particular groups of customers with similar characteristics are balanced against the gross merchandise margin earned by the proposed sales to those customers. Management believes that the primary drivers of the net bad debt to total US sales ratio are the accuracy of the proprietary customer credit models used when granting customer credit, the procedures used to collect the outstanding balances, credit sales as a percentage to total US sales and the overall macro-economic environment. Cash flows associated with the granting of credit to customers of the individual store are included in the projections used when considering store investment proposals.

Customer financing statistics⁽¹⁾

	Fiscal 2014	Fiscal 2013	Fiscal 2012
Total sales (million)	\$ 3,517.6	\$ 3,273.9	\$ 3,034.1
Credit sales (million)	\$ 2,028.0	\$ 1,862.9	\$ 1,702.3
Credit sales as % of total US sales ⁽²⁾	57.7%	56.9%	56.1%
Net bad debt expense (million) ⁽³⁾	\$ 138.3	\$ 122.4	\$ 103.1
Net bad debt to total US sales	3.9%	3.7%	3.4%
Net bad debt to US credit sales	6.8%	6.6%	6.1%
Opening receivables (million)	\$ 1,280.6	\$ 1,155.5	\$ 995.5
Closing receivables (million)	\$ 1,453.8	\$ 1,280.6	\$ 1,155.5
Number of active credit accounts at year end ⁽⁴⁾	1,256,003	1,173,053	1,107,043
Average outstanding account balance at year end	\$ 1,175	\$ 1,110	\$ 1,068
Average monthly collection rate	12.1%	12.4%	12.7%
Period end bad debt allowance to period end receivables ⁽¹⁾	6.7%	6.8%	6.8%
<u>Credit portfolio net income</u>			
Net bad debt expense (million) ⁽³⁾	\$ 138.3	\$ 122.4	\$ 103.1
Late charge income (million) ⁽⁵⁾	\$ 29.4	\$ 27.5	\$ 23.2
Interest income from in-house customer finance programs (million) ⁽⁶⁾	\$ 186.4	\$ 159.7	\$ 125.4
	\$ 77.5	\$ 64.8	\$ 45.5

—
(1) See Notes 2 and 10, Item 8.
(2) Including any deposits taken at the time of sale.

- (3) Net bad expense is defined as the charge for the provision for bad debt less recoveries.
- (4) The number of active accounts is based on credit cycle end date closest to the fiscal year end date.
- (5) Late charge income represent fees charged to customers for late payments and is recorded within gross margin on the consolidated income statement.
- (6) See Note 3, Item 8. Primary component of other operating income, net, on the consolidated income statement.

Customer financing administration

Authorizations and collections are performed centrally at the US divisional head office. The majority of credit applications are processed and approved automatically after being initiated via in-store terminals or online through the US division's websites. The remaining applications are reviewed by the division's credit authorization personnel. All applications are evaluated by proprietary credit scoring models. Collections focus on a quality customer experience using risk-based calling and strategic account segmentation. Investments are geared towards best in class technology, system support and strategy analytics with the objective of maximizing effectiveness.

US management information systems

The US division's integrated and comprehensive information systems provide detailed, timely information to support, monitor and evaluate all key aspects of the business including finance, merchandise, marketing, multi-channel retailing, field support and private label credit.

All stores are supported by the internally developed Store Information System, which includes point of sale ("POS") processing, in-house credit authorization and support, a district manager information system and constant broadband connectivity for all retail locations for data communications including eMail. The POS system updates sales, in-house credit and perpetual inventory replenishment systems throughout the day for each store.

The US division plans to invest approximately \$49 million in information systems in Fiscal 2015 (Fiscal 2014: \$27.0 million). The planned increase reflects investments in sales-enhancing technology, both in-store and in the digital environment and in information technology designed to improve the effectiveness and efficiency of the division's operations.

Management believes that the US division has the most sophisticated management information systems among jewelry retailers.

US regulation

The US division is required to comply with numerous US federal and state laws and regulations covering areas such as consumer protection, consumer privacy, data protection, consumer credit, consumer credit insurance, health and safety, waste disposal, supply chain integrity, truth in advertising and employment legislation. Management monitors changes in these laws to endeavor to comply with applicable requirements.

UK DIVISION

The UK division is managed in pounds sterling, as sales and the majority of operating expenses are both incurred in that currency, and its results are then translated into US dollars for external reporting purposes. The following information for the UK division is given in pounds sterling as management believes that this presentation assists in the understanding of the performance of the UK division. Movements in the US dollar to pound sterling exchange rate therefore may have an impact on the results of Signet (as reflected in the table below), particularly in periods of exchange rate volatility. See Item 6 for analysis of results at constant exchange rates; non-GAAP measures.

UK market

The UK market includes specialty retail jewelers and general retailers who sell jewelry and watches, such as catalog showrooms, department stores, supermarkets, mail order catalogs and internet based retailers. The retail jewelry market is very fragmented and competitive, with a substantial number of independent specialty jewelry retailers. Management believes there are approximately 4,030 specialty retail jewelry stores in the UK as of December 2013, a decrease from approximately 4,070 specialty retail jewelry stores in December 2012 (source: IBISWorld).

Ernest Jones and H.Samuel compete with a large number of independent jewelry retailers, as well as catalog showroom operators, discount jewelry retailers, supermarkets, apparel and accessory fashion stores, online retailers and auction sites.

UK store brand reviews

Sales data by brand

Fiscal 2014	Sales (millions)	Total sales	Change from previous year	
			Total sales at constant exchange rates ⁽¹⁾⁽²⁾	Same store sales ⁽³⁾
H.Samuel.....	£ 233.1	(4.7)%	(4.2)%	(0.3)%
Ernest Jones ⁽⁴⁾	£ 200.3	(1.8)%	(1.1)%	2.6%
UK.....	£ 433.4	(3.4) %	(2.8) %	1.0 %

(1) Non-GAAP measure, see Item 6.

(2) The exchange translation impact on the total sales of H.Samuel was (0.5)%, and for Ernest Jones (0.7)%.

(3) The 53rd week in Fiscal 2013 resulted in a shift in Fiscal 2014, as the fiscal year began a week later than the previous fiscal year. As such, same store sales are calculated by aligning the weeks of the year to the same weeks in the prior year. Total reported sales are calculated based on the reported fiscal periods.

(4) Includes stores selling under the Leslie Davis nameplate.

H.Samuel

H.Samuel accounted for 9% of Signet's sales in Fiscal 2014 (Fiscal 2013: 10%), and is the largest specialty retail jewelry store brand in the UK by number of stores. H.Samuel has 150 years of jewelry heritage and its customers typically have an annual household income of between £15,000 and £40,000. The typical store selling space is 1,100 square feet.

H.Samuel continues to focus on larger store formats in regional shopping centers, and the number of H.Samuel stand alone 'High Street' locations has therefore declined as leases expire.

	Fiscal 2014	Fiscal 2013	Fiscal 2012
Sales (million)	£ 233.1	£ 243.4	£ 243.1
Average sales per store (million) ⁽¹⁾	£ 0.742	£ 0.713	£ 0.719
Stores at year end	304	318	337
Total selling square feet (thousands)	328	344	361

(1) Including only stores operated for the full fiscal year and calculated on a 52 week basis.

H.Samuel store data

	Fiscal 2014	Fiscal 2013	Fiscal 2012
Number of stores:			
Opened during the year	—	—	2 ⁽²⁾
Closed during the year	(14)	(19) ⁽¹⁾	(3)
Open at year end	304	318	337

(1) Includes one H.Samuel store rebranded as Ernest Jones.

(2) Includes one Ernest Jones store rebranded as H.Samuel.

Ernest Jones

Ernest Jones accounted for 8% of Signet's sales in Fiscal 2014 (Fiscal 2013: 8%), and is the second largest specialty retail jewelry store brand in the UK by number of stores. It serves the upper middle market and its customers typically have an annual household income of between £30,000 and £65,000. The typical store selling space is 900 square feet.

Ernest Jones also continues to focus on larger store formats in regional shopping centers that drive higher traffic as compared to stand alone ‘High Street’ locations and offers a wider range of jewelry and prestige watch agencies. The number of Ernest Jones stores in ‘High Street’ locations has therefore declined as leases expire.

	Fiscal 2014	Fiscal 2013	Fiscal 2012
Sales (million)	£ 200.3	£ 202.8	£ 203.8
Average sales per store (million) ⁽¹⁾	£ 1.033	£ 1.003	£ 1.026
Stores at year end	189	193	198
Total selling square feet (thousands)	175	172	172

–
(1) Including only stores operated for the full fiscal year and calculated on a 52-week basis.

Ernest Jones store data⁽¹⁾

	Fiscal 2014	Fiscal 2013	Fiscal 2012
Number of stores:			
Opened during the year	2	1 ⁽²⁾	2
Closed during the year	(6)	(6)	(6) ⁽³⁾
Open at year end	189	193	198

–
(1) Including Leslie Davis stores.
(2) Includes one H.Samuel store rebranded as Ernest Jones.
(3) Includes one Ernest Jones store rebranded as H.Samuel.

UK eCommerce sales

As of the end of the year, H.Samuel’s website, www.hsamuel.co.uk, continues to be the most visited UK specialty jewelry website and Ernest Jones’ website, www.ernestjones.co.uk, continues to be the second most visited (source: Hitwise). The websites provide potential customers with a source of information on merchandise available, as well as the ability to buy online. The websites are integrated with the division’s stores, so that merchandise ordered online may be picked up at a store or delivered to the customer. The websites make an important and growing contribution to the customer experience of H.Samuel and Ernest Jones, as well as to the UK division’s marketing programs. In the third quarter of Fiscal 2013, the Ernest Jones website had a full creative redesign. In Fiscal 2014, the UK division’s eCommerce sales increased by 23.5% to £22.1 million (Fiscal 2013: £17.9 million), and represented 5.1% of UK sales (Fiscal 2013: 4.0%). In addition, the UK division made significant investments in social media, as customer shopping practices require Signet to provide leading technology applications.

UK operating review

Operating structure

Signet’s UK division operates as two brands with a single support structure and distribution center.

UK customer experience and human resources

Management regards the customer experience as an essential element in the success of its business, and the division’s scale enables it to invest in industry-leading training and in the digital environment. The Signet Jewellery Academy, a multi-year program and framework for training and developing standards of capability, is operated for all sales associates. It utilizes a training system developed by the division called the “Amazing Customer Experience” (“ACE”). An ACE Index customer feedback survey gives a reflection of customers’ experiences and forms part of the monthly performance statistics that are monitored on a store by store basis. In addition to capability, we know that the customer experience is dependent on staff engagement.

UK merchandising and purchasing

Management believes that the UK division’s leading position in the UK jewelry sector is an advantage when sourcing merchandise, enabling delivery of better value to the customer. An example of this is its capacity to contract with jewelry manufacturers to assemble products, utilizing directly sourced gold and diamonds. In addition, the UK division has the scale to utilize sophisticated merchandising systems to test, track, forecast and respond to customer preferences. The vast majority of inventory is held at stores rather than in the central

distribution facility. The UK division and the US division seek to coordinate their merchandising and purchasing activities where appropriate, and are working to identify opportunities to further such coordination.

Merchandise mix

UK division merchandise mix (excluding repairs, warranty and other miscellaneous sales)

	Fiscal 2014	Fiscal 2013	Fiscal 2012
	%	%	%
Diamonds and diamond jewelry	30	28	27
Gold and silver jewelry, including charm bracelets	19	20	22
Other jewelry	13	13	13
Watches	33	33	31
Gift category	5	6	7
	100	100	100

The UK division has a different merchandise weighting to that of the US division, with watches representing 33% of merchandise sales. Bridal jewelry is estimated by management to account for approximately 27% (Fiscal 2013: 25%) of the UK division's merchandise sales, with gold wedding bands being an important element.

Direct sourcing

The UK division employs contract manufacturers for about 16% (Fiscal 2013: 20%) of the diamond merchandise sold, thereby achieving cost savings. Approximately 15% of the UK business' gold jewelry is manufactured on a contract basis through a buying office in Vicenza, Italy.

Suppliers

Merchandise is purchased from a range of suppliers and manufacturers and economies of scale and efficiencies continue to be achieved by combining the purchases of H.Samuel and Ernest Jones. In Fiscal 2014, the five largest of these suppliers (three watch and two jewelry) together accounted for approximately 31% of total UK division purchases (Fiscal 2013: approximately 30%), with the largest accounting for around 10%.

Foreign exchange and merchandise costs

Fine gold and loose diamonds account for about 15% and 10%, respectively, of the merchandise cost of goods sold. The prices of these are determined by international markets and the pound sterling to US dollar exchange rate. The other major category of goods purchased is watches, where the pound sterling cost is influenced by the Swiss franc exchange rate. In total, about 20% of goods purchased are made in US dollars. The pound sterling to US dollar exchange rate also has a significant indirect impact on the UK division's cost of goods sold for other merchandise.

Signet undertakes hedging for a portion of its requirement for US dollars and gold through the use of options, net zero-cost collar arrangements, forward contracts and commodity purchasing. It is not possible to hedge against fluctuations in the cost of diamonds. The cost of raw materials is part of the costs involved in determining the retail selling price of jewelry, with labor costs also being a significant factor. Management continues to seek ways to reduce the cost of goods sold by improving the efficiency of its supply chain.

UK marketing and advertising

The UK division has strong, well-established brands and leverages them with advertising (television, print and online), catalogs and the development of customer relationship marketing techniques. Few of its competitors have sufficient scale to utilize all these marketing methods efficiently. Marketing campaigns are designed to reinforce and develop further the distinct brand identities and to expand the overall customer base and improve customer loyalty. H.Samuel used television advertising in the fourth quarter and during Fiscal 2013 expanded customer relationship marketing. For Ernest Jones, expenditure is focused on print and customer relationship marketing. Print and online advertising are important marketing tools for both H.Samuel and Ernest Jones. The UK division's three year record of gross advertising spending is shown below:

	Fiscal 2014	Fiscal 2013	Fiscal 2012
Gross advertising spending (million)	£12.8	£13.5	£12.6
Percent of UK sales (%)	3.0	3.0	2.8

UK real estate

In Fiscal 2014, total store capital expenditure was £7.4 million (Fiscal 2013: £8.7 million), as a result of an increased investment in two new stores, remodels and expansions.

UK customer finance

In Fiscal 2014, approximately 5% (Fiscal 2013: 5%) of the division's sales were made through a customer finance program provided through a third party. Signet does not provide this service itself in the UK due to low demand for customer finance.

UK management information systems

POS equipment, retail management systems, purchase order management systems and merchandise planning processes are in place to support financial management, inventory planning and control, purchasing, merchandising, replenishment and distribution. The UK division uses third-party suppliers to support the operation of its information systems.

A perpetual inventory process allows store managers to check inventory by product category. These systems are designed to assist in the control of shrinkage, fraud prevention, financial analysis of retail operations, merchandising and inventory control.

The UK division plans to invest approximately £3 million in information systems in Fiscal 2015 (Fiscal 2014: £3.4 million). The planned expenditure reflects investments in sales-enhancing technology, both in-store and in the digital environment, and in information technology designed to improve the effectiveness and efficiency of the division's execution.

UK regulation

Various laws and regulations affect Signet's UK operations. These cover areas such as consumer protection, consumer credit, consumer privacy, data protection, health and safety, waste disposal, employment legislation and planning and development standards. Management monitors changes in these laws to endeavor to comply with legal requirements.

OTHER

Other consists of all non-reportable segments and is aggregated with unallocated corporate administrative functions. This separate operating segment was established in the fourth quarter of Fiscal 2014 upon the acquisition of a diamond polishing factory in Gaborone, Botswana. The factory acquisition continues to advance Signet's long-term diamond sourcing capabilities and enables Signet to buy rough diamonds directly and then have the stones marked, cut and polished in its own polishing facility. Other sales consist of wholesale sales to third parties of rough and polished diamonds deemed not suitable for Signet's needs. Sales of rough and polished diamonds in the Other non-reportable segment although minimal, will have the effect of reducing the Company's overall gross margins. The majority of the sales and expenses relating to the factory are transacted in US dollars. See also Note 14 of Item 8.

AVAILABLE INFORMATION

Signet files annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information with the SEC. Prior to February 1, 2010, Signet filed annual reports on Form 20-F and furnished other reports on Form 6-K with the SEC. Such information, and amendments to reports previously filed or furnished, is available free of charge from our corporate website, www.signetjewelers.com, as soon as reasonably practicable after such materials are filed with or furnished to the SEC.

ITEM 1A. RISK FACTORS

Spending on goods that are, or are perceived to be “luxuries,” such as jewelry, is discretionary and is affected by general economic conditions. Therefore, a decline in consumer spending, whether due to adverse changes in the economy, changes in tax policy or other factors that reduce our customers’ demand for our products, may unfavorably impact Signet’s future sales and earnings.

Jewelry purchases are discretionary and are dependent on consumers’ perceptions of general economic conditions, particularly as jewelry is often perceived to be a luxury purchase. Adverse changes in the economy and periods when discretionary spending by consumers may be under pressure could unfavorably impact sales and earnings.

The success of Signet’s operations depends to a significant extent upon a number of factors relating to discretionary consumer spending. These include economic conditions, and perceptions of such conditions by consumers, consumer confidence, employment, the rate of change in employment, the level of consumers’ disposable income and income available for discretionary expenditure, the savings ratio, business conditions, interest rates, consumer debt and asset values, availability of credit and levels of taxation for the economy as a whole and in regional and local markets where we operate. Signet’s success also depends upon its reputation for integrity in sourcing its merchandise, which, if adversely affected could impact consumer sentiment and willingness to purchase Signet’s merchandise.

As 16% of Signet’s sales are accounted for by its UK division, economic conditions in the eurozone have a significant impact on the UK economy even though the UK is not a member of the eurozone. Therefore, developments in the eurozone could adversely impact trading in the UK division. In addition, developments in the eurozone could also adversely impact the US economy.

We depend on shopping malls and other retail centers to attract customers to many of our stores.

Many of our stores are located in shopping malls and other retail centers that benefit from the ability of “anchor” retail tenants, generally large department stores, and other attractions, to generate sufficient levels of consumer traffic in the vicinity of our stores. Any decline in the volume of consumer traffic at shopping centers, whether because of the economic slowdown, a decline in the popularity of shopping centers, the closing of anchor stores or otherwise, could result in reduced sales at our stores and excess inventory. We may respond by increasing discounts or initiating marketing promotions to reduce excess inventory, which could have a material adverse effect on our margins and operating results.

More than half of US sales are made utilizing customer finance provided by Signet. Therefore any deterioration in the consumers’ financial position could adversely impact sales, earnings and the collectability of accounts receivable.

Any significant deterioration in general economic conditions or increase in consumer debt levels may inhibit consumers’ use of credit and decrease the consumers’ ability to satisfy Signet’s requirement for access to customer finance and could in turn have an adverse effect on the US division’s sales. Furthermore, any downturn in general or local economic conditions, in particular an increase in unemployment in the markets in which the US division operates, may adversely affect its collection of outstanding accounts receivable, its net bad debt charge and hence earnings.

Changes to the regulatory requirements regarding the granting of credit to customers could adversely impact sales and operating income.

More than half of Signet’s US sales utilize its in-house customer financing programs and about a further 34% of purchases are made using third party bank cards. Signet’s ability to extend credit to customers and the terms on which it is achieved depends on many factors, including compliance with applicable state and federal laws and regulations, any of which may change from time to time, and such changes in law relating to the provision of credit and associated services could adversely affect sales and income. In addition, other restrictions arising from applicable law could cause limitations in credit terms currently offered or a reduction in the level of credit granted by the US division, or by third parties, and this could adversely impact sales, income or cash flow, as could any reduction in the level of credit granted by the US division, or by third parties, as a result of the restrictions placed on fees and interest charged.

The US Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law in July 2010. Among other things, the US Dodd-Frank Act creates a Bureau of Consumer Financial Protection with broad rule-making and supervisory authority for a wide range of consumer financial services, including Signet’s

customer finance programs. The Bureau's authority became effective in July 2011. Any new regulatory initiatives by the Bureau could impose additional costs and/or restrictions on credit practices on the US division, which could adversely affect its ability to conduct its business.

Signet's share price may be volatile.

Signet's share price may fluctuate substantially as a result of variations in the actual or anticipated results and financial conditions of Signet and other companies in the retail industry and the stock market's view of the potential Zale transaction. In addition, the stock market has experienced price and volume fluctuations that have affected the market price of many retail and other shares in a manner unrelated, or disproportionate to, the operating performance of these companies.

The concentration of a significant proportion of sales and an even larger share of profits in the fourth quarter means results are dependent on performance during that period.

Signet's business is highly seasonal, with a significant proportion of its sales and operating profit generated during its fourth quarter, which includes the Holiday Season. Management expects to continue to experience a seasonal fluctuation in its sales and earnings. Therefore, there is limited ability to compensate for shortfalls in fourth quarter sales or earnings by changes in its operations and strategies in other quarters, or to recover from any extensive disruption, for example, due to sudden adverse changes in consumer confidence, inclement weather conditions having an impact on a significant number of stores in the last few days immediately before Christmas Day or disruption to warehousing and store replenishment systems. A significant shortfall in results for the fourth quarter of any fiscal year would therefore be expected to have a material adverse effect on the annual results of operations. Disruption at lesser peaks in sales at Valentine's Day and Mother's Day would be expected to impact the results to a lesser extent.

Signet is dependent on a variety of financing resources to fund its operations and growth which may include equity, cash balances and debt financing.

While Signet has a strong balance sheet with significant cash balances and available lines of credit, it is dependent upon the availability of equity, cash balances and debt financing to fund its operations and growth. If Signet's access to capital were to become significantly constrained, its financing costs would likely increase, its financial condition would be harmed and future results of operations could be adversely affected. The changes in general credit market conditions also affect Signet's ability to arrange, and the cost of arranging, credit facilities.

Management prepares annual budgets, medium term plans and risk models which help to identify the future capital requirements, so that appropriate facilities can be put in place on a timely basis. If these models are inaccurate, adequate facilities may not be available.

Signet's borrowing agreements include various financial covenants and operating restrictions. A material deterioration in its financial performance could result in a covenant being breached. If Signet were to breach, or believed it was going to breach, a financial covenant it would have to renegotiate its terms with current lenders or find alternative sources of finance if current lenders required cancellation of facilities or early repayment.

In addition, Signet's reputation in the financial markets and its corporate governance practices can influence the availability of capital, the cost of capital and its share price.

As Signet has material cash balances, it is exposed to counterparty credit risks.

At February 1, 2014, Signet had cash and cash equivalents of \$247.6 million (February 2, 2013: \$301.0 million). Signet holds its cash and cash equivalents predominantly in 'AAA' rated liquidity funds and in various bank accounts. If an institution or fund in which Signet invests its cash and cash equivalents were to default or become insolvent, Signet may be unable to recover these amounts or obtain access to them in a timely manner.

Movements in the pound sterling to US dollar exchange rates impact the results and balance sheet of Signet.

Signet publishes its consolidated annual financial statements in US dollars. It held approximately 88% of its total assets in entities whose functional currency is the US dollar at February 1, 2014 and generated approximately 84% of its sales and 93% of its operating income in US dollars for the fiscal year then ended. Nearly all the remaining assets, sales and operating income are in UK pounds sterling. Therefore, its results and balance sheet are subject to fluctuations in the exchange rate between the pound sterling and the US dollar. Accordingly, any decrease in the weighted average value of the pound sterling against the US dollar would decrease reported sales and operating income.

The monthly average exchange rates are used to prepare the income statement and are calculated each month from the weekly average exchange rates weighted by sales of the UK division.

Where pounds sterling are held or used to fund the cash flow requirements of the business, any decrease in the weighted average value of the pound sterling against the US dollar would reduce the amount of cash and cash equivalents and increase the amount of any pounds sterling borrowings.

In addition, the prices of materials and certain products bought on the international markets by the UK division are denominated in US dollars, and therefore the UK division has an exposure to exchange rate fluctuations on the cost of goods sold.

Fluctuations in the availability and pricing of commodities, particularly polished diamonds and gold, which account for the majority of Signet's merchandise costs, could adversely impact its earnings and cash availability.

The jewelry industry generally is affected by fluctuations in the price and supply of diamonds, gold and, to a lesser extent, other precious and semi-precious metals and stones. In particular, diamonds account for about 47% of Signet's merchandise costs, and gold about 15% in Fiscal 2014.

In Fiscal 2014, polished diamond prices experienced a single digit percentage increase when compared to Fiscal 2013 levels, unlike as had occurred in prior years. Industry forecasts indicate that over the medium and longer term, the demand for diamonds will probably increase faster than the growth in supply, particularly as a result of growing demand in countries such as China and India. Therefore, the cost of diamonds is anticipated to rise over time, although fluctuations in price are likely to continue to occur. The mining, production and inventory policies followed by major producers of rough diamonds can have a significant impact on diamond prices, as can the inventory and buying patterns of jewelry retailers and other parties in the supply chain.

While jewelry manufacturing is the major final demand for gold, management believes that the cost of gold is predominantly impacted by investment transactions which have resulted in significant volatility and overall increases in gold cost over the past several years followed by somewhat of a decline in Fiscal 2014. Signet's cost of merchandise and potentially its earnings may be adversely impacted by investment market considerations that cause the price of gold to significantly escalate.

The availability of diamonds is significantly influenced by the political situation in diamond producing countries and by the Kimberley Process, an inter-governmental agreement for the international trading of rough diamonds. Until acceptable alternative sources of diamonds can be developed, any sustained interruption in the supply of diamonds from significant producing countries, or to the trading in rough and polished diamonds which could occur as a result of disruption to the Kimberley Process, could adversely affect Signet, as well as the retail jewelry market as a whole. In 2012, the Kimberley Process, chaired by the United States, initiated a process to review ways to strengthen and reform the Kimberley Process, including reviewing the definition of a conflict diamond. In January 2013, South Africa became the chair, and the review process was expected to continue;

however, no reform efforts were achieved. In 2014, the Kimberley Process is being chaired by China, which will be followed by Angola in 2015. In addition, the current Kimberley Process decision making procedure is dependent on reaching a consensus among member governments, which can result in the protracted resolution of issues, and there is little expectation of significant reform over the long-term. The impact of this review process on the supply of diamonds, and consumers' perception of the diamond supply chain, is unknown. In addition to the Kimberley Process, the supply of diamonds to the US is also impacted by certain governmental trade sanctions imposed on Zimbabwe.

The possibility of constraints in the supply of diamonds of a size and quality Signet requires to meet its merchandising requirements may result in changes in Signet's supply chain practices, for example its rough sourcing initiative. In addition, Signet may from time to time choose to hold more inventory, to purchase raw materials at an earlier stage in the supply chain or enter into commercial agreements of a nature that it currently does not use. Such actions could require the investment of cash and/or additional management skills. Such actions may not result in the expected returns and other projected benefits anticipated by management.

An inability to increase retail prices to reflect higher commodity costs would result in lower profitability. Historically jewelry retailers have been able, over time, to increase prices to reflect changes in commodity costs. However, in general, particularly sharp increases in commodity costs may result in a time lag before increased commodity costs are fully reflected in retail prices. As Signet uses an average cost inventory methodology, volatility in its commodity costs may also result in a time lag before cost increases are reflected in retail prices. There is no certainty that such price increases will be sustainable, so downward pressure on gross margins and earnings may occur. In addition, any sustained increases in the cost of commodities could result in the need to fund a higher level of inventory or changes in the merchandise available to the customer.

In August 2012, the SEC, pursuant to the Dodd-Frank Act, issued final rules, which require annual disclosure and reporting on the source and use of certain minerals, including gold, from the Democratic Republic of Congo and adjoining countries. The gold supply chain is complex and, while management believes that the rules will only cover less than 1% of annual worldwide gold production (based upon current estimates), the final rules require Signet and other jewelry retailers and manufacturers that file with the SEC to exercise reasonable due diligence in determining the country of origin of the statutorily designated minerals that are used in products sold by Signet in the US and elsewhere. Signet must first report to the SEC on our country of origin inquiries, our due diligence measures, the results of those activities, and our related determinations in May 2014, with respect to the calendar year ended December 31, 2013.

Compliance with the rules to date has not and will not likely add significantly to Signet's costs, and management does not expect this increase to be material. There may be reputational risks with customers and other stakeholders if Signet, due to the complexity of the global supply chain, is unable to sufficiently verify the origin for the relevant metals. Also, if the responses of parts of Signet's supply chain to the verification requests are adverse, it may harm Signet's ability to obtain merchandise and add to compliance costs.

The final rules also cover tungsten and tin, which are contained in a small proportion of items that are sold by Signet. It is possible that other minerals, such as diamonds, could be subject to similar rules.

Price increases may have an adverse impact on Signet's performance.

If significant price increases are implemented, by either division, across a wide range of merchandise, the impact on earnings will depend on, among other factors, the pricing by competitors of similar products and the response by the customer to higher prices. Such price increases may result in lower achieved gross margin dollars and adversely impact earnings.

Signet's competitors are specialty jewelry retailers, as well as other jewelry retailers, including department stores, mass merchandisers, discount stores, apparel and accessory fashion stores, brand retailers, shopping clubs, home shopping television channels, direct home sellers, online retailers and auction sites. In addition, other retail categories, for example, electronics and other forms of expenditure, such as travel, also compete for consumers' discretionary expenditure. This is particularly so during the holiday gift giving season. Therefore, the price of jewelry relative to other products influences the proportion of consumers' expenditure that is spent on jewelry. If the relative price of jewelry increases, Signet's sales and earnings may decline.

The failure to satisfy the accounting requirements for 'hedge accounting', or default or insolvency of a counterparty to a hedging contract, could adversely impact results.

Signet hedges a portion of its purchases of gold for both its US and UK divisions and hedges the US dollar requirements of its UK division. The failure to satisfy the requirements of the appropriate accounting requirements, or a default or insolvency of a counterparty to a contract, could increase the volatility of results and may impact the timing of recognition of gains and losses in the income statement.

The inability of Signet to obtain merchandise that customers wish to purchase, particularly ahead of and during, the fourth quarter would adversely impact sales.

The abrupt loss or disruption of any significant supplier during the three month period (August to October) leading up to the fourth quarter would result in a material adverse effect on Signet's business.

Also, if management misjudges expected customer demand, or fails to identify changes in customer demand and/or its supply chain does not respond in a timely manner, it could adversely impact Signet's results by causing either a shortage of merchandise or an accumulation of excess inventory.

Signet benefits from close commercial relationships with a number of suppliers. Damage to, or loss of, any of these relationships could have a detrimental effect on results. Management holds regular reviews with major suppliers. Signet's most significant supplier accounts for 6% of merchandise. Government requirements regarding sources of commodities, such as those required by the Dodd-Frank Act, could result in Signet choosing to terminate relationships with a limited number of suppliers.

Luxury and prestige watch manufacturers and distributors normally grant agencies to sell their ranges on a store by store basis, and most of the leading brands have been steadily reducing the number of agencies in the US and the UK over recent years. The watch brands sold by Ernest Jones, and to a lesser extent Jared, help attract customers and build sales in all categories. Therefore an inability to obtain or retain watch agencies for a location could harm the performance of that particular store. In the case of Ernest Jones, the inability to gain additional prestige watch agencies is an important factor in, and may reduce the likelihood of, opening new stores, which could adversely impact sales growth.

The growth in importance of branded merchandise within the jewelry market may adversely impact Signet's sales and earnings if it is unable to obtain supplies of branded merchandise that the customer wishes to purchase. In addition, if Signet loses the distribution rights to an important branded jewelry range, it could adversely impact sales and earnings.

Signet has had success in recent years in the development of branded merchandise that is exclusive to its stores. If Signet is not able to further develop such branded merchandise, or is unable to successfully develop further such initiatives, it may adversely impact sales and earnings.

An inability to recruit, train, motivate and retain suitably qualified sales associates could adversely impact sales and earnings.

Management regards the customer experience as an essential element in the success of its business. Competition for suitable individuals or changes in labor and healthcare laws could require us to incur higher labor costs. Therefore an inability to recruit, train, motivate and retain suitably qualified sales associates could adversely impact sales and earnings.

Loss of confidence by consumers in Signet's brand names, poor execution of marketing programs and reduced marketing expenditure could have a detrimental impact on sales.

Primary factors in determining customer buying decisions in the jewelry sector include customer confidence in the retailer and in the brands it sells, together with the level and quality of customer service. The ability to differentiate Signet's stores and merchandise from competitors by its branding, marketing and advertising programs is an important factor in attracting consumers. If these programs are poorly executed or the level of support for them is reduced, or the customer loses confidence in any of Signet's brands for whatever reason, it could unfavorably impact sales and earnings.

Long-term changes in consumer attitudes to jewelry could be unfavorable and harm jewelry sales.

Consumer attitudes to diamonds, gold and other precious metals and gemstones also influence the level of Signet's sales. Attitudes could be affected by a variety of issues including concern over the source of raw materials; the impact of mining and refining of minerals on the environment, the local community and the

political stability of the producing country; labor conditions in the supply chain; and the availability of and consumer attitudes to substitute products such as cubic zirconia, moissanite and laboratory created diamonds. A negative change in consumer attitudes to jewelry could adversely impact sales and earnings.

The retail jewelry industry is highly fragmented and competitive. Aggressive discounting or “going out of business” sales by competitors may adversely impact Signet’s performance in the short term.

The retail jewelry industry is competitive. If Signet’s competitive position deteriorates, operating results or financial condition could be adversely affected.

Aggressive discounting by competitors, particularly those holding “going out of business” sales, may adversely impact Signet’s performance in the short term. This is particularly the case for easily comparable pieces of jewelry, of similar quality, sold through stores that are situated near to those that Signet operates.

The US division faces significant competition from independent specialty jewelry retailers that are able to adjust their competitive stance, for example on pricing, to local market conditions. This can put individual Signet stores at a competitive disadvantage as the US division has a national pricing strategy.

The inability to rent stores that satisfy management’s operational and financial criteria could harm sales, as could changes in locations where customers shop.

Signet’s results are dependent on a number of factors relating to its stores. These include the availability of desirable property, the demographic characteristics of the area around the store, the design, and maintenance of the stores, the availability of attractive locations within the shopping center that also meet the operational and financial criteria of management, the terms of leases and Signet’s relationship with major landlords. The US division leases 19% of its store locations from Simon Property Group. Signet has no other relationship with any lessor relating to 10% or more of its store locations. If Signet is unable to rent stores that satisfy its operational and financial criteria, or if there is a disruption in its relationship with its major landlords, sales could be adversely affected.

Given the length of property leases that Signet enters into, it is dependent upon the continued popularity of particular retail locations. As Signet tests and develops new types of store locations and designs, there is no certainty as to their success. The majority of long-term space growth opportunities in the US are in new developments and therefore future store space is in part dependent on the investment by real estate developers on new projects. Limited new real estate development taking place would make it challenging to identify and secure suitable new store locations. The UK division has a more diverse range of store locations than in the US, including some exposure to smaller retail centers which do not justify the investment required to refurbish the site to the current store format. Consequently, the UK division is gradually closing stores in such locations as leases expire or satisfactory property transactions can be executed; however, the ability to secure such property transactions is not certain. As the UK division is already represented in nearly all major retail centers, a small annual decrease in store space is expected in the medium term which will adversely impact sales growth.

The rate of new store development is dependent on a number of factors including obtaining suitable real estate, the capital resources of Signet, the availability of appropriate staff and management and the level of the financial return on investment required by management.

Signet’s success is dependent on the strength and effectiveness of its relationships with its various stakeholders whose behavior may be affected by its management of social, ethical and environmental risks.

Social, ethical and environmental matters influence Signet’s reputation, demand for merchandise by consumers, the ability to recruit staff, relations with suppliers and standing in the financial markets. Signet’s success is dependent on the strength and effectiveness of its relationships with its various stakeholders: customers, shareholders, employees and suppliers. In recent years, stakeholder expectations have increased and Signet’s success and reputation will depend on its ability to meet these higher expectations.

Inadequacies in and disruption to internal controls and systems could result in lower sales and increased costs or adversely impact the reporting and control procedures.

Signet is dependent on the suitability, reliability and durability of its systems and procedures, including its accounting, information technology, data protection, warehousing and distribution systems. If support ceased for a critical externally supplied software package or system, management would have to implement an alternative

software package or system or begin supporting the software internally. Disruption to parts of the business could result in lower sales and increased costs.

Security breaches and other disruptions to Signet's information technology infrastructure and databases could interfere with Signet's operations, and could compromise Signet's and its customers' and suppliers' information, exposing Signet to liability which would cause Signet's business and reputation to suffer.

Signet operates in multiple channels and, in the US division, maintains its own customer finance operation. Signet is also increasingly using mobile devices, social media and other online activities to connect with customers, staff and other stakeholders. Therefore, in the ordinary course of business, Signet relies upon information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities, including eCommerce sales, supply chain, merchandise distribution, customer invoicing and collection of payments. Signet uses information technology systems to record, process and summarize financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting, legal and tax requirements. Additionally, Signet collects and stores sensitive data, including intellectual property, proprietary business information, the proprietary business information of our customers and suppliers, as well as personally identifiable information of Signet's customers and employees, in data centers and on information technology networks. The secure operation of these information technology networks, and the processing and maintenance of this information is critical to Signet's business operations and strategy. Despite security measures and business continuity plans, Signet's information technology networks and infrastructure may be vulnerable to damage, disruptions or shutdowns due to attacks by hackers or breaches due to employee error or malfeasance, or other disruptions during the process of upgrading or replacing computer software or hardware, power outages, computer viruses, telecommunication or utility failures or natural disasters or other catastrophic events. The occurrence of any of these events could compromise Signet's networks and the information stored there could be accessed, manipulated, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, disrupt operations, and damage Signet's reputation, which could adversely affect Signet's business. In addition, it could harm Signet's ability to execute its business and adversely impact sales, costs and earnings.

An adverse decision in legal proceedings and/or tax matters could reduce earnings.

In March 2008, private plaintiffs filed a class action lawsuit for an unspecified amount against Sterling Jewelers Inc. ("Sterling"), a subsidiary of Signet, in U.S. District Court for the Southern District of New York, which has been referred to private arbitration. In September 2008, the US Equal Employment Opportunities Commission filed a lawsuit against Sterling in U.S. District Court for the Western District of New York. Sterling denies the allegations from both parties and has been defending these cases vigorously. If, however, it is unsuccessful in either defense, Sterling could be required to pay substantial damages. At this point, no outcome or amount of loss is able to be estimated. See Note 22 in Item 8.

At any point in time, various tax years are subject to, or are in the process of, audit by various taxing authorities. To the extent that management's estimates of settlements change, or the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax in the period in which such determinations are made.

Failure to comply with labor regulations could harm the business.

Failure by Signet to comply with labor regulations could result in fines and legal actions. In addition, the ability to recruit and retain staff could be harmed.

Failure to comply with changes in law and regulations could adversely affect the business.

Signet's policies and procedures are designed to comply with all applicable laws and regulations. Changing legal and regulatory requirements have increased the complexity of the regulatory environment in which the business operates and the cost of compliance. Failure to comply with the various regulatory requirements may result in damage to Signet's reputation, civil and criminal liability, fines and penalties, and further increase the cost of regulatory compliance. Changes in tax legislation, for example, the elimination of LIFO for US tax accounting purposes, could adversely impact cash flow.

Investors may face difficulties in enforcing proceedings against Signet Jewelers Limited as it is domiciled in Bermuda.

It is doubtful whether courts in Bermuda would enforce judgments obtained by investors in other jurisdictions, including the US and the UK, against the Parent Company or its directors or officers under the securities laws of those jurisdictions or entertain actions in Bermuda against the Parent Company or its directors or officers under the securities laws of other jurisdictions.

Any difficulty executing an acquisition, a business combination or a major business initiative may result in expected returns and other projected benefits from such an exercise not being realized.

Any difficulty in executing an acquisition, a business combination or a major business initiative, including its direct diamond sourcing capabilities, may result in expected returns and other projected benefits from such an exercise not being realized. The acquisition of companies with operating margins lower than that of Signet may cause an overall lower operating margin for Signet. A significant transaction could also disrupt the operation of its current activities. Signet's current borrowing agreements place certain limited constraints on its ability to make an acquisition or enter into a business combination, and future borrowing agreements could place tighter constraints on such actions.

Proposed Acquisition—Signet's proposed acquisition of Zale is subject to Zale stockholder approval, certain regulatory approvals and customary closing conditions and the expected benefits from the acquisition may not be fully realized.

On February 19, 2014, Signet entered into an Agreement and Plan of Merger (the "Merger Agreement") with Zale to acquire all of Zale's issued and outstanding common stock for \$21.00 per share in cash consideration with an approximate transaction value of \$1.4 billion including net debt. Although Signet has entered into a voting and support agreement with Golden Gate Capital, the beneficial owner of approximately 22% of Zale's common stock, Signet cannot predict whether Zale stockholder approval will be obtained or whether or when the required regulatory approvals under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("HSR") will be obtained or if the closing conditions will be satisfied. A failure to close the transaction or significant delays in doing so may negatively impact the trading price of our common stock and our business, financial condition and results of operations. The Federal Trade Commission ("FTC") may condition the approval of the acquisition on divestiture of certain assets, including the divestiture of certain stores, which, if agreed to by Signet, may materially affect the anticipated benefits of the proposed acquisition, and there can be no assurance that such divestiture can be completed on terms satisfactory to Signet and the FTC. Under the Merger Agreement, Signet is not required to take any actions to obtain antitrust approvals that would, individually or in the aggregate, result in (i) the loss of revenue of Zale in excess of \$135.0 million, (ii) the loss of sales of Signet in excess of \$135.0 million or (iii) the combination of losses of revenues of Zale and sales of Signet in excess of \$135.0 million in the aggregate, in each case as measured by such party's Fiscal 2013 revenue or sales, respectively, reported in its annual audited financial statements for such year. The Merger Agreement also includes customary termination provisions for both Zale and Signet and provides that, in connection with the termination of the Merger Agreement by Signet or Zale, under certain specified circumstances Zale will be required to pay Signet a termination fee of \$26.7 million. Signet may also be required to pay Zale a termination fee of \$53.4 million if anti-trust clearance is not received prior to February 19, 2015 (or May 15, 2015 if all conditions to closing other than regulatory approval have been obtained prior to that date). In the event that either party terminates the Merger Agreement because Zale's stockholders do not adopt the Merger Agreement following the making of a competing offer, Zale will be required to reimburse Signet for its expenses in an amount not exceeding \$12.5 million. Signet expects to issue at least \$1.4 billion of debt during the second half of Fiscal 2015 to fund the planned acquisition of Zale, which will significantly increase Signet's outstanding debt. This additional indebtedness will require us to dedicate a portion of our cash flow to servicing this debt, thereby reducing the availability of cash to fund other business initiatives, including dividends and share repurchases. If the transaction closes, significant changes to Signet's financial condition as a result of global economic changes or difficulties in the integration or execution of strategies of the newly acquired business, and the diversion of significant management time and resources towards completion of the transaction and integrating the business and operations of Zale may affect our ability to obtain the expected benefits from the transaction or to satisfy the financial covenants included in the terms of the financing arrangements.

If Signet's financing for the transaction becomes unavailable, the transaction may not be completed and we may be in breach of the Merger Agreement.

We intend to finance the cash required in connection with the transaction, including for expenses incurred in connection with the transaction, with debt financing of approximately \$1.4 billion, which includes \$600 million

in securitization of Signet's US accounts receivable and \$800 million in other debt financing. Signet has secured a commitment for an \$800 million 364-day unsecured bridge facility and a \$400 million 5-year unsecured term loan facility in connection with the transaction. The bridge facility is expected to be replaced by permanent financing in due course. The bridge facility and the term loan facility contain customary fees which will be recorded as an expense in Fiscal 2015, with additional interest expense dependent on the timing of borrowings and closing of the transaction. The obligation of the lenders to provide the debt financing is subject to various customary closing conditions. In the event any of the closing conditions is not satisfied or waived, or to the extent one or more of the lenders is unwilling to, or unable to, fund its commitments under the debt financing, we may be required to seek alternative financing or fund the cash required in connection with the transaction ourselves. Due to the fact that there is no financing or funding condition in the Merger Agreement, if we are unable to obtain funding from our financing sources for the cash required in connection with the transaction, we would be in breach of the Merger Agreement assuming all other conditions to closing are satisfied and may be liable to Zale for damages.

Signet will incur transaction-related costs in connection with the transaction.

We expect to incur a number of non-recurring transaction-related costs associated with completing the transaction, combining the operations of the two companies and achieving desired synergies. These fees and costs may be substantial. Non-recurring transaction costs include, but are not limited to, fees paid to legal, financial and accounting advisors, regulatory filing fees and printing costs. Additional unanticipated costs may be incurred in the integration of our and Zale's businesses. There can be no assurance that the realization of other efficiencies related to the integration of the two businesses, as well as the elimination of certain duplicative costs, will offset the incremental transaction-related costs over time. Thus, any net benefit may not be achieved in the near term, the long term or at all.

Although we anticipate that Zale will continue to operate as a separate brand within Signet, failure to successfully combine Signet's and Zale's businesses in the expected time frame may adversely affect the future results of the combined company.

The success of the proposed transaction will depend, in part, on our ability to realize the anticipated benefits and synergies from combining our and Zale's businesses. To realize these anticipated benefits, the businesses must be successfully combined. If the combined company is not able to achieve these objectives, or is not able to achieve these objectives on a timely basis, the anticipated benefits of the transaction may not be realized fully or at all. In addition, the actual integration may result in additional and unforeseen expenses, which could reduce the anticipated benefits of the transaction. These integration difficulties could result in declines in the market value of our common stock.

Purported stockholder class action complaints have been filed against Zale, Signet, the members of Zale's board of directors and Signet's merger subsidiary, challenging the transaction, and an unfavorable judgment or ruling in these lawsuits could prevent or delay the consummation of the proposed transaction and result in substantial costs.

In connection with the proposed transaction, purported stockholders of Zale have filed purported stockholder class action lawsuits in the Delaware Court of Chancery. Those lawsuits name as defendants Zale, Signet, the members of the board of directors of Zale, and Signet's merger subsidiary. Among other remedies, the plaintiffs seek to enjoin the proposed transaction. If a final settlement is not reached, or if a dismissal is not obtained, these lawsuits could prevent and/or delay completion of the transaction and result in substantial costs to Zale and us, including any costs associated with the indemnification of directors. Additional lawsuits may be filed against Zale and us, our merger subsidiary and Zale's directors related to the proposed transaction. The defense or settlement of any lawsuit or claim may adversely affect the combined company's business, financial condition or results of operations.

Changes in assumptions used in making accounting estimates or in accounting standards may adversely impact investor perception of the business.

Changes in assumptions used in making accounting estimates relating to items such as extended service plans and pensions, may adversely affect Signet's financial results and balance sheet. Changes in accounting standards, such as those currently being considered relating to leases, could materially impact the presentation of Signet's results and balance sheet. Investors' reaction to any such change in presentation is unknown. Such changes could also impact the way that the business is managed and access to the credit markets.

Loss of one or more key executive officers or employees could adversely impact performance, as could the appointment of an inappropriate successor or successors.

Signet's future success will partly depend upon the ability of senior management and other key employees to implement an appropriate business strategy. While Signet has entered into employment contracts with such key personnel, the retention of their services cannot be guaranteed and the loss of such services, or the inability to attract and retain talented personnel, could have a material adverse effect on Signet's ability to conduct its business. In addition, any new executives may wish, subject to Board approval, to change the strategy of Signet. The appointment of new executives may therefore adversely impact performance.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The financial data included below for Fiscal 2014, Fiscal 2013 and Fiscal 2012 have been derived from the audited consolidated financial statements included in Item 8. The financial data for these periods should be read in conjunction with the financial statements, including the notes thereto, and Item 7. The financial data included below for Fiscal 2011 and Fiscal 2010 have been derived from the previously published consolidated audited financial statements not included in this document.

FINANCIAL DATA:	Fiscal 2014	Fiscal 2013⁽¹⁾	Fiscal 2012	Fiscal 2011	Fiscal 2010
			<i>(in millions)</i>		
Income statement:					
Sales	\$ 4,209.2	\$ 3,983.4	\$ 3,749.2	\$ 3,437.4	\$ 3,273.6
Cost of sales	<u>(2,628.7)</u>	<u>(2,446.0)</u>	<u>(2,311.6)</u>	<u>(2,194.5)</u>	<u>(2,208.0)</u>
Gross margin	1,580.5	1,537.4	1,437.6	1,242.9	1,065.6
Selling, general and administrative expenses	<u>(1,196.7)</u>	<u>(1,138.3)</u>	<u>(1,056.7)</u>	<u>(980.4)</u>	<u>(916.5)</u>
Other operating income, net	<u>186.7</u>	<u>161.4</u>	<u>126.5</u>	<u>110.0</u>	<u>115.4</u>
Operating income	570.5	560.5	507.4	372.5	264.5
Interest expense, net	<u>(4.0)</u>	<u>(3.6)</u>	<u>(5.3)</u>	<u>(72.1)</u>	<u>(34.0)</u>
Income before income taxes	566.5	556.9	502.1	300.4	230.5
Income taxes	<u>(198.5)</u>	<u>(197.0)</u>	<u>(177.7)</u>	<u>(100.0)</u>	<u>(73.4)</u>
Net income	<u>\$ 368.0</u>	<u>\$ 359.9</u>	<u>\$ 324.4</u>	<u>\$ 200.4</u>	<u>\$ 157.1</u>
EBITDA ⁽²⁾	<u>\$ 680.7</u>	<u>\$ 659.9</u>	<u>\$ 599.8</u>	<u>\$ 470.3</u>	<u>\$ 373.4</u>
Income statement:			<i>(as a percent to sales)</i>		
Sales	100.0	100.0	100.0	100.0	100.0
Cost of sales	<u>(62.5)</u>	<u>(61.4)</u>	<u>(61.7)</u>	<u>(63.8)</u>	<u>(67.4)</u>
Gross margin	37.5	38.6	38.3	36.2	32.6
Selling, general and administrative expenses	<u>(28.4)</u>	<u>(28.6)</u>	<u>(28.2)</u>	<u>(28.5)</u>	<u>(28.0)</u>
Other operating income, net	<u>4.4</u>	<u>4.1</u>	<u>3.4</u>	<u>3.1</u>	<u>3.5</u>
Operating income	13.5	14.1	13.5	10.8	8.1
Interest expense, net	<u>(0.1)</u>	<u>(0.1)</u>	<u>(0.1)</u>	<u>(2.1)</u>	<u>(1.1)</u>
Income before income taxes	13.4	14.0	13.4	8.7	7.0
Income taxes	<u>(4.7)</u>	<u>(5.0)</u>	<u>(4.7)</u>	<u>(2.9)</u>	<u>(2.2)</u>
Net income	<u>8.7</u>	<u>9.0</u>	<u>8.7</u>	<u>5.8</u>	<u>4.8</u>
EBITDA ⁽²⁾	<u>16.2</u>	<u>16.6</u>	<u>16.0</u>	<u>13.7</u>	<u>11.4</u>
Per share data:					
Earnings per share: basic	\$ 4.59	\$ 4.37	\$ 3.76	\$ 2.34	\$ 1.84
diluted	\$ 4.56	\$ 4.35	\$ 3.73	\$ 2.32	\$ 1.83
Weighted average common shares outstanding:					
basic (million)	80.2	82.3	86.2	85.7	85.3
diluted (million)	80.7	82.8	87.0	86.4	85.7
Dividends declared per share	\$ 0.60	\$ 0.48	\$ 0.20	—	\$ —

(1) Fiscal 2013 was a 53 week period. The 53rd week added \$56.4 million in net sales and decreased diluted earnings per share by approximately \$0.02 for both the fourth quarter and fiscal period.

(2) EBITDA is a non-GAAP measures, see "GAAP and non-GAAP Measures" below.

	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>	<u>Fiscal 2011</u>	<u>Fiscal 2010</u>
<i>(in millions)</i>					
Balance sheet:					
Total assets	\$4,029.2	\$3,719.0	\$3,611.4	\$3,089.8	\$3,044.9
Total liabilities	1,466.1	1,389.1	1,332.3	1,150.8	1,341.3
Total shareholders' equity	2,563.1	2,329.9	2,279.1	1,939.0	1,703.6
Working capital	2,356.9	2,164.2	2,158.3	1,831.3	1,814.3
Cash and cash equivalents	247.6	301.0	486.8	302.1	316.2
Loans and overdrafts	(19.3)	—	—	(31.0)	(44.1)
Long-term debt	—	—	—	—	(280.0)
Net cash (debt) ⁽¹⁾	\$ 228.3	\$ 301.0	\$ 486.8	\$ 271.1	\$ (7.9)
Common shares outstanding	80.2	81.4	86.9	86.2	85.5
Cash flow:					
Net cash provided by operating activities	\$ 235.5	\$ 312.7	\$ 325.2	\$ 323.1	\$ 515.3
Net cash used in investing activities	(160.4)	(190.9)	(97.8)	(55.6)	(43.5)
Net cash used in financing activities	(124.8)	(308.1)	(40.0)	(282.3)	(251.6)
(Decrease) increase in cash and cash equivalents	\$ (49.7)	\$ (186.3)	\$ 187.4	\$ (14.8)	\$ 220.2
Ratios:					
Operating margin	13.5%	14.1%	13.5%	10.8%	8.1%
Effective tax rate	35.0%	35.4%	35.4%	33.3%	31.8%
ROCE ⁽¹⁾	25.2%	28.1%	28.6%	23.0%	15.0%
	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>	<u>Fiscal 2011</u>	<u>Fiscal 2010</u>
Store data:					
Store numbers (at end of period)					
US	1,471	1,443	1,318	1,317	1,361
UK	493	511	535	540	552
Percentage increase (decrease) in same store sales					
US	5.2%	4.0%	11.1%	8.9%	0.2%
UK	1.0%	0.3%	0.9%	(1.4)%	(2.4)%
Signet	4.4%	3.3%	9.0%	6.7%	(0.4)%
Number of employees (full-time equivalents)	18,179⁽²⁾	17,877 ⁽³⁾	16,555	16,229	16,320

(1) Net cash (debt) and ROCE are non-GAAP measures, see "GAAP and non-GAAP Measures" below.

(2) Number of employees includes 211 full-time equivalents employed at the diamond polishing plant located in Botswana.

(3) Number of employees includes 830 full-time equivalents employed by Ultra.

GAAP AND NON-GAAP MEASURES

The discussion and analysis of Signet's results of operations, financial condition and liquidity contained in this Report are based upon the consolidated financial statements of Signet which are prepared in accordance with US GAAP and should be read in conjunction with Signet's financial statements and the related notes included in Item 8. A number of non-GAAP measures are used by management to analyze and manage the performance of the business, and the required disclosures for these non-GAAP measures are shown below. In particular, the terms "at constant exchange rates," "underlying" and "underlying at constant exchange rates" are used in a number of places. "At constant exchange rates" is used to indicate where items have been adjusted to eliminate the impact of exchange rate movements on translation of pound sterling amounts to US dollars. "Underlying" is used to indicate where adjustments for significant, unusual and non-recurring items have been made and "underlying at constant exchange rates" indicates where the underlying items have been further adjusted to eliminate the impact of exchange rate movements on translation of pound sterling amounts to US dollars.

Signet provides such non-GAAP information in reporting its financial results to give investors additional data to evaluate its operations. Management does not, nor does it suggest investors should, consider such non-GAAP measures in isolation from, or in substitution for, financial information prepared in accordance with GAAP.

1. Income statement at constant exchange rates

Movements in the US dollar to pound sterling exchange rate have an impact on Signet's results. The UK division is managed in pounds sterling as sales and a majority of its operating expenses are incurred in that currency and its results are then translated into US dollars for external reporting purposes. Management believes it assists in understanding the performance of Signet and its UK division if constant currency figures are given. This is particularly so in periods when exchange rates are volatile. The constant currency amounts are calculated by retranslating the prior year figures using the current year's exchange rate. Management considers it useful to exclude the impact of movements in the pound sterling to US dollar exchange rate to analyze and explain changes and trends in Signet's sales and costs.

(a) Fiscal 2014 percentage change in results at constant exchange rates

	Fiscal 2014	Fiscal 2013 ⁽¹⁾	Change	Impact of exchange rate movement	Fiscal 2013 at constant exchange rates (non-GAAP)	Fiscal 2014 change at constant exchange rates (non-GAAP)
	\$million	\$million	%	\$million	\$million	%
Sales by origin and destination:						
US	3,517.6	3,273.9	7.4	—	3,273.9	7.4
UK	685.6	709.5	(3.4)	(4.2)	705.3	(2.8)
Other	6.0	—	nm	—	—	nm
	4,209.2	3,983.4	5.7	(4.2)	3,979.2	5.8
Cost of sales	(2,628.7)	(2,446.0)	(7.5)	4.1	(2,441.9)	(7.6)
Gross margin	1,580.5	1,537.4	2.8	(0.1)	1,537.3	2.8
Selling, general and administrative expenses	(1,196.7)	(1,138.3)	(5.1)	1.9	(1,136.4)	(5.3)
Other operating income, net	186.7	161.4	15.7	(0.1)	161.3	15.7
Operating income (loss):						
US	553.2	547.8	1.0	—	547.8	1.0
UK	42.4	40.0	6.0	1.7	41.7	1.7
Other	(25.1)	(27.3)	8.1	—	(27.3)	8.1
	570.5	560.5	1.8	1.7	562.2	1.5
Interest expense, net	(4.0)	(3.6)	(11.1)	—	(3.6)	(11.1)
Income before income taxes	566.5	556.9	1.7	1.7	558.6	1.4
Income taxes	(198.5)	(197.0)	(0.8)	(0.3)	(197.3)	(0.6)
Net income	368.0	359.9	2.3	1.4	361.3	1.9
Basic earnings per share	\$ 4.59	\$ 4.37	5.0	\$0.02	\$ 4.39	4.6
Diluted earnings per share	\$ 4.56	\$ 4.35	4.8	\$0.01	\$ 4.36	4.6

(1) Fiscal 2013 was a 53 week period. The 53rd week added \$56.4 million in net sales and decreased diluted earnings per share by approximately \$0.02 for the fiscal period.

nm Not meaningful as Fiscal 2014 is the first year of sales.

(b) Fourth quarter Fiscal 2014 percentage change in results at constant exchange rates

	13 weeks ended February 1, 2014	14 weeks ended February 2, 2013 ⁽¹⁾	Change	Impact of exchange rate movement	14 weeks ended February 2, 2013 at constant exchange rates (non-GAAP)	13 weeks ended February 1, 2014 change at constant exchange rates (non-GAAP)
	\$million	\$million	%	\$million	\$million	%
Sales by origin and destination:						
US	1,288.0	1,244.9	3.5	—	1,244.9	3.5
UK.....	272.2	268.4	1.4	5.3	273.7	(0.5)
Other.....	3.8	—	nm	—	—	nm
	1,564.0	1,513.3	3.4	5.3	1,518.6	3.0
Cost of sales	(915.2)	(876.2)	(4.5)	(2.8)	(879.0)	(4.1)
Gross margin	648.8	637.1	1.8	2.5	639.6	1.4
Selling, general and administrative expenses	(425.8)	(410.9)	(3.6)	(0.7)	(411.6)	(3.4)
Other operating income, net	47.6	41.5	14.7	(0.2)	41.3	15.3
Operating income (loss):						
US	227.9	227.5	0.2	—	227.5	0.2
UK.....	51.7	48.8	5.9	1.7	50.5	2.4
Other.....	(9.0)	(8.6)	(4.7)	(0.1)	(8.7)	(3.4)
	270.6	267.7	1.1	1.6	269.3	0.5
Interest expense, net	(1.2)	(1.1)	(9.1)	0.1	(1.0)	(20.0)
Income before income taxes.....	269.4	266.6	1.1	1.7	268.3	0.4
Income taxes.....	(94.2)	(94.8)	0.6	(0.3)	(95.1)	0.9
Net income	175.2	171.8	2.0	1.4	173.2	1.2
Basic earnings per share.....	\$ 2.20	\$ 2.13	3.3	\$ 0.02	\$ 2.15	2.3
Diluted earnings per share.....	\$ 2.18	\$ 2.12	2.8	\$ 0.01	\$ 2.13	2.3

(1) Fourth quarter Fiscal 2013 was a 14 week period. The 14th week added \$56.4 million in net sales and decreased diluted earnings per share by approximately \$0.02 for the fourth quarter.

nm Not meaningful as Fiscal 2014 is the first year of sales.

(c) Fiscal 2013 percentage change in results at constant exchange rates

	Fiscal 2013	Fiscal 2012	Change	Impact of exchange rate movement	Fiscal 2012 at constant exchange rates (non-GAAP)	Fiscal 2013 change at constant exchange rates (non-GAAP)
	\$million	\$million	%	\$million	\$million	%
Sales by origin and destination:						
US	3,273.9	3,034.1	7.9	—	3,034.1	7.9
UK.....	709.5	715.1	(0.8)	(4.5)	710.6	(0.2)
	3,983.4	3,749.2	6.2	(4.5)	3,744.7	6.4
Cost of sales	(2,446.0)	(2,311.6)	(5.8)	3.0	(2,308.6)	(6.0)
Gross margin	1,537.4	1,437.6	6.9	(1.5)	1,436.1	7.1
Selling, general and administrative expenses	(1,138.3)	(1,056.7)	(7.7)	1.2	(1,055.5)	(7.8)
Other operating income, net	161.4	126.5	27.6	—	126.5	27.6
Operating income (loss):						
US	547.8	478.0	14.6	—	478.0	14.6
UK.....	40.0	56.1	(28.7)	(0.4)	55.7	(28.2)
Unallocated	(27.3)	(26.7)	(2.2)	0.1	(26.6)	(2.6)
	560.5	507.4	10.5	(0.3)	507.1	10.5
Interest expense, net	(3.6)	(5.3)	32.1	—	(5.3)	32.1
Income before income taxes.....	556.9	502.1	10.9	(0.3)	501.8	11.0
Income taxes.....	(197.0)	(177.7)	(10.9)	0.1	(177.6)	(10.9)
Net income	359.9	324.4	10.9	(0.2)	324.2	11.0
Basic earnings per share	\$ 4.37	\$ 3.76	16.2	\$—	\$ 3.76	16.2
Diluted earnings per share.....	\$ 4.35	\$ 3.73	16.6	\$—	\$ 3.73	16.6

(d) Fourth quarter Fiscal 2013 percentage change in results at constant exchange rates

	14 weeks ended February 2, 2013	13 weeks ended January 28, 2012	Change	Impact of exchange rate movement	13 weeks ended January 28, 2012 at constant exchange rates (non-GAAP)	14 weeks ended February 2, 2013 change at constant exchange rates (non-GAAP)
	\$million	\$million	%	\$million	\$million	%
Sales by origin and destination:						
US	1,244.9	1,090.1	14.2	—	1,090.1	14.2
UK.....	268.4	263.7	1.8	6.7	270.4	(0.7)
	1,513.3	1,353.8	11.8	6.7	1,360.5	11.2
Cost of sales	(876.2)	(790.6)	(10.8)	(5.1)	(795.7)	(10.1)
Gross margin	637.1	563.2	13.1	1.6	564.8	12.8
Selling, general and administrative expenses	(410.9)	(348.8)	(17.8)	(2.3)	(351.1)	(17.0)
Other operating income, net	41.5	29.5	40.7	—	29.5	40.7
Operating income (loss):						
US	227.5	191.0	19.1	—	191.0	19.1
UK.....	48.8	58.5	(16.6)	(0.5)	58.0	(15.9)
Unallocated	(8.6)	(5.6)	(53.6)	(0.2)	(5.8)	(48.3)
	267.7	243.9	9.8	(0.7)	243.2	10.1
Interest expense, net	(1.1)	(1.5)	26.7	—	(1.5)	26.7
Income before income taxes.....	266.6	242.4	10.0	(0.7)	241.7	10.3
Income taxes.....	(94.8)	(85.8)	(10.5)	0.2	(85.6)	(10.7)
Net income	171.8	156.6	9.7	(0.5)	156.1	10.1
Basic earnings per share	\$ 2.13	\$ 1.81	17.7	\$ —	\$ 1.81	17.7
Diluted earnings per share.....	\$ 2.12	\$ 1.79	18.4	\$ —	\$ 1.79	18.4

2. Net cash

Net cash is the total of cash and cash equivalents less loans, overdrafts and long-term debt, and is helpful in providing a measure of the total indebtedness of the business.

	February 1, 2014	February 2, 2013	January 28, 2012
(in millions)			
Cash and cash equivalents.....	\$247.6	\$301.0	\$486.8
Loans and overdrafts	(19.3)	—	—
Long-term debt.....	—	—	—
Net cash.....	\$228.3	\$301.0	\$486.8

3. Return on capital employed excluding goodwill (“ROCE”)

ROCE is calculated by dividing the 52 week annual operating income by the average quarterly capital employed and is expressed as a percentage. Capital employed includes accounts and other receivables, inventories, intangible assets excluding goodwill, property, plant and equipment, other assets, accounts payable, accrued expenses and other current liabilities, other liabilities, deferred revenue and retirement benefit asset/obligation. This is a key performance indicator used by management for assessing the effective operation of the business and is considered a useful disclosure for investors as it provides a measure of the return on Signet’s operating assets.

4. Free cash flow

Free cash flow is a non-GAAP measure defined as the net cash provided by operating activities less purchases of property, plant and equipment, net. Management considers that this is helpful in understanding how the business is generating cash from its operating and investing activities that can be used to meet the financing needs of the business. Free cash flow does not represent the residual cash flow available for discretionary expenditure.

	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>
<i>(in millions)</i>			
Net cash provided by operating activities	\$ 235.5	\$ 312.7	\$325.2
Purchase of property, plant and equipment, net	<u>(152.7)</u>	<u>(134.2)</u>	<u>(97.8)</u>
Free cash flow	<u>\$ 82.8</u>	<u>\$ 178.5</u>	<u>\$227.4</u>

5. Earnings before interest, income taxes, depreciation and amortization (“EBITDA”)

EBITDA is a non-GAAP measure defined as earnings before interest and income taxes (operating income), depreciation and amortization. EBITDA is an important indicator of operating performance as it excludes the effects of financing and investing activities by eliminating the effects of interest, depreciation and amortization costs. Management believes this financial measure is helpful to enhance investors’ ability to analyze trends in our business and evaluate our performance relative to other companies.

	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>	<u>Fiscal 2011</u>	<u>Fiscal 2010</u>
<i>(in millions)</i>					
Operating income	\$570.5	\$560.5	\$507.4	\$372.5	\$264.5
Depreciation and amortization	<u>110.2</u>	<u>99.4</u>	<u>92.4</u>	<u>97.8</u>	<u>108.9</u>
EBITDA	<u>\$680.7</u>	<u>\$659.9</u>	<u>\$599.8</u>	<u>\$470.3</u>	<u>\$373.4</u>

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Signet Jewelers Limited:

We have audited the accompanying consolidated balance sheets of Signet Jewelers Limited and subsidiaries (Signet) as of February 1, 2014 and February 2, 2013, and the related consolidated income statements, statements of comprehensive income, statements of cash flows, and statements of shareholders' equity for the 52 week period ended February 1, 2014, the 53 week period ended February 2, 2013, and the 52 week period ended January 28, 2012. We also have audited Signet's internal control over financial reporting as of February 1, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Signet's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's annual report on internal control over financial reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on Signet's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Signet Jewelers Limited and subsidiaries as of February 1, 2014 and February 2, 2013, and the results of its operations and its cash flows for the 52 week period ended February 1, 2014, the 53 week period ended February 2, 2013, and the 52 week period ended January 28, 2012, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Signet Jewelers Limited and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of February 1, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG LLP

Cleveland, Ohio
March 27, 2014

SIGNET JEWELERS LIMITED
CONSOLIDATED INCOME STATEMENTS

	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>	<u>Notes</u>
<i>(in millions, except per share amounts)</i>				
Sales	\$ 4,209.2	\$ 3,983.4	\$ 3,749.2	2
Cost of sales	(2,628.7)	(2,446.0)	(2,311.6)	
Gross margin	1,580.5	1,537.4	1,437.6	
Selling, general and administrative expenses	(1,196.7)	(1,138.3)	(1,056.7)	
Other operating income, net	186.7	161.4	126.5	3
Operating income	570.5	560.5	507.4	2
Interest expense, net	(4.0)	(3.6)	(5.3)	
Income before income taxes	566.5	556.9	502.1	
Income taxes	(198.5)	(197.0)	(177.7)	5
Net income	\$ 368.0	\$ 359.9	\$ 324.4	
Earnings per share: basic	\$ 4.59	\$ 4.37	\$ 3.76	6
diluted	\$ 4.56	\$ 4.35	\$ 3.73	6
Weighted average common shares outstanding: basic	80.2	82.3	86.2	6
diluted	80.7	82.8	87.0	6
Dividends declared per share	\$ 0.60	\$ 0.48	\$ 0.20	7

The accompanying notes are an integral part of these consolidated financial statements.

SIGNET JEWELERS LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Fiscal 2014			Fiscal 2013			Fiscal 2012		
	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
<i>(in millions)</i>									
Net income			\$368.0			\$359.9			\$324.4
Other comprehensive income (loss):									
Foreign currency translation adjustments	\$12.4	\$ —	12.4	\$ (0.5)	\$ —	(0.5)	\$ (3.9)	\$ —	(3.9)
Cash flow hedges:									
Unrealized (loss) gain ...	(33.0)	11.0	(22.0)	(10.4)	3.7	(6.7)	49.7	(17.5)	32.2
Reclassification adjustment for losses (gains) to net income	11.1	(4.4)	6.7	(22.4)	8.0	(14.4)	(24.6)	8.6	(16.0)
Pension plan:									
Actuarial gain (loss)	0.2	—	0.2	6.2	(1.5)	4.7	(10.8)	3.5	(7.3)
Reclassification adjustment to net income for amortization of actuarial loss	2.3	(0.6)	1.7	3.2	(0.8)	2.4	2.6	(0.8)	1.8
Prior service (benefit) costs	(0.9)	0.2	(0.7)	(1.1)	0.3	(0.8)	7.5	(2.0)	5.5
Reclassification adjustment to net income for amortization of prior service credits	(1.5)	0.4	(1.1)	(1.6)	0.4	(1.2)	(1.0)	0.3	(0.7)
Total other comprehensive (loss) income	\$ (9.4)	\$ 6.6	\$ (2.8)	\$ (26.6)	\$ 10.1	\$ (16.5)	\$19.5	\$ (7.9)	\$ 11.6
Total comprehensive income.....			<u>\$365.2</u>			<u>\$343.4</u>			<u>\$336.0</u>

The accompanying notes are an integral part of these consolidated financial statements.

SIGNET JEWELERS LIMITED
CONSOLIDATED BALANCE SHEETS

	February 1, 2014	February 2, 2013	Notes
<i>(in millions, except par value per share amount)</i>			
Assets			
Current assets:			
Cash and cash equivalents	\$ 247.6	\$ 301.0	9
Accounts receivable, net	1,374.0	1,205.3	10
Other receivables	51.5	42.1	
Other current assets	87.0	85.6	
Deferred tax assets	3.0	1.6	5
Income taxes	6.5	3.5	
Inventories	1,488.0	1,397.0	11
Total current assets	<u>3,257.6</u>	<u>3,036.1</u>	
Non-current assets:			
Property, plant and equipment, net	487.6	430.4	13
Other assets	114.0	99.9	12
Deferred tax assets	113.7	104.1	5
Retirement benefit asset	56.3	48.5	20
Total assets	<u>\$4,029.2</u>	<u>\$3,719.0</u>	
Liabilities and Shareholders' equity			
Current liabilities:			
Loans and overdrafts	\$ 19.3	\$ —	18
Accounts payable	162.9	155.9	
Accrued expenses and other current liabilities	328.5	326.4	15
Deferred revenue	173.0	159.7	16
Deferred tax liabilities	113.1	129.6	5
Income taxes	103.9	100.3	
Total current liabilities	<u>900.7</u>	<u>871.9</u>	
Non-current liabilities:			
Other liabilities	121.7	111.3	17
Deferred revenue	443.7	405.9	16
Total liabilities	<u>1,466.1</u>	<u>1,389.1</u>	
Commitments and contingencies			22
Shareholders' equity:			
Common shares of \$0.18 par value: authorized 500 shares, 80.2 shares outstanding (2013: 81.4 outstanding)	15.7	15.7	21
Additional paid-in capital	258.8	246.3	
Other reserves	235.2	235.2	21
Treasury shares at cost: 7.0 shares (2013: 5.8 shares)	(346.2)	(260.0)	21
Retained earnings	2,578.1	2,268.4	21
Accumulated other comprehensive loss	(178.5)	(175.7)	
Total shareholders' equity	<u>2,563.1</u>	<u>2,329.9</u>	
Total liabilities and shareholders' equity	<u>\$4,029.2</u>	<u>\$3,719.0</u>	

The accompanying notes are an integral part of these consolidated financial statements.

SIGNET JEWELERS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal 2014	Fiscal 2013	Fiscal 2012
<i>(in millions)</i>			
Cash flows from operating activities			
Net income	\$368.0	\$359.9	\$324.4
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property, plant and equipment.....	110.2	99.4	92.4
Pension (benefit) expense	(0.5)	3.2	3.3
Share-based compensation.....	14.4	15.7	17.0
Deferred taxation	(20.4)	4.3	29.3
Excess tax benefit from exercise of share awards.....	(6.5)	(7.4)	(3.9)
Facility amendment fee amortization and charges.....	0.4	0.4	1.9
Other non-cash movements	(3.3)	(1.4)	0.3
Changes in operating assets and liabilities:			
Increase in accounts receivable.....	(168.3)	(117.1)	(152.5)
Increase in other receivables and other assets.....	(21.6)	(1.3)	(17.8)
(Increase) decrease in other current assets	(3.9)	(5.2)	1.8
Increase in inventories	(98.4)	(65.7)	(115.2)
Increase (decrease) in accounts payable	3.2	(39.6)	57.2
Increase in accrued expenses and other liabilities	8.6	13.4	26.5
Increase in deferred revenue	50.8	40.6	28.9
Increase in income taxes payable.....	7.9	27.2	43.3
Pension plan contributions	(4.9)	(13.7)	(14.2)
Effect of exchange rate changes on currency swaps	(0.2)	—	2.5
Net cash provided by operating activities	<u>235.5</u>	<u>312.7</u>	<u>325.2</u>
Investing activities			
Purchase of property, plant and equipment	(152.7)	(134.2)	(97.8)
Acquisition of Ultra Stores, Inc., net of cash received	1.4	(56.7)	—
Acquisition of diamond polishing factory	(9.1)	—	—
Net cash used in investing activities.....	<u>(160.4)</u>	<u>(190.9)</u>	<u>(97.8)</u>
Financing activities			
Dividends paid	(46.0)	(38.4)	(8.7)
Proceeds from issuance of common shares	9.3	21.6	10.6
Excess tax benefit from exercise of share awards	6.5	7.4	3.9
Repurchase of common shares	(104.7)	(287.2)	(12.7)
Net settlement of equity based awards	(9.2)	(11.5)	—
Credit facility fees paid	—	—	(2.1)
Proceeds from (repayment of) short-term borrowings	19.3	—	(31.0)
Net cash used in financing activities	<u>(124.8)</u>	<u>(308.1)</u>	<u>(40.0)</u>
Cash and cash equivalents at beginning of period.....	301.0	486.8	302.1
(Decrease) increase in cash and cash equivalents	(49.7)	(186.3)	187.4
Effect of exchange rate changes on cash and cash equivalents	(3.7)	0.5	(2.7)
Cash and cash equivalents at end of period.....	<u>\$247.6</u>	<u>\$301.0</u>	<u>\$486.8</u>
Supplemental cash flow information:			
Interest paid	\$ 3.5	\$ 3.4	\$ 5.1
Income taxes paid	211.0	165.6	105.1

The accompanying notes are an integral part of these consolidated financial statements.

SIGNET JEWELERS LIMITED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common shares at par value	Additional paid-in- capital	Other reserves (Note 21)	Treasury shares	Retained earnings	Accumulated other comprehensive (loss) income	Total shareholders' equity
<i>(in millions)</i>							
Balance at January 29, 2011.....	\$15.5	\$196.8	\$235.2	\$ —	\$1,662.3	\$(170.8)	\$1,939.0
Net income	—	—	—	—	324.4	—	324.4
Other comprehensive income	—	—	—	—	—	11.6	11.6
Dividends	—	—	—	—	(17.4)	—	(17.4)
Repurchase of common shares	—	—	—	(12.7)	—	—	(12.7)
Share options exercised.....	0.1	14.5	—	—	—	—	14.6
Share-based compensation expense	—	19.6	—	—	—	—	19.6
Balance at January 28, 2012.....	15.6	230.9	235.2	(12.7)	1,969.3	(159.2)	2,279.1
Net income	—	—	—	—	359.9	—	359.9
Other comprehensive income	—	—	—	—	—	(16.5)	(16.5)
Dividends	—	—	—	—	(39.5)	—	(39.5)
Repurchase of common shares	—	—	—	(287.2)	—	—	(287.2)
Net settlement of equity based awards.....	—	(7.4)	—	10.8	(14.9)	—	(11.5)
Share options exercised.....	0.1	7.1	—	29.1	(6.4)	—	29.9
Share-based compensation expense	—	15.7	—	—	—	—	15.7
Balance at February 2, 2013.....	15.7	246.3	235.2	(260.0)	2,268.4	(175.7)	2,329.9
Net income	—	—	—	—	368.0	—	368.0
Other comprehensive income	—	—	—	—	—	(2.8)	(2.8)
Dividends	—	—	—	—	(48.2)	—	(48.2)
Repurchase of common shares	—	—	—	(104.7)	—	—	(104.7)
Net settlement of equity based awards.....	—	(1.7)	—	7.1	(8.1)	—	(2.7)
Share options exercised.....	—	(0.2)	—	11.4	(2.0)	—	9.2
Share-based compensation expense	—	14.4	—	—	—	—	14.4
Balance at February 1, 2014.....	\$15.7	\$258.8	\$235.2	\$(346.2)	\$2,578.1	\$(178.5)	\$2,563.1

The accompanying notes are an integral part of these consolidated financial statements.

SIGNET JEWELERS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Principal accounting policies

Signet Jewelers Limited (“Signet”, or the “Company”) is a holding company, incorporated in Bermuda, that operates through its subsidiaries. Signet is a leading retailer whose results principally derive from one business segment—the retailing of jewelry, watches and associated services. The Company manages its business as two geographical reportable segments, being the United States of America (the “US”) and the United Kingdom (the “UK”). The US division operates retail stores under brands including Kay Jewelers, Jared The Galleria Of Jewelry and various regional brands. In Fiscal 2013, Ultra Stores Inc. was acquired by Signet, of which the majority of these stores were converted to the Kay brand during Fiscal 2014, with the remaining being accounted for within the regional brands. See Note 14. The UK division’s retail stores operate under brands including H.Samuel and Ernest Jones.

In the fourth quarter of Fiscal 2014, subsequent to the November 4, 2013 acquisition of a diamond polishing factory in Gaborone, Botswana, management established a separate operating segment (“Other”), which consists of all non-reportable segments including subsidiaries involved in the purchasing and conversion of rough diamonds to polished stones. See Note 14.

The following accounting policies have been applied consistently in the preparation of the Company’s financial statements with respect to items which are considered material in all reporting periods presented herein.

(a) Basis of preparation

The consolidated financial statements of Signet are prepared in accordance with US generally accepted accounting principles (“US GAAP”) and include the results of Signet and its subsidiaries for the 52 week period ended February 1, 2014 (“Fiscal 2014”), as Signet’s fiscal year ends on the Saturday nearest January 31. The comparative periods are for the 53 week period ended February 2, 2013 (“Fiscal 2013”) and the 52 week period ended January 28, 2012 (“Fiscal 2012”). Intercompany balances have been eliminated on consolidation.

(b) Use of estimates

The preparation of consolidated financial statements, in conformity with US GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are primarily made in relation to the valuation of receivables, inventories and deferred revenue, fair value of derivatives, depreciation and asset impairment, the valuation of employee benefits, income taxes and contingencies.

(c) Foreign currency translation

Assets and liabilities denominated in the UK pound sterling are translated into the US dollar at the exchange rate prevailing at the balance sheet date. Equity accounts denominated in the UK pound sterling are translated into US dollars at historical exchange rates. Revenues and expenses denominated in the UK pound sterling are translated into the US dollar at the monthly average exchange rate for the period and calculated each month from the weekly exchange rates weighted by sales of the UK division. Gains and losses resulting from foreign currency transactions are included within the consolidated income statement, whereas translation adjustments and gains and losses related to intercompany loans of a long-term investment nature are recognized as a component of accumulated other comprehensive income (loss) (“OCI”). In addition, as the majority of the sales and expenses related to the factory in Gaborone, Botswana are transacted in US dollars, there is no related foreign currency translation as the US dollar is the functional currency.

(d) Revenue recognition

Revenue is recognized when:

- there is persuasive evidence of an agreement or arrangement;
- delivery of products has occurred or services have been rendered;
- the seller's price to the buyer is fixed and determinable; and
- collectability is reasonably assured.

Signet's revenue streams and their respective accounting treatments are discussed below:

Merchandise sales

Store sales are recognized when the customer receives and pays for the merchandise at the store with cash, in-house customer finance or a third party credit card. For online sales, sales are recognized at the estimated time the customer has received the merchandise. Amounts related to shipping and handling that are billed to customers are reflected in sales and the related costs are reflected in cost of sales.

Revenue on the sale of merchandise is reported net of anticipated returns and sales tax collected. Returns are estimated based on previous return rates experienced.

Any deposits received from a customer for merchandise are deferred and recognized as revenue when the customer receives the merchandise.

Certain of Signet's merchandise sales are derived from providing replacement merchandise on behalf of insurance organizations to their customers who have experienced a loss of their property. In these cases, the sales price is established by contract with the insurance organization and revenue on the sale is recognized upon receipt of the merchandise by the customer.

Merchandise repairs

Revenue on repair of merchandise is recognized when the service is complete and the customer collects the merchandise at the store.

Extended service plans and lifetime warranty agreements

The US division sells extended service plans where it is obliged, subject to certain conditions, to perform repair work over the lifetime of the product. Revenue from the sale of extended service plans is deferred over 14 years. Revenue is recognized in relation to the costs expected to be incurred in performing these services, with approximately 45% of revenue recognized within the first two years (February 2, 2013: 46%). The deferral period is determined from patterns of claims costs, including estimates of future claims costs expected to be incurred. Management reviews the trends in claims to assess whether changes are required to the revenue and cost recognition rates used. All direct costs associated with the sale of these plans are deferred and amortized in proportion to the revenue recognized and disclosed as either other current assets or other assets.

Signet also sells warranty agreements in the capacity of an agent on behalf of a third-party. The commission that Signet receives from the third-party is recognized at the time of the sale less an estimate of cancellations based on historical experience.

Sale vouchers

In connection with certain promotions, the Company gives customers making a purchase a voucher granting the customers a discount on a future purchase, redeemable within a stated time frame. The Company accounts for such vouchers by allocating the fair value of the voucher between the initial purchase and the future purchase.

The fair value of the voucher is determined based on the average sales transactions in which the vouchers were issued and the estimated average sales transactions when the vouchers are expected to be redeemed, combined with the estimated voucher redemption rate. The fair value allocated to the future purchase is recorded as deferred revenue.

Sale of consignment inventory

Sales of consignment inventory are accounted for on a gross sales basis. This reflects that the Company is the primary obligor providing independent advice, guidance and after sales service to customers. The products sold from consignment inventory are indistinguishable to the customer from other products that are sold from purchased inventory and are sold on the same terms. The Company selects the products and suppliers at its own discretion and is responsible for determining the selling price and the physical security of the products making it liable for any inventory loss. It also takes the credit risk of a sale to the customer.

(e) Cost of sales and selling, general and administrative expenses

Cost of sales includes merchandise costs net of discounts and allowances, freight, processing and distribution costs of moving merchandise from suppliers to distribution centers and to stores, inventory shrinkage, store operating and occupancy costs, net bad debts and charges for late payments under the US in-house customer finance programs. Store operating and occupancy costs include utilities, rent, real estate taxes, common area maintenance charges and depreciation. Selling, general and administrative expenses include store staff and store administrative costs, centralized administrative expenses, including information technology, credit and eCommerce, advertising and promotional costs, and other operating expenses not specifically categorized elsewhere in the consolidated income statements.

(f) Store opening costs

The opening costs of new locations are expensed as incurred.

(g) Advertising and promotional costs

Advertising and promotional costs are expensed within selling, general and administrative expenses. Production costs are expensed at the first communication of the advertisements, while communication expenses are recognized each time the advertisement is communicated. For catalogues and circulars, costs are all expensed at the first date they can be viewed by the customer. Point of sale promotional material is expensed when first displayed in the stores. Gross advertising costs totaled \$253.8 million in Fiscal 2014 (Fiscal 2013: \$245.8 million; Fiscal 2012: \$208.6 million).

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, amortization and impairment losses. Maintenance and repair costs are expensed as incurred. Depreciation and amortization are recognized on the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	30 – 40 years when land is owned or the remaining term of lease, not to exceed 40 years
Leasehold improvements	Remaining term of lease, not to exceed 10 years
Furniture and fixtures	Ranging from 3 – 10 years
Equipment, including software	Ranging from 3 – 5 years

Equipment, which includes computer software purchased or developed for internal use, is stated at cost less accumulated amortization. Signet's policy provides for the capitalization of external direct costs of materials and

services associated with developing or obtaining internal use computer software. In addition, Signet also capitalizes certain payroll and payroll-related costs for employees who are directly associated with internal use computer projects. Amortization is charged on a straight-line basis over periods from three to five years.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Potentially impaired assets or asset groups are identified by reviewing the cash flows of individual stores. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the undiscounted cash flow is less than the asset's carrying amount, the impairment charge recognized is determined by estimating the fair value of the assets and recording a loss for the amount that the carrying value exceeds the estimated fair value. Property and equipment at stores planned for closure are depreciated over a revised estimate of their useful lives.

(i) Goodwill and other intangibles

Goodwill represents the excess of the purchase price of acquisitions over the Company's interest in the fair value of the identifiable assets and liabilities acquired. Goodwill is recorded by the Company's reporting units based on the acquisitions made by each. Goodwill is not amortized, but is reviewed for impairment and is required to be tested at least annually or whenever events or changes in circumstances indicate it is more likely than not that a reporting unit's fair value is less than its carrying value. The annual testing date for reporting units within the US and UK segments is the last day of the fourth quarter.

The Company may elect to perform a qualitative assessment for each reporting unit to determine whether it is more likely than not that the fair value of the reporting unit is greater than its carrying value. If a qualitative assessment is not performed, or if as a result of a qualitative assessment it is not more likely than not that the fair value of a reporting unit exceeds its carrying value, then the reporting unit's fair value is compared to its carrying value. Fair value is determined through the income approach using discounted cash flow models or market-based methodologies. Significant estimates used in these discounted cash flow models include: the weighted average cost of capital; long-term growth rates; expected changes to selling prices, direct costs and profitability of the business; and working capital requirements. Management estimates discount rates using post-tax rates that reflect assessments of the time value of money and Company-specific risks. If the carrying value exceeds the estimated fair value, the Company determines the fair value of all assets and liabilities of the reporting unit, including the implied fair value of goodwill. If the carrying value of goodwill exceeds the implied fair value of goodwill, the Company recognizes an impairment charge equal to the difference.

Goodwill is recorded in other assets. See Note 12.

(j) Inventories

Inventories held in the US and UK division primarily represent goods held for resale and are valued at the lower of cost or market value. Cost is determined using average cost and includes costs directly related to bringing inventory to its present location and condition. These include relevant warehousing, distribution and certain buying, security and data processing costs. Market value is defined as estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Inventory write-downs are recorded for obsolete, slow moving or defective items and shrinkage. The write-down is equal to the difference between the cost of inventory and its estimated market value based upon assumptions of targeted inventory turn rates, future demand, management strategy and market conditions. Shrinkage is estimated and recorded based on historical physical inventory results, expectations of future inventory losses and current inventory levels. Physical inventories are taken at least once annually for all store locations and distribution centers.

Inventories held in the Company's diamond sourcing operations are valued at the lower of cost, as determined on specific identification process, or market.

(k) Vendor contributions

Contributions are received from vendors through various programs and arrangements including cooperative advertising. Where vendor contributions related to identifiable promotional events are received, these are matched against the costs of these promotions. Vendor contributions, which are received as general contributions and not related to specific promotional events, are recognized as a reduction of inventory costs.

(l) In-house customer finance programs

Signet's US division operates customer in-house finance programs that allow customers to finance merchandise purchases from the US division's stores. Signet recognizes finance charges in accordance with the contractual agreements. Gross interest earned is recorded as other operating income in the income statement. See Note 3. In addition to interest-bearing accounts, a significant proportion of credit sales are made using interest-free financing for one year or less, subject to certain conditions.

Accrual of interest is suspended when accounts become more than 90 days aged. Upon suspension of the accrual of interest, interest income is subsequently recognized to the extent cash payments are received. Accrual of interest is resumed when receivables are removed from non-accrual status.

(m) Accounts receivable

Accounts receivable are stated at their nominal amounts and primarily include account balances outstanding from Signet's in-house customer finance programs. The finance receivables from the in-house customer finance programs are comprised of a large volume of transactions with no one customer representing a significant balance. The initial acceptance of customer finance arrangements is based on proprietary consumer credit scores. Subsequent to the initial finance purchase, Signet monitors the credit quality of its customer finance receivable portfolio based on payment activity that drives the aging of receivables. This credit quality indicator is assessed on a real-time basis by Signet.

Accounts receivable under the customer finance programs are shown net of an allowance for uncollectible amounts. See Note 10. This allowance is an estimate of the losses as of the balance sheet date, and is calculated using a proprietary model that analyzes factors such as delinquency rates and recovery rates. A 100% allowance is made for any amount that is more than 90 days aged on a recency basis and any amount associated with an account the owner of which has filed for bankruptcy, as well as an allowance for those amounts 90 days aged and under based on historical loss information and payment performance. The calculation is reviewed by management to assess whether, based on economic events, additional analyses are required to appropriately estimate losses inherent in the portfolio.

Allowances for uncollectible amounts are recorded as a charge to cost of sales in the income statement. Receivables are charged off to the allowance when amounts become more than 120 days aged on the recency method and more than 240 days aged on the contractual method. See Note 10.

(n) Leases

Assets held under capital leases relate to leases where substantially all the risks and rewards of the asset have passed to Signet. All other leases are defined as operating leases. Where operating leases include predetermined rent increases, those rents are charged to the income statement on a straight-line basis over the lease term, including any construction period or other rental holiday. Other amounts paid under operating leases are charged to the income statement as incurred. Premiums paid to acquire short-term leasehold properties and inducements to enter into a lease are recognized on a straight line basis over the lease term.

Certain leases provide for contingent rentals that are not measurable at inception. These contingent rentals are primarily based on a percentage of sales in excess of a predetermined level. These amounts are excluded from minimum rent and are included in the determination of rent expense when it is probable that the expense has been incurred and the amount is reasonably estimable.

(o) Income taxes

Income taxes are accounted for using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Under this method, deferred tax assets and liabilities are recognized by applying statutory tax rates in effect in the years in which the differences between the financial reporting and tax filing bases of existing assets and liabilities are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. A valuation allowance is established against deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

At any point in time, various tax years are subject to, or are in the process of, audit by various taxing authorities. To the extent that management's estimates of settlements change, or the final tax outcome of these matters is different than the amounts recorded, such differences will impact the income tax provision in the period in which such determinations are made.

(p) Employee benefits

Signet operates a defined benefit pension plan in the UK (the "UK Plan") which ceased to admit new employees effective April 2004. The UK Plan provides benefits to participating eligible employees. Beginning in Fiscal 2014, a change to the benefit structure was implemented and members' benefits that accumulate after that date are now based upon career average salaries, whereas previously, all benefits were based on salaries at retirement. The UK Plan's assets are held by the UK Plan.

The net periodic pension cost of the UK Plan is measured on an actuarial basis using the projected unit credit method and several actuarial assumptions, the most significant of which are the discount rate and the expected long-term rate of return on plan assets. Other material assumptions include rates of participant mortality, the expected long-term rate of compensation and pension increases and rates of employee attrition. Gains and losses occur when actual experience differs from actuarial assumptions. If such gains or losses exceed 10% of the greater of plan assets or plan liabilities, Signet amortizes those gains or losses over the average remaining service period of the employees.

The net periodic pension cost is charged to selling, general and administrative expenses in the income statement.

The funded status of the UK Plan is recognized on the balance sheet, and is the difference between the fair value of plan assets and the benefit obligation measured at the balance sheet date. Any gains or losses and prior service costs or credits that arise during the period but are not included as components of net periodic pension cost are recognized, net of tax, in the period within other comprehensive (loss) income.

Signet also operates a defined contribution pension plan in the UK and sponsors a defined contribution 401(k) retirement savings plan in the US. Contributions made by Signet to these pension arrangements are charged primarily to selling, general and administrative expenses in the income statement as incurred.

(q) Derivative financial instruments and hedge accounting

Signet enters into various types of derivative instruments to mitigate certain risk exposures related to changes in commodity costs and foreign exchange rates. Derivative instruments are recorded in the consolidated balance sheets at fair value, as either assets or liabilities, with an offset to current or comprehensive income, depending on whether the derivative qualifies as an effective hedge.

If a derivative instrument meets certain hedge accounting criteria, it may be designated as a cash flow hedge on the date it is entered into. A cash flow hedge is a hedge of the exposure to variability in the cash flows of a recognized asset, liability or a forecasted transaction. For cash flow hedge transactions, the effective portion of the changes in fair value of derivatives is recognized directly in equity as a component of accumulated OCI and is recognized in the consolidated income statements in the same period(s) and on the same financial statement

line in which the hedged item affects net income. Amounts excluded from the effectiveness calculation and any ineffective portions of the change in fair value of the derivatives are recognized immediately in other operating income, net in the consolidated income statements. In addition, gains and losses on derivatives that do not qualify for hedge accounting are recognized immediately in other operating income, net.

In the normal course of business, the Company may terminate cash flow hedges prior to the occurrence of the underlying forecasted transaction. For cash flow hedges terminated prior to the occurrence of the underlying forecasted transaction, management monitors the probability of the associated forecasted cash flow transactions to assess whether any gain or loss recorded in accumulated OCI should be immediately recognized in net income.

Cash flows from derivative contracts are included in net cash provided by operating activities.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, money market deposits and amounts placed with external fund managers with an original maturity of three months or less, and are carried at cost which approximates fair value. In addition, receivables from third-party credit card issuers typically converted to cash within 5 days of the original sales transaction are considered cash equivalents.

(s) Borrowing costs

Borrowings comprise interest bearing bank loans and bank overdrafts. Borrowing costs are capitalized and amortized into interest expense over the contractual term of the related loan.

(t) Share-based compensation

Signet measures share-based compensation cost for awards classified as equity at the grant date, based on the estimated fair value of the award, and recognizes the cost as an expense on a straight-line basis (net of estimated forfeitures) over the requisite service period of employees. Certain of Signet's share plans include a condition whereby vesting is contingent on growth exceeding a given target, and therefore awards granted with this condition are considered to be performance-based awards.

Signet estimates fair value using a Black-Scholes model for awards granted under the Omnibus Plan (as defined in Note 23 below) and the binomial valuation model for awards granted under the Share Saving Plans (as defined in Note 23 below). Deferred tax assets for awards that result in deductions on the income tax returns of subsidiaries are recorded by Signet based on the amount of compensation cost recognized and the subsidiaries' statutory tax rate in the jurisdiction in which it will receive a deduction. Differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on the subsidiaries' income tax return are recorded in additional paid-in-capital (if the tax deduction exceeds the deferred tax asset) or in the income statement (if the deferred tax asset exceeds the tax deduction and no additional paid-in-capital exists from previous awards).

Share-based compensation is primarily recorded in selling, general and administrative expenses in the income statement, along with the relevant salary cost.

See Note 23 for a further description of Signet's share-based compensation plans.

(u) Contingent liabilities

Provisions for contingent liabilities are recorded for probable losses when management is able to reasonably estimate the loss or range of loss.

When it is reasonably possible that a contingent liability may result in a loss or additional loss, the range of the loss is disclosed.

(v) Common shares

When new shares are issued, they are recorded in Common Shares at their par value. The excess of the issue price over the par value is recorded in additional paid-in capital.

(w) Dividends

Dividends are reflected as a reduction of retained earnings in the period in which they are formally approved by the Board of Directors (the “Board”).

(x) Recently issued accounting pronouncements

Adopted during the period

Reclassification out of Accumulated Other Comprehensive Income

In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2013-02, “Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” The new guidance does not change the current requirements for reporting net income or other comprehensive income, but it does require disclosure of amounts reclassified out of accumulated other comprehensive income by component, as well as require the presentation of these amounts on the face of the statements of comprehensive income or in the notes to the consolidated financial statements. ASU 2013-02 is effective for the reporting periods beginning after December 15, 2012. Signet adopted this guidance effective for the first quarter ended May 4, 2013 and the implementation of this accounting pronouncement did not have a material impact on Signet’s consolidated financial statements.

To be adopted in future periods

Presentation of Unrecognized Tax Benefit

In July 2013, the FASB issued ASU 2013-11, “Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” The new guidance requires, unless certain conditions exist, an unrecognized tax benefit to be presented as a reduction to a deferred tax asset in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The guidance in ASU 2013-11 will become effective for the Company prospectively for fiscal years beginning after December 15, 2013, and interim periods within those years, with early adoption permitted. Retrospective application is also permitted. Signet did not early adopt this guidance and it has determined that implementation will not have a material impact on Signet’s consolidated financial statements.

(y) Reclassification

Signet has reclassified the presentation of certain prior year information to conform to the current year presentation.

2. Segment information

Effective with the fourth quarter of Fiscal 2014, management changed the Company’s segment reporting in order to align with a change in its organizational and management reporting structure. Signet’s sales are derived from the retailing of jewelry, watches, other products and services. Signet has identified two geographical reportable segments, being the US and UK divisions. These segments represent channels of distribution that offer similar merchandise and services and have similar marketing and distribution strategies. Both divisions are managed by executive committees, which report to Signet’s Chief Executive Officer, who reports to the Board. Each divisional executive committee is responsible for operating decisions within parameters set by the Board. The performance of each segment is regularly evaluated based on sales and operating income.

In the fourth quarter of Fiscal 2014, subsequent to the November 4, 2013 acquisition of a diamond polishing factory in Gaborone, Botswana, management established the Other operating segment which consists of all non-reportable segments including subsidiaries involved in the purchasing and conversion of rough diamonds to polished stones. This segment was determined to be non-reportable and will be aggregated with corporate administrative functions for segment reporting. Prior year results have been revised to reflect this change. All inter-segment sales and transfers are eliminated.

	Fiscal 2014	Fiscal 2013	Fiscal 2012
<i>(in millions)</i>			
Sales:			
US	\$3,517.6	\$3,273.9	\$3,034.1
UK	685.6	709.5	715.1
Other	6.0	—	—
Total sales	<u>\$4,209.2</u>	<u>\$3,983.4</u>	<u>\$3,749.2</u>
Operating income (loss):			
US	\$ 553.2	\$ 547.8	\$ 478.0
UK	42.4	40.0	56.1
Other	(25.1)	(27.3)	(26.7)
Total operating income	<u>\$ 570.5</u>	<u>\$ 560.5</u>	<u>\$ 507.4</u>
Depreciation and amortization:			
US	\$ 88.8	\$ 75.9	\$ 69.0
UK	21.4	23.5	23.4
Other	—	—	—
Total depreciation and amortization	<u>\$ 110.2</u>	<u>\$ 99.4</u>	<u>\$ 92.4</u>
Capital additions:			
US	\$ 134.2	\$ 110.9	\$ 75.6
UK	18.4	23.1	22.2
Other	0.1	0.2	—
Total capital additions	<u>\$ 152.7</u>	<u>\$ 134.2</u>	<u>\$ 97.8</u>
	February 1, 2014	February 2, 2013	January 28, 2012
<i>(in millions)</i>			
Total assets:			
US	\$3,311.0	\$2,979.2	\$2,747.5
UK	484.6	449.9	427.3
Other	233.6	289.9	436.6
Total assets	<u>\$4,029.2</u>	<u>\$3,719.0</u>	<u>\$3,611.4</u>
Total long-lived assets:			
US	\$ 423.6	\$ 377.5	\$ 305.8
UK	81.1	76.8	77.0
Other	9.7	0.7	0.6
Total long-lived assets	<u>\$ 514.4</u>	<u>\$ 455.0</u>	<u>\$ 383.4</u>
Total liabilities:			
US	\$1,299.3	\$1,243.4	\$1,166.3
UK	139.3	116.9	146.2
Other	27.5	28.8	19.8
Total liabilities	<u>\$1,466.1</u>	<u>\$1,389.1</u>	<u>\$1,332.3</u>

Sales by product

	Fiscal 2014	Fiscal 2013	Fiscal 2012
<i>(in millions)</i>			
Diamonds and diamond jewelry.....	\$2,552.1	\$2,410.7	\$2,183.3
Gold, silver jewelry, other products and services.....	1,236.9	1,116.5	1,133.5
Watches.....	420.2	456.2	432.4
Total sales	<u>\$4,209.2</u>	<u>\$3,983.4</u>	<u>\$3,749.2</u>

Sales to any individual customer were not significant to Signet's consolidated sales.

3. Other operating income, net

	Fiscal 2014	Fiscal 2013	Fiscal 2012
<i>(in millions)</i>			
Interest income from in-house customer finance programs	\$186.4	\$159.7	\$125.4
Other	0.3	1.7	1.1
Other operating income, net	<u>\$186.7</u>	<u>\$161.4</u>	<u>\$126.5</u>

4. Compensation and benefits

Compensation and benefits were as follows:

	Fiscal 2014	Fiscal 2013	Fiscal 2012
<i>(in millions)</i>			
Wages and salaries	\$753.3	\$713.4	\$681.5
Payroll taxes.....	65.8	62.6	59.3
Employee benefit plans expense	10.2	12.9	11.3
Share-based compensation expense	14.4	15.7	17.0
Total compensation and benefits.....	<u>\$843.7</u>	<u>\$804.6</u>	<u>\$769.1</u>

5. Income taxes

	Fiscal 2014	Fiscal 2013	Fiscal 2012
<i>(in millions)</i>			
Income before income taxes:			
– US.....	\$493.7	\$494.3	\$423.2
– Foreign.....	72.8	62.6	78.9
Total income before income taxes	<u>\$566.5</u>	<u>\$556.9</u>	<u>\$502.1</u>
Current taxation:			
– US.....	\$211.8	\$186.6	\$136.9
– Foreign.....	7.1	6.1	11.5
Deferred taxation:			
– US.....	(22.8)	3.1	26.1
– Foreign.....	2.4	1.2	3.2
Total income taxes	<u>\$198.5</u>	<u>\$197.0</u>	<u>\$177.7</u>

As the statutory rate of corporation tax in Bermuda is 0%, the differences between the federal income tax rate in the US and the effective tax rates for Signet have been presented below:

	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>
	<u>%</u>	<u>%</u>	<u>%</u>
US federal income tax rates	35.0	35.0	35.0
US state income taxes	2.5	2.7	2.7
Differences between US federal and foreign statutory income tax rates.....	(0.9)	(0.6)	(1.0)
Expenditures permanently disallowable for tax purposes, net of permanent tax benefits	0.6	0.8	1.1
Benefit of intra-group financing and services arrangements.....	(2.1)	(2.1)	(2.0)
Other items.....	(0.1)	(0.4)	(0.4)
Effective tax rate	<u>35.0</u>	<u>35.4</u>	<u>35.4</u>

Signet's effective tax rate is largely impacted by the relative proportion of US and foreign income tax expense. In Fiscal 2014, Signet's effective tax rate was the same as the US federal income tax rate because the US state income tax expense was substantially offset by the benefit of intra-group financing and services arrangements. Signet's future effective tax rate is dependent on changes in the geographic mix of income and the movement in foreign exchange translation rates.

Deferred tax assets (liabilities) consisted of the following:

	<u>February 1, 2014</u>			<u>February 2, 2013</u>		
	<u>Assets</u>	<u>(Liabilities)</u>	<u>Total</u>	<u>Assets</u>	<u>(Liabilities)</u>	<u>Total</u>
<i>(in millions)</i>						
US property, plant and equipment.....	\$ —	\$ (70.1)	\$ (70.1)	\$ —	\$ (55.8)	\$ (55.8)
Foreign property, plant and equipment	7.0	—	7.0	6.7	—	6.7
Inventory valuation	—	(169.2)	(169.2)	—	(188.6)	(188.6)
Allowances for doubtful accounts	39.7	—	39.7	36.6	—	36.6
Revenue deferral	134.3	—	134.3	122.4	—	122.4
Derivative instruments	6.9	—	6.9	—	—	—
Straight-line lease payments.....	27.5	—	27.5	26.8	—	26.8
Deferred compensation	9.9	—	9.9	7.7	—	7.7
Retirement benefit obligations	—	(12.0)	(12.0)	—	(11.2)	(11.2)
Share-based compensation	10.3	—	10.3	10.7	—	10.7
US state income tax accruals.....	5.3	—	5.3	5.6	—	5.6
Other temporary differences.....	15.0	—	15.0	16.2	—	16.2
Value of foreign capital losses	15.8	—	15.8	16.5	—	16.5
Total gross deferred tax asset (liability)	\$271.7	\$(251.3)	\$ 20.4	\$249.2	\$(255.6)	\$ (6.4)
Valuation allowance.....	(16.8)	—	(16.8)	(17.5)	—	(17.5)
Deferred tax asset (liability).....	<u>\$254.9</u>	<u>\$(251.3)</u>	<u>\$ 3.6</u>	<u>\$231.7</u>	<u>\$(255.6)</u>	<u>\$ (23.9)</u>
Current assets			\$ 3.0			\$ 1.6
Current liabilities.....			(113.1)			(129.6)
Non-current assets.....			113.7			104.1
Deferred tax asset (liability).....			<u>\$ 3.6</u>			<u>\$ (23.9)</u>

As of February 1, 2014 Signet had foreign gross capital loss carry forwards of \$74.2 million (Fiscal 2013: \$71.0 million) which are only available to offset future capital gains, if any, over an indefinite period.

The decrease in the total valuation allowance in Fiscal 2014 was \$0.7 million due to changes in foreign exchange translation and tax rates (Fiscal 2013: \$3.6 million net decrease; Fiscal 2012: \$1.5 million net decrease). The valuation allowance primarily relates to foreign capital loss carry forwards that, in the judgment of management, are not more likely than not to be realized.

Signet believes that it is more likely than not that deferred tax assets not subject to a valuation allowance as of February 1, 2014 will be offset where permissible by deferred tax liabilities or realized on future tax returns, primarily from the generation of future taxable income.

Signet has business activity in all states within the US and files income tax returns for the US federal jurisdiction and all applicable states. Signet also files income tax returns in the UK and certain other foreign jurisdictions. Signet is subject to US federal and state examinations by tax authorities for tax years after November 1, 2008 and is subject to examination by the UK tax authority for tax years after January 31, 2012.

As of February 1, 2014 Signet had approximately \$4.6 million (Fiscal 2013: \$4.5 million; Fiscal 2012: \$4.8 million) of unrecognized tax benefits in respect of uncertain tax positions, all of which would favorably affect the effective income tax rate if resolved in Signet's favor. These unrecognized tax benefits relate to financing arrangements and intra-group charges which are subject to different and changing interpretations of tax law.

Signet recognizes accrued interest and, where appropriate, penalties related to unrecognized tax benefits within income tax expense. In Fiscal 2014, the total amount of interest recognized in income tax expense in the consolidated income statement was \$0.1 million, net charge (Fiscal 2013: \$0.2 million, net credit; Fiscal 2012: \$0.1 million, net credit). As of February 1, 2014, Signet had accrued interest of \$0.3 million (Fiscal 2013: \$0.2 million; Fiscal 2012: \$0.4 million).

The following table summarizes the activity related to unrecognized tax benefits:

	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>
<i>(in millions)</i>			
Balance at beginning of period	\$ 4.5	\$ 4.8	\$ 9.0
Increases related to current year tax positions.....	0.4	0.2	0.3
Prior year tax positions:			
Increases	0.2	—	—
Decreases	—	—	(1.4)
Cash settlements.....	(0.5)	—	(2.6)
Lapse of statute of limitations	—	(0.5)	(0.5)
Balance at end of period.....	<u>\$ 4.6</u>	<u>\$ 4.5</u>	<u>\$ 4.8</u>

Over the next twelve months management believes that it is reasonably possible that there could be a reduction of substantially all of the unrecognized tax benefits as of February 1, 2014, due to settlement of the uncertain tax positions with the tax authorities.

6. Earnings per share

	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>
<i>(in millions, except per share amounts)</i>			
Net income	<u>\$368.0</u>	<u>\$359.9</u>	<u>\$324.4</u>
Basic weighted average number of shares outstanding	80.2	82.3	86.2
Dilutive effect of share awards.....	0.5	0.5	0.8
Diluted weighted average number of shares outstanding	<u>80.7</u>	<u>82.8</u>	<u>87.0</u>
Earnings per share – basic.....	\$ 4.59	\$ 4.37	\$ 3.76
Earnings per share – diluted	\$ 4.56	\$ 4.35	\$ 3.73

The basic weighted average number of shares excludes non-vested time-based restricted shares, shares held by the Employee Stock Ownership Trust (“ESOT”) and treasury shares. Such shares are not considered outstanding and do not qualify for dividends, except for time-based restricted shares for which dividends are earned and payable by the Company subject to full vesting. The effect of excluding these shares is to reduce the average number of shares in Fiscal 2014 by 6,961,632 (Fiscal 2013: 4,882,625; Fiscal 2012: 576,427). The calculation of fully diluted EPS for Fiscal 2014 excludes share awards to acquire 70,447 shares (Fiscal 2013: 192,374 share awards; Fiscal 2012: 375,071 share awards) on the basis that their effect on EPS was anti-dilutive.

7. Dividends

	Fiscal 2014		Fiscal 2013		Fiscal 2012	
	Cash dividend per share	Total dividends (in millions)	Cash dividend per share	Total dividends (in millions)	Cash dividend per share	Total dividends (in millions)
First quarter	\$0.15	\$12.1	\$0.12	\$10.3	\$ —	\$ —
Second quarter.....	0.15	12.1	0.12	9.6	—	—
Third quarter.....	0.15	12.0	0.12	9.8	0.10	8.7
Fourth quarter ⁽¹⁾	0.15	12.0⁽²⁾	0.12	9.8⁽²⁾	0.10	8.7
Total	\$0.60	\$48.2	\$0.48	\$39.5	\$0.20	\$17.4

- (1) Signet’s dividend policy results in the dividend payment date being a quarter in arrears from the declaration date. As a result, the dividend declared in the fourth quarter of each fiscal year is paid in the subsequent fiscal year. The dividends are reflected in the consolidated statement of cash flows upon payment.
- (2) As of February 1, 2014 and February 2, 2013, \$12.0 million and \$9.8 million, respectively, has been recorded in accrued expenses and other current liabilities in the consolidated balance sheets reflecting the cash dividends declared for the fourth quarter of Fiscal 2014 and Fiscal 2013, respectively.

In addition, on March 26, 2014, Signet’s Board of Directors declared a quarterly dividend of \$0.18 per share on its Common Shares. This dividend will be payable on May 28, 2014 to shareholders of record on May 2, 2014, with an ex-dividend date of April 30, 2014.

8. Accumulated other comprehensive income (loss)

The following tables present the changes in accumulated OCI by component and the reclassifications out of accumulated OCI:

	Foreign currency translation	Gains (losses) on cash flow hedges	Pension plan		Accumulated other comprehensive (loss) income
			Actuarial (losses) gains	Prior service credit (cost)	
(in millions)					
Balance at January 29, 2011.....	\$(145.0)	\$ 5.9	\$(46.0)	\$14.3	\$(170.8)
OCI before reclassifications	(3.9)	32.2	(7.3)	5.5	26.5
Amounts reclassified from accumulated OCI	—	(16.0)	1.8	(0.7)	(14.9)
Net current-period OCI	(3.9)	16.2	(5.5)	4.8	11.6
Balance at January 28, 2012.....	(148.9)	22.1	(51.5)	19.1	(159.2)
OCI before reclassifications	(0.5)	(6.7)	4.7	(0.8)	(3.3)
Amounts reclassified from accumulated OCI	—	(14.4)	2.4	(1.2)	(13.2)
Net current-period OCI	(0.5)	(21.1)	7.1	(2.0)	(16.5)
Balance at February 2, 2013.....	(149.4)	1.0	(44.4)	17.1	(175.7)
OCI before reclassifications	12.4	(22.0)	0.2	(0.7)	(10.1)
Amounts reclassified from accumulated OCI	—	6.7	1.7	(1.1)	7.3
Net current-period OCI	12.4	(15.3)	1.9	(1.8)	(2.8)
Balance at February 1, 2014.....	\$(137.0)	\$ (14.3)	\$(42.5)	\$15.3	\$(178.5)

The amounts reclassified from accumulated OCI were as follows:

	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>	
<u>Reclassification activity by individual accumulated OCI component:</u>	<u>Amounts reclassified from accumulated OCI</u>	<u>Amounts reclassified from accumulated OCI</u>	<u>Amounts reclassified from accumulated OCI</u>	<u>Income statement caption</u>
<i>(in millions)</i>				
(Gains) losses on cash flow hedges:				
Foreign currency contracts	\$ (0.9)	\$ (0.4)	\$ (0.1)	Cost of sales (see Note 19)
Commodity contracts	<u>12.0</u>	<u>(22.0)</u>	<u>(24.5)</u>	Cost of sales (see Note 19)
Total before income tax	11.1	(22.4)	(24.6)	
	<u>(4.4)</u>	<u>8.0</u>	<u>8.6</u>	Income taxes
Net of tax	<u>6.7</u>	<u>(14.4)</u>	<u>(16.0)</u>	
Defined benefit pension plan items:				
Amortization of unrecognized net prior service credit	(1.5)	(1.6)	(1.0)	Selling, general and administrative expenses ⁽¹⁾
Amortization of unrecognized actuarial loss.....	<u>2.3</u>	<u>3.2</u>	<u>2.6</u>	Selling, general and administrative expenses ⁽¹⁾
Total before income tax	0.8	1.6	1.6	
	<u>(0.2)</u>	<u>(0.4)</u>	<u>(0.5)</u>	Income taxes
Net of tax	<u>0.6</u>	<u>1.2</u>	<u>1.1</u>	
Total reclassifications, net of tax	<u>\$ 7.3</u>	<u>\$(13.2)</u>	<u>\$(14.9)</u>	

(1) These items are included in the computation of net periodic pension benefit (cost). See Note 20 for additional information.

9. Cash and cash equivalents

	<u>February 1, 2014</u>	<u>February 2, 2013</u>
<i>(in millions)</i>		
Cash and cash equivalents held in money markets and other accounts.....	\$225.3	\$276.6
Cash equivalents from third-party credit card issuers	21.1	23.2
Cash on hand.....	<u>1.2</u>	<u>1.2</u>
Total cash and cash equivalents	<u>\$247.6</u>	<u>\$301.0</u>

10. Accounts receivable, net

Signet's accounts receivable primarily consist of US customer in-house financing receivables. The accounts receivable portfolio consists of a population that is of similar characteristics and is evaluated collectively for impairment. The allowance is an estimate of the losses as of the balance sheet date, and is calculated using a proprietary model that analyzes factors such as delinquency rates and recovery rates. A 100% allowance is made for any amount that is more than 90 days aged on a recency basis and any amount associated with an account the

owner of which has filed for bankruptcy, as well as an allowance for those amounts 90 days aged and under, based on historical loss information and payment performance. The calculation is reviewed by management to assess whether, based on economic events, additional analyses are required to appropriately estimate losses inherent in the portfolio.

	February 1, 2014	February 2, 2013
<i>(in millions)</i>		
Accounts receivable by portfolio segment, net:		
US customer in-house finance receivables	\$1,356.0	\$1,192.9
Other accounts receivable	18.0	12.4
Total accounts receivable, net	<u>\$1,374.0</u>	<u>\$1,205.3</u>

Signet grants credit to customers based on a variety of credit quality indicators, including consumer financial information and prior payment experience. On an ongoing basis, management monitors the credit exposure based on past due status and collection experience, as it has found a meaningful correlation between the past due status of customers and the risk of loss.

Other accounts receivable is comprised primarily of gross accounts receivable relating to the insurance loss replacement business in the UK division of \$12.8 million (Fiscal 2013: \$13.0 million), with a corresponding valuation allowance of \$0.3 million (Fiscal 2013: \$0.6 million).

Allowance for credit losses on US customer in-house finance receivables:

	Fiscal 2014	Fiscal 2013	Fiscal 2012
<i>(in millions)</i>			
Beginning balance:	\$ (87.7)	\$ (78.1)	\$ (67.8)
Charge-offs	128.2	112.8	92.8
Recoveries	26.0	21.8	19.3
Provision	(164.3)	(144.2)	(122.4)
Ending balance	\$ (97.8)	\$ (87.7)	\$ (78.1)
Ending receivable balance evaluated for impairment	1,453.8	1,280.6	1,155.5
US customer in-house finance receivables, net	<u>\$1,356.0</u>	<u>\$1,192.9</u>	<u>\$1,077.4</u>

Net bad debt expense is defined as the provision expense less recoveries.

Credit quality indicator and age analysis of past due US customer in-house finance receivables:

	February 1, 2014		February 2, 2013		January 28, 2012	
	Gross	Valuation allowance	Gross	Valuation allowance	Gross	Valuation allowance
<i>(in millions)</i>						
Performing:						
Current, aged 0 – 30 days	\$ 1,170.4	\$(36.3)	\$ 1,030.3	\$(33.8)	\$ 932.6	\$(28.9)
Past due, aged 31 – 90 days	229.9	(8.0)	203.9	(7.5)	180.2	(6.5)
Non Performing:						
Past due, aged more than 90 days	53.5	(53.5)	46.4	(46.4)	42.7	(42.7)
	<u>\$ 1,453.8</u>	<u>\$(97.8)</u>	<u>\$ 1,280.6</u>	<u>\$(87.7)</u>	<u>\$ 1,155.5</u>	<u>\$(78.1)</u>

	February 1, 2014		February 2, 2013		January 28, 2012	
	<u>Gross</u>	<u>Valuation allowance</u>	<u>Gross</u>	<u>Valuation allowance</u>	<u>Gross</u>	<u>Valuation allowance</u>
<i>(as a percentage of the ending receivable balance)</i>						
Performing	96.3%	3.2 %	96.4%	3.3%	96.3%	3.2%
Non Performing.....	3.7%	100.0 %	3.6%	100.0%	3.7%	100.0%
	<u>100.0%</u>	<u>6.7 %</u>	<u>100.0%</u>	<u>6.8%</u>	<u>100.0%</u>	<u>6.8%</u>

11. Inventories

Signet held \$312.6 million of consignment inventory at February 1, 2014 (February 2, 2013: \$227.7 million) which is not recorded on the balance sheet. The principal terms of the consignment agreements, which can generally be terminated by either party, are such that Signet can return any or all of the inventory to the relevant suppliers without financial or commercial penalties and the supplier can vary the inventory prices prior to sale.

Inventories

	February 1, 2014	February 2, 2013
<i>(in millions)</i>		
Raw materials.....	\$ 41.8	\$ 41.2
Finished goods	<u>1,446.2</u>	<u>1,355.8</u>
Total inventories	<u>\$1,488.0</u>	<u>\$1,397.0</u>

Inventory reserves

	<u>Balance at beginning of period</u>	<u>Charged to profit</u>	<u>Utilized⁽¹⁾</u>	<u>Balance at end of period</u>
<i>(in millions)</i>				
Fiscal 2012	\$27.8	\$18.4	\$(16.9)	\$29.3
Fiscal 2013	29.3	23.6	(29.5)	23.4
Fiscal 2014.....	23.4	33.3	(40.4)	16.3

(1) Including the impact of foreign exchange translation between opening and closing balance sheet dates.

12. Other assets

	February 1, 2014	February 2, 2013
<i>(in millions)</i>		
Deferred extended service plan costs	\$ 61.9	\$56.9
Goodwill	26.8	24.6
Other assets	<u>25.3</u>	<u>18.4</u>
Total other assets.....	<u>\$114.0</u>	<u>\$99.9</u>

Goodwill

The following table summarizes the Company's goodwill by reporting unit:

	US	UK	Other	Total
<i>(in millions)</i>				
Balance at January 28, 2012.....	\$ —	\$—	\$—	\$ —
Acquisition ⁽¹⁾	24.6	—	—	24.6
Balance at February 2, 2013.....	24.6	—	—	24.6
Acquisitions ⁽¹⁾	(1.4)	—	3.6	2.2
Balance at February 1, 2014.....	\$23.2	\$—	\$ 3.6	\$26.8

(1) See Note 14 for additional discussion of the goodwill recorded by the Company during Fiscal 2014 and Fiscal 2013.

The Company's reporting units align with the operating segments disclosed in Note 2. There have been no goodwill impairment losses recorded during the fiscal periods presented in the consolidated income statements. If future economic conditions are different than those projected by management, future impairment charges may be required.

13. Property, plant and equipment, net

	February 1, 2014	February 2, 2013
<i>(in millions)</i>		
Land and buildings.....	\$ 37.2	\$ 32.5
Leasehold improvements.....	461.4	419.3
Furniture and fixtures.....	537.3	503.4
Equipment, including software.....	221.1	183.8
Construction in progress.....	18.7	15.5
Total.....	\$1,275.7	\$1,154.5
Accumulated depreciation and amortization.....	(788.1)	(724.1)
Property, plant and equipment, net.....	\$ 487.6	\$ 430.4

Depreciation and amortization expense for Fiscal 2014 was \$110.2 million (Fiscal 2013: \$99.4 million; Fiscal 2012: \$92.4 million). The expense for Fiscal 2014 includes \$0.7 million (Fiscal 2013: \$2.6 million; Fiscal 2012: \$1.4 million) for impairment of assets.

14. Acquisitions

Botswana diamond polishing factory acquisition

On November 4, 2013, Signet acquired a diamond polishing factory in Gaborone, Botswana for \$9.1 million. The acquisition expands the Company's long-term diamond sourcing capabilities and provides resources for the Company to cut and polish stones.

The transaction was accounted for as a business combination during the fourth quarter of Fiscal 2014. The Company is in the process of finalizing the valuation of the net assets acquired, most notably the valuation of property, plant and equipment. The total consideration paid by the Company was funded through existing cash and allocated to the net assets acquired based on the preliminary fair values as follows: property, plant and equipment acquired of \$5.5 million and goodwill of \$3.6 million. None of the goodwill will be deductible for income tax purposes. The goodwill balance is recorded within other assets in the consolidated balance sheet. See Note 12.

Acquisition-related costs incurred prior to closing the transaction were immaterial. The results of operations related to the acquired diamond polishing factory are reported within the Other operating segment of Signet's consolidated results and included in Signet's consolidated financial statements commencing on the date of acquisition in the Other operating segment. Pro forma results of operations have not been presented, as the impact on the Company's consolidated financial results was not material.

Ultra acquisition

On October 29, 2012, Signet acquired the outstanding shares of Ultra Stores, Inc. (the "Ultra Acquisition"). The Company paid \$56.7 million, net of acquired cash of \$1.5 million, for the Ultra Acquisition, including a \$1.4 million working capital adjustment at closing. The total consideration paid was funded through existing cash.

On May 15, 2013, the post-closing procedures were finalized and a reduction to the initial purchase price was agreed to. As a result, total consideration paid for the Ultra Acquisition was reduced to \$55.3 million. The refund of \$1.4 million from the initial consideration paid was received during the second quarter of Fiscal 2014.

Signet incurred approximately \$3.0 million of acquisition-related expenses, which were expenses as incurred during Fiscal 2013 and recorded as selling, general and administrative expenses in the consolidated income statement. The results of operations related to the Ultra Acquisition are reported as a component of the results of the US division and included in Signet's consolidated financial statements commencing on the date of acquisition. Pro forma results of operations have not been presented, as the impact on the Company's consolidated financial results were not material.

The Ultra Acquisition was accounted for as a business combination during the fourth quarter of Fiscal 2013. During the first quarter of Fiscal 2014, the Company finalized the valuation of net assets acquired. There were no material changes to the valuation of net assets acquired from the initial allocation reported during the fourth quarter of Fiscal 2013. Accordingly, the total consideration paid has been allocated to the net assets acquired based on the final fair values at October 29, 2012 as follows:

	<u>Initial Allocation</u>	<u>Final Allocation</u>	<u>Change</u>
<i>(in millions)</i>			
Recognized amounts of assets acquired and liabilities assumed:			
Inventories	\$ 43.3	\$ 43.3	\$—
Other current assets, excluding cash acquired	3.3	3.3	—
Property and equipment	12.1	12.1	—
Other assets	0.3	0.3	—
Current liabilities	(19.5)	(19.5)	—
Other liabilities	(7.4)	(7.4)	—
Fair value of net assets acquired	\$ 32.1	\$ 32.1	\$—
Goodwill ⁽¹⁾	24.6	23.2	(1.4)
Total consideration	<u>\$ 56.7</u>	<u>\$ 55.3</u>	<u>\$ (1.4)</u>

(1) None of the goodwill will be deductible for income tax purposes. The goodwill balance is recorded within other assets in the consolidated balance sheet. See Note 12.

During Fiscal 2014, the majority of the acquired stores were converted to the Kay brand, with the remaining stores being reflected under regional brands.

15. Accrued expenses and other current liabilities

	February 1, 2014	February 2, 2013
<i>(in millions)</i>		
Accrued compensation	\$ 81.3	\$ 85.9
Other liabilities.....	50.1	48.7
Other taxes	31.7	31.9
Payroll taxes.....	8.0	7.4
Accrued expenses.....	<u>157.4</u>	<u>152.5</u>
Total accrued expenses and other current liabilities.....	<u>\$328.5</u>	<u>\$326.4</u>

Sales returns reserve included in accrued expenses above:

	Balance at beginning of period	Net adjustment ⁽¹⁾	Balance at end of period
<i>(in millions)</i>			
Fiscal 2012	\$7.7	\$(0.4)	\$7.3
Fiscal 2013	7.3	0.3	7.6
Fiscal 2014.....	7.6	0.8	8.4

—
(1) Net adjustment relates to sales returns previously provided for and changes in estimate and the impact of foreign exchange translation between opening and closing balance sheet dates.

The US division provides a product lifetime diamond and color gemstone guarantee as long as six-month inspections are performed and certified by an authorized store representative. Provided the customer has complied with the six month inspection policy, Signet will replace, at no cost to the customer, any stone that chips, breaks or is lost from its original setting during normal wear. Management estimates the warranty accrual based on the lag of actual claims experience and the costs of such claims, inclusive of labor and material. Warranty reserve for diamond and gemstone guarantee were as follows:

	Balance at beginning of period	Warranty expense	Utilized	Balance at end of period
<i>(in millions)</i>				
Fiscal 2012	\$13.0	\$7.9	\$(5.8)	\$15.1
Fiscal 2013	15.1	8.6	(5.2)	18.5
Fiscal 2014.....	18.5	7.4	(6.8)	19.1

	February 1, 2014	February 2, 2013
Disclosed as:		
<i>(in millions)</i>		
Current liabilities ⁽¹⁾	\$ 6.7	\$ 6.9
Non-current liabilities (see Note 17)	<u>12.4</u>	<u>11.6</u>
Total warranty reserve.....	<u>\$19.1</u>	<u>\$18.5</u>

—
(1) Included within accrued expenses above.

16. Deferred revenue

Deferred revenue is comprised primarily of extended service plans (“ESP”) and voucher promotions and other as follows:

	February 1, 2014	February 2, 2013
<i>(in millions)</i>		
ESP deferred revenue	\$601.2	\$549.7
Voucher promotions and other	15.5	15.9
Total deferred revenue	\$616.7	\$565.6
Disclosed as:		
Current liabilities	\$173.0	\$159.7
Non-current liabilities	443.7	405.9
Total deferred revenue	\$616.7	\$565.6

ESP deferred revenue

	Balance at beginning of period	Plans sold	Revenue recognized	Balance at end of period
<i>(in millions)</i>				
Fiscal 2012	\$481.1	\$187.0	\$(156.4)	\$511.7
Fiscal 2013	511.7	205.1	(167.1)	549.7
Fiscal 2014	549.7	223.3	(171.8)	601.2

17. Other liabilities—non-current

	February 1, 2014	February 2, 2013
<i>(in millions)</i>		
Straight-line rent	\$ 67.1	\$ 65.6
Deferred compensation	25.0	18.5
Warranty reserve	12.4	11.6
Lease loss reserve	5.8	8.1
Other liabilities	11.4	7.5
Total other liabilities	\$121.7	\$111.3

A lease loss reserve is recorded for the net present value of the difference between the contractual rent obligations and the rate at which income is received or expected to be received from subleasing the properties.

	February 1, 2014	February 2, 2013
<i>(in millions)</i>		
At beginning of period:	\$ 8.1	\$ 9.6
Adjustments, net	(1.6)	(1.1)
Utilization ⁽¹⁾	(0.7)	(0.4)
At end of period	\$ 5.8	\$ 8.1

(1) Including the impact of foreign exchange translation between opening and closing balance sheet dates.

The cash expenditures on the remaining lease loss reserve are expected to be paid over the various remaining lease terms through 2023.

18. Loans, overdrafts and long-term debt

Loans and overdrafts

<i>(in millions)</i>	<u>February 1, 2014</u>	<u>February 2, 2013</u>
Current liabilities – loans and overdrafts		
Revolving credit facility	\$ —	\$ —
Bank overdrafts	<u>19.3</u>	<u>—</u>
Total loans and overdrafts	<u>\$19.3</u>	<u>\$ —</u>

Revolving credit facility

On May 24, 2011, Signet Jewelers Limited and certain of its subsidiaries as “Borrowers” entered into a \$400 million senior unsecured multi-currency five year revolving credit agreement (the “Credit Agreement”) with various financial institutions as the lenders (the “Lenders”), JPMorgan Chase Bank, N.A., as Administrative Agent, Barclays Capital, as Syndication Agent, and JPMorgan Securities LLC and Barclays Capital as the joint lead arrangers. Borrowings under the Credit Agreement may be used for working capital and general corporate purposes. The Company has guaranteed the obligations of the Borrowers under the Credit Agreement and is also directly bound by certain of the covenants contained in the Credit Agreement.

Under the Credit Agreement, the Borrowers are able to borrow from time to time in an aggregate amount up to \$400 million, including issuing letters of credit in an aggregate amount at any time outstanding not to exceed \$100 million. The Credit Agreement contains an expansion option that, with the consent of the Lenders or the addition of new lenders, and subject to certain conditions, availability under the Credit Agreement may be increased by an additional \$200 million at the request of the Borrowers. The Credit Agreement has a five year term and matures in May 2016, at which time all amounts outstanding under the Credit Agreement will be due and payable.

Borrowings under the Credit Agreement bear interest, at the Borrowers’ option, at either a base rate (as defined in the Credit Agreement), or an adjusted LIBOR (a “Eurocurrency Borrowing”), in each case plus an applicable margin rate based on the Company’s “Fixed Charge Coverage Ratio” (as defined in the Credit Agreement). Interest is payable on the last day of each March, June, September and December, or at the end of each interest period for a Eurocurrency Borrowing, but not less often than every three months. Commitment fee rates range from 0.20% to 0.35% based on the Company’s Fixed Charge Coverage Ratio and are payable quarterly in arrears and on the date of termination or expiration of commitments.

The Credit Agreement limits the ability of the Company and certain of its subsidiaries to, among other things and subject to certain baskets and exceptions contained therein, incur debt, create liens on assets, make investments outside of the ordinary course of business, sell assets outside of the ordinary course of business, enter into merger transactions and enter into unrelated businesses. The Credit Agreement permits the making of dividend payments and stock repurchases so long as the Company (i) is not in default under the Credit Agreement, or (ii) if in default at the time of making such dividend payment or stock repurchase, has no loans outstanding under the Credit Agreement or more than \$10 million in letters of credit issued under the Credit Agreement. The Credit Agreement also contains various customary representations and warranties, financial reporting requirements and other affirmative and negative covenants. The Credit Agreement requires that the Company maintain at all times a “Leverage Ratio” (as defined in the Credit Agreement) to be no greater than 2.50 to 1.00 and a “Fixed Charge Coverage Ratio” (as defined in the Credit Agreement) to be no less than 1.40 to 1.00, both determined as of the end of each fiscal quarter of the Company for the trailing four quarters. As of February 1, 2014 and February 2, 2013, Signet was in compliance with all debt covenants.

The commitments may be terminated and amounts outstanding under the Credit Agreement may be accelerated upon the occurrence of certain events of default as set forth in the Credit Agreement. These include failure to

make principal or interest payments when due, certain insolvency or bankruptcy events affecting the Company or certain of its subsidiaries and breaches of covenants and representations or warranties.

No borrowings were drawn on the facility as of February 1, 2014 and February 2, 2013. Stand-by letters of credit of \$10.1 million were drawn on the facility at February 1, 2014 (February 2, 2013: \$9.5 million), with no significant intra-period fluctuations.

As of February 1, 2014, there were \$19.3 million in overdrafts, which represents issued and outstanding checks where there are no bank balances with the right to offset. There were no overdrafts as of February 2, 2013.

Capitalized fees

Capitalized amendment fees for the Credit Agreement were \$2.1 million, with \$1.2 million and \$0.8 million of accumulated amortization as of February 1, 2014 and February 2, 2013, respectively. In Fiscal 2014, \$0.4 million was charged to the income statement (Fiscal 2013: \$0.4 million; Fiscal 2012: \$1.9 million). In Fiscal 2012, \$0.2 million of the capitalized balance was amortized as it related to the 2008 Facility. Following the effectiveness of the new Credit Agreement, the remaining \$1.3 million of capitalized fees for the 2008 Facility were written off.

19. Financial instruments and fair value

Signet's principal financial instruments are comprised of cash, cash deposits/investments and overdrafts, accounts receivable and payable, derivatives and a revolving credit facility. Signet does not enter into derivative transactions for trading purposes. Derivative transactions are used by Signet for risk management purposes to address risks inherent in Signet's business operations and sources of finance. The main risks arising from Signet's operations are market risk including foreign currency risk and commodity risk, liquidity risk and interest rate risk. Signet uses these financial instruments to manage and mitigate these risks under policies reviewed and approved by the Board.

Market risk

Signet generates revenues and incurs expenses in US dollars and pounds sterling. As a portion of Signet's UK division purchases are denominated in US dollars, Signet enters into forward foreign currency exchange contracts, foreign currency option contracts and foreign currency swaps to manage this exposure to the US dollar.

Signet holds a fluctuating amount of pounds sterling cash reflecting the cash generative characteristics of the UK division. Signet's objective is to minimize net foreign exchange exposure to the income statement on pound sterling denominated items through managing this level of cash, pound sterling denominated intercompany balances and US dollar to pound sterling swaps. In order to manage the foreign exchange exposure and minimize the level of pound sterling cash held by Signet, the pound sterling denominated subsidiaries pay dividends regularly to their immediate holding companies and excess pounds sterling are sold in exchange for US dollars.

Signet's policy is to minimize the impact of precious metal commodity price volatility on operating results through the use of outright forward purchases of, or by entering into either purchase options or net zero-cost collar arrangements to purchase, precious metals within treasury guidelines approved by the Board. In particular, Signet undertakes some hedging of its requirement for gold through the use of options, net zero-cost collar arrangements (a combination of call and put option contracts), forward contracts and commodity purchasing, while fluctuations in the cost of diamonds are not hedged.

Liquidity risk

Signet's objective is to ensure that it has access to, or the ability to generate sufficient cash from either internal or external sources in a timely and cost-effective manner to meet its commitments as they become due and payable.

Signet manages liquidity risks as part of its overall risk management policy. Management produces forecasting and budgeting information that is reviewed and monitored by the Board. Cash generated from operations and external financing are the main source of funding supplementing Signet's resources in meeting liquidity requirements.

The main external source of funding is a \$400 million senior unsecured multi-currency five year revolving credit facility, under which there were no borrowings as of February 1, 2014 or February 2, 2013.

Interest rate risk

Signet may enter into various interest rate protection agreements in order to limit the impact of movements in interest rates on its cash or borrowings. There were no interest rate protection agreements outstanding as of February 1, 2014 or February 2, 2013.

Credit risk and concentrations of credit risk

Credit risk represents the loss that would be recognized at the reporting date if counterparties failed to perform as contracted. Signet does not anticipate non-performance by counterparties of its financial instruments, except for customer in-house financing receivables as disclosed in Note 10. Signet does not require collateral or other security to support cash investments or financial instruments with credit risk; however it is Signet's policy to only hold cash and cash equivalent investments and to transact financial instruments with financial institutions with a certain minimum credit rating. Management does not believe Signet is exposed to any significant concentrations of credit risk that arise from cash and cash equivalent investments, derivatives or accounts receivable.

Derivatives

The following types of derivative financial instruments are utilized by Signet to mitigate certain risk exposures related to changes in commodity prices and foreign exchange rates:

Forward foreign currency exchange contracts (designated)—These contracts, which are principally in US dollars, are entered into in order to limit the impact of movements in foreign exchange rates on forecasted foreign currency purchases. The total notional amount of these foreign currency contracts outstanding as of February 1, 2014 was \$42.3 million (February 2, 2013: \$50.8 million). These contracts have been designated as cash flow hedges and will be settled over the next 12 months (February 2, 2013: 12 months).

Forward foreign currency exchange contracts (undesignated)—Foreign currency contracts not designated as cash flow hedges are used to hedge currency flows through Signet's bank accounts to mitigate Signet's exposure to foreign currency exchange risk in its cash and borrowings. The total notional amount of these foreign currency contracts outstanding as of February 1, 2014 was \$22.1 million (February 2, 2013: \$36.1 million).

Commodity forward purchase contracts and net zero-cost collar arrangements—These contracts are entered into in order to reduce Signet's exposure to significant movements in the price of the underlying precious metal raw material. The total notional amount of these commodity derivative contracts outstanding as of February 1, 2014 was \$63.0 million (February 2, 2013: \$187.6 million). These contracts have been designated as cash flow hedges and will be settled over the next 12 months (February 2, 2013: 11 months).

The bank counterparties to the derivative contracts expose Signet to credit-related losses in the event of their nonperformance. However, to mitigate that risk, Signet only contracts with counterparties that meet certain minimum requirements under its counterparty risk assessment process. As of February 1, 2014, Signet believes that this credit risk did not materially change the fair value of the foreign currency or commodity contracts.

The following table summarizes the fair value and presentation of derivative instruments in the consolidated balance sheets:

		Derivative assets	
		Fair value	
	Balance sheet location	February 1, 2014	February 2, 2013
<i>(in millions)</i>			
Derivatives designated as hedging instruments:			
Foreign currency contracts.....	Other current assets	\$—	\$1.0
Foreign currency contracts.....	Other assets	—	—
Commodity contracts.....	Other current assets	0.8	2.8
Commodity contracts.....	Other assets	—	—
		<u>0.8</u>	<u>3.8</u>
Derivatives not designated as hedging instruments:			
Foreign currency contracts.....	Other current assets	0.2	—
Total derivative assets		<u>\$1.0</u>	<u>\$3.8</u>

		Derivative liabilities	
		Fair value	
	Balance sheet location	February 1, 2014	February 2, 2013
<i>(in millions)</i>			
Derivatives designated as hedging instruments:			
Foreign currency contracts.....	Other current liabilities	\$(2.1)	\$—
Foreign currency contracts.....	Other liabilities	—	—
Commodity contracts.....	Other current liabilities	(0.8)	(4.6)
Commodity contracts.....	Other liabilities	—	—
		<u>(2.9)</u>	<u>(4.6)</u>
Derivatives not designated as hedging instruments:			
Foreign currency contracts.....	Other current liabilities	—	—
Total derivative liabilities.....		<u>\$(2.9)</u>	<u>\$(4.6)</u>

Derivatives designated as cash flow hedges

The following table summarizes the pre-tax gains (losses) recorded in accumulated OCI for derivatives designated in cash flow hedging relationships:

	February 1, 2014	February 2, 2013
<i>(in millions)</i>		
Foreign currency contracts.....	\$ (2.3)	\$1.3
Commodity contracts	<u>(18.8)⁽¹⁾</u>	<u>(0.5)</u>
Total	<u>\$(21.1)</u>	<u>\$0.8</u>

(1) Includes losses of \$18.2 million related to commodity contracts terminated prior to contract maturity in Fiscal 2014.

The following tables summarize the effect of derivative instruments designated as cash flow hedges in OCI and the consolidated income statements:

Foreign currency contracts

	<u>Income statement caption</u>	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>
<i>(in millions)</i>			
Gains (losses) recorded in accumulated OCI, beginning of year		\$ 1.3	\$ 1.2
Current period (losses) gains recognized in OCI.....		(2.7)	0.5
(Gains) losses reclassified from accumulated OCI to net income	Cost of sales	<u>(0.9)</u>	<u>(0.4)</u>
(Losses) gains recorded in accumulated OCI, end of year		<u>\$(2.3)</u>	<u>\$ 1.3</u>

Commodity contracts

	<u>Income statement caption</u>	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>
<i>(in millions)</i>			
(Losses) gains recorded in accumulated OCI, beginning of year		\$ (0.5)	\$ 32.4
Current period (losses) gains recognized in OCI.....		(30.3) ⁽¹⁾	(10.9)
Losses (gains) reclassified from accumulated OCI to net income.....	Cost of sales	<u>12.0</u>	<u>(22.0)</u>
(Losses) gains recorded in accumulated OCI, end of year		<u>\$(18.8)</u>	<u>\$ (0.5)</u>

(1) Includes losses of \$27.8 million related to the change in fair value of commodity contracts the Company terminated prior to contract maturity in Fiscal 2014.

There was no material ineffectiveness related to the Company's derivative instruments designated in cash flow hedging relationships for the years ended February 1, 2014 and February 2, 2013. Based on current valuations, the Company expects approximately \$19.5 million of net pre-tax derivative losses to be reclassified out of accumulated OCI into earnings within the next 12 months.

Derivatives not designated as hedging instruments

The following table presents the effects of the Company's derivatives instruments not designated as cash flow hedges in the consolidated income statements:

	<u>Income statement caption</u>	<u>Amount of gain (loss) recognized in income</u>	
		<u>Fiscal 2014</u>	<u>Fiscal 2013</u>
<i>(in millions)</i>			
Derivatives not designated as hedging instruments:			
Foreign currency contracts.....	Other operating income, net	<u>\$(5.5)</u>	<u>\$—</u>
Total		<u>\$(5.5)</u>	<u>\$—</u>

Fair value

The estimated fair value of Signet's financial instruments held or issued to finance Signet's operations is summarized below. Certain estimates and judgments were required to develop the fair value amounts. The fair value amounts shown below are not necessarily indicative of the amounts that Signet would realize upon disposition nor do they indicate Signet's intent or ability to dispose of the financial instrument. Assets and liabilities that are carried at fair value are required to be classified and disclosed in one of the following three categories:

Level 1—quoted market prices in active markets for identical assets and liabilities

Level 2—observable market based inputs or unobservable inputs that are corroborated by market data

Level 3—unobservable inputs that are not corroborated by market data

Signet determines fair value based upon quoted prices when available or through the use of alternative approaches, such as discounting the expected cash flows using market interest rates commensurate with the credit quality and duration of the investment. The methods Signet uses to determine fair value on an instrument-specific basis are detailed below.

	February 1, 2014		February 2, 2013	
	Carrying amount	Significant other observable inputs (Level 2)	Carrying amount	Significant other observable inputs (Level 2)
<i>(in millions)</i>				
Assets:				
Foreign currency contracts	\$0.2	\$0.2	\$1.0	\$1.0
Commodity contracts	0.8	0.8	2.8	2.8
Liabilities:				
Foreign currency contracts	(2.1)	(2.1)	—	—
Commodity contracts	(0.8)	(0.8)	(4.6)	(4.6)

The fair value of derivative financial instruments has been determined based on market value equivalents at the balance sheet date, taking into account the current interest rate environment, current foreign currency forward rates or current commodity forward rates. These are held as assets and liabilities within other receivables and other payables, and all contracts have a maturity of less than twelve months. The carrying amounts of cash and cash equivalents, accounts receivable, other receivables, accounts payable and accrued liabilities approximate fair value because of the short term maturity of these amounts.

20. Pension plans

The UK Plan, which ceased to admit new employees from April 2004, is a funded plan with assets held in a separate trustee administered fund, which is independently managed. February 1, 2014 and February 2, 2013 measurement dates were used in determining the UK Plan's benefit obligation and fair value of plan assets.

The following tables provide information concerning the UK Plan as of and for the fiscal years ended February 1, 2014 and February 2, 2013:

	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>
<i>(in millions)</i>		
Change in UK Plan assets:		
Fair value at beginning of year	\$261.1	\$236.0
Actual return on UK Plan assets	13.1	22.1
Employer contributions	4.9	13.7
Members' contributions	0.7	0.5
Benefits paid	(9.3)	(10.9)
Foreign currency changes	12.1	(0.3)
Fair value at end of year	<u>\$282.6</u>	<u>\$261.1</u>
	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>
<i>(in millions)</i>		
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 212.6	\$ 204.5
Service cost	2.4	3.6
Past service cost	0.9	1.1
Interest cost	9.3	9.5
Members' contributions	0.7	0.5
Actuarial loss (gain)	(0.1)	4.3
Benefits paid	(9.3)	(10.9)
Foreign currency changes	9.8	—
Benefit obligation at end of year	<u>\$ 226.3</u>	<u>\$ 212.6</u>
Funded status at end of year: UK Plan assets less benefit obligation	<u>\$ 56.3</u>	<u>\$ 48.5</u>
	<u>February 1, 2014</u>	<u>February 2, 2013</u>
<i>(in millions)</i>		
Amounts recognized in the balance sheet consist of:		
Non-current assets	\$56.3	\$48.5
Non-current liabilities	—	—
Net asset recognized	<u>\$56.3</u>	<u>\$48.5</u>

Items in accumulated OCI not yet recognized as income (expense) in the income statement:

	<u>February 1, 2014</u>	<u>February 2, 2013</u>	<u>January 28, 2012</u>
<i>(in millions)</i>			
Net actuarial loss	\$(42.5)	\$(44.4)	\$(51.5)
Net prior service credit	15.3	17.1	19.1

The estimated actuarial loss and prior service credit for the UK Plan that will be amortized from accumulated OCI into net periodic pension cost over the next fiscal year are \$2.0 million and \$(1.7) million, respectively.

The accumulated benefit obligation for the UK Plan was \$210.3 million and \$197.5 million at February 1, 2014 and February 2, 2013, respectively.

The components of net periodic pension cost and other amounts recognized in OCI for the UK Plan are as follows:

	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>
<i>(in millions)</i>			
Components of net periodic pension cost:			
Service cost.....	\$(2.4)	\$(3.6)	\$ (4.8)
Interest cost.....	(9.3)	(9.5)	(10.7)
Expected return on UK Plan assets.....	13.0	11.5	13.8
Amortization of unrecognized net prior service credit	1.5	1.6	1.0
Amortization of unrecognized actuarial loss	(2.3)	(3.2)	(2.6)
Net periodic pension benefit (cost)	\$ 0.5	\$(3.2)	\$ (3.3)
Other changes in assets and benefit obligations recognized in OCI.....	0.1	6.7	(1.7)
Total recognized in net periodic pension benefit (cost) and OCI	\$ 0.6	\$ 3.5	\$ (5.0)
	<u>February 1, 2014</u>	<u>February 2, 2013</u>	
Assumptions used to determine benefit obligations (at the end of the year):			
Discount rate.....	4.40%	4.50%	
Salary increases	3.00%	3.20%	
Assumptions used to determine net periodic pension costs (at the start of the year):			
Discount rate.....	4.50%	4.70%	
Expected return on UK Plan assets.....	5.00%	4.75%	
Salary increases	3.20%	3.20%	

The discount rate is based upon published rates for high-quality fixed-income investments that produce expected cash flows that approximate the timing and amount of expected future benefit payments.

The expected return on the UK Plan assets assumption is based upon the historical return and future expected returns for each asset class, as well as the target asset allocation of the portfolio of UK Plan assets.

The UK Plan's investment strategy is guided by an objective of achieving a return on the investments, which is consistent with the long-term return assumptions and funding policy, to ensure the UK Plan obligations are met. The investment policy is to carry a balance of funds to achieve these aims. These funds carry investments in UK and overseas equities, diversified growth funds, UK corporate bonds, UK Gilts and commercial property. The property investment is through a Pooled Pensions Property Fund that provides a diversified portfolio of property assets.

The target allocation for the UK Plan's assets at February 1, 2014 was bonds 45%, diversified growth funds 35%, equities 15% and property 5%. This allocation is consistent with the long-term target allocation of investments underlying the UK Plan's funding strategy.

The fair value of the assets in the UK Plan at February 1, 2014 and February 2, 2013 are required to be classified and disclosed in one of the following three categories:

Level 1—quoted market prices in active markets for identical assets and liabilities

Level 2—observable market based inputs or unobservable inputs that are corroborated by market data

Level 3—unobservable inputs that are not corroborated by market data

In Fiscal 2014, based upon further review of the underlying securities of the investments, management corrected the presentation for certain investments as of February 2, 2013 from Level 1 to Level 2 in the amount of \$188.3 million. The value and classification of these assets was as follows:

	Fair value measurements at February 1, 2014				Fair value measurements at February 2, 2013			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable inputs (Level 3)	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>(in millions)</i>								
Asset category:								
Diversified equity securities	\$ 41.0	\$ 19.1	\$ 21.9	\$ —	\$ 73.2	\$34.9	\$ 38.3	\$ —
Diversified growth funds	100.5	50.8	49.7	—	51.2	26.3	24.9	—
Fixed income – government bonds.....	64.2	—	64.2	—	63.4	—	63.4	—
Fixed income – corporate bonds.....	64.6	—	64.6	—	61.7	—	61.7	—
Property	11.6	—	—	11.6	10.4	—	—	10.4
Cash	0.7	0.7	—	—	1.2	1.2	—	—
Total	<u>\$282.6</u>	<u>\$ 70.6</u>	<u>\$200.4</u>	<u>\$11.6</u>	<u>\$261.1</u>	<u>\$62.4</u>	<u>\$188.3</u>	<u>\$10.4</u>

Investments in diversified equity securities, diversified growth funds, and fixed income securities are in pooled funds. Investments are valued based on unadjusted quoted prices for each fund in active markets, where possible and, therefore, classified in Level 1 of the fair value hierarchy. If unadjusted quoted prices for identical assets are unavailable, investments are valued by the administrators of the funds. The valuation is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of units outstanding. The unit price is based on underlying investments which are generally either traded in an active market or are valued based on observable inputs such as market interest rates and quoted prices for similar securities and, therefore, classified in Level 2 of the fair value hierarchy.

The investment in property is in pooled funds valued by the administrators of the fund. The valuation is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of units outstanding. The unit price is based on underlying investments which are independently valued on a monthly basis. The investment in the property fund is subject to certain restrictions on withdrawals that could delay the receipt of funds by up to 16 months.

The table below sets forth changes in the fair value of the Level 3 investment assets in Fiscal 2014 and 2013:

<i>(in millions)</i>	
Balance at January 28, 2012	\$10.3
Actual return on assets.....	0.1
Balance at February 2, 2013.....	\$10.4
Actual return on assets.....	1.2
Balance at February 1, 2014	<u>\$11.6</u>

The UK Plan does not hold any investment in Signet shares or in property occupied by or other assets used by Signet.

Signet contributed \$4.9 million to the UK Plan in Fiscal 2014 and expects to contribute a minimum of \$4.2 million to the UK Plan in Fiscal 2015. The level of contributions is in accordance with an agreed upon deficit recovery plan and based on the results of the actuarial valuation as of April 5, 2012.

The following benefit payments, which reflect expected future service, as appropriate, are estimated to be paid by the UK Plan:

<i>(in millions)</i>	
Fiscal 2015	\$ 9.3
Fiscal 2016	10.3
Fiscal 2017	10.7
Fiscal 2018	10.3
Fiscal 2019	11.9
Fiscal 2020 to Fiscal 2024	62.2

In June 2004, Signet introduced a defined contribution plan which replaced the UK Plan for new UK employees. The contributions to this plan in Fiscal 2014 were \$1.0 million (Fiscal 2013: \$0.7 million; Fiscal 2012: \$0.6 million).

In the US, Signet sponsors a defined contribution 401(k) retirement savings plan for all eligible employees who meet minimum age and service requirements. The assets of this plan are held in a separate trust and Signet matches 50% of up to 6% of employee elective salary deferrals, subject to statutory limitations. Effective April 1, 2011, Signet increased the matching element from 25% to 50% of up to 6% of employee elective salary deferrals. Signet's contributions to this plan in Fiscal 2014 were \$7.1 million (Fiscal 2013: \$6.5 million; Fiscal 2012: \$5.4 million). The US division has also established two unfunded, non-qualified deferred compensation plans, one of which permits certain management and highly compensated employees to elect annually to defer all or a portion of their compensation and earn interest on the deferred amounts ("DCP") and the other of which is frozen as to new participants and new deferrals. Beginning in April 2011, the DCP provided for a matching contribution based on each participant's annual compensation deferral. The plan also permits employer contributions on a discretionary basis. In connection with these plans, Signet has invested in trust-owned life insurance policies and money market funds. The cost recognized in connection with the DCP in Fiscal 2014 was \$2.4 million (Fiscal 2013: \$2.1 million; Fiscal 2012: \$2.2 million).

The fair value of the assets in the two unfunded, non-qualified deferred compensation plans at February 1, 2014 and February 2, 2013 are required to be classified and disclosed. Although these plans are not required to be funded by the Company, the Company may elect to fund the plans. The value and classification of these assets are as follows:

	Fair value measurements at February 1, 2014			Fair value measurements at February 2, 2013		
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
<i>(in millions)</i>						
Assets:						
Corporate-owned life insurance plans ..	\$ 8.2	\$—	\$8.2	\$ 8.9	\$—	\$8.9
Money market funds	16.3	16.3	—	8.6	8.6	—
Total assets	<u>\$24.5</u>	<u>\$16.3</u>	<u>\$8.2</u>	<u>\$17.5</u>	<u>\$8.6</u>	<u>\$8.9</u>

21. Common shares, treasury shares and reserves

Common Shares

The par value of each Common Share is 18 cents. The consideration received for Common Shares issued during the year related to options was \$9.3 million (Fiscal 2013: \$21.6 million; Fiscal 2012: \$10.6 million).

Treasury shares

Treasury shares represent the cost of shares that the Company purchased in the market under the applicable authorized repurchase program, shares forfeited under the Omnibus Incentive Plan, and those previously held by the Employee Stock Ownership Trust ("ESOT") to satisfy options under Signet's share option plans.

The total number of shares held in treasury by the Company at February 1, 2014 was 6,954,596. In Fiscal 2014, the Company repurchased 1,557,673 shares under authorized repurchase programs, while reissuing 437,913 shares, net of taxes and forfeitures, to satisfy awards outstanding under existing share based compensation plans. In Fiscal 2013, the Company repurchased 6,425,296 shares under authorized repurchase programs, while reissuing 865,598 shares, net of taxes and forfeitures, to satisfy awards outstanding under existing share based compensation plans. In Fiscal 2012, the Company repurchased 256,241 shares under authorized repurchase programs and 18,897 shares were forfeited under the Omnibus Incentive Plan.

Share repurchase

Signet may from time to time repurchase common shares under various share repurchase programs authorized by Signet's Board. Repurchases may be made in the open market, through block trades or otherwise. The timing, manner, price and amount of any repurchases will be determined by the Company in its discretion, and will be subject to economic and market conditions, stock prices, applicable legal requirements and other factors. The repurchase programs are funded through Signet's existing cash reserves and liquidity sources. Repurchased shares are being held as treasury shares and may be used by Signet for general corporate purposes. Share repurchase activity is as follows:

	Fiscal 2014				Fiscal 2013			Fiscal 2012		
	Amount authorized (in millions)	Shares repurchased	Amount repurchased (in millions)	Average repurchase price per share	Shares repurchased	Amount repurchased (in millions)	Average repurchase price per share	Shares repurchased	Amount repurchased (in millions)	Average repurchase price per share
2013 Program ⁽¹⁾	\$350.0	808,428	\$ 54.6	\$67.54	na	na	na	na	na	na
2011 Program ⁽²⁾	350.0	749,245	50.1	66.92	6,425,296	\$287.2	\$44.70	256,241	\$12.7	\$49.57
Total		1,557,673	\$104.7	\$67.24	6,425,296	\$287.2	\$44.70	256,241	\$12.7	\$49.57

(1) On June 14, 2013, the Board the repurchase of up to \$350 million of Signet's common shares (the "2013 Program"). The 2013 Program may be suspended or discontinued at any time without notice. The 2013 Program had \$295.4 million remaining as of February 1, 2014.

(2) In October 2011, the Board authorized the repurchase of up to \$300 million of Signet's common shares (the "2011 Program"), which authorization was subsequently increased to \$350 million. The 2011 Program was completed as of May 4, 2013.

na Not applicable.

Other reserves

Other reserves consist of special reserves and a capital redemption reserve established in accordance with the laws of England and Wales.

The Predecessor Company established a special reserve prior to 1997 in connection with reductions in additional paid-in capital which can only be used to write off existing goodwill resulting from acquisitions and otherwise only for purposes permitted for share premium accounts under the laws of England and Wales.

The capital redemption reserve has arisen on the cancellation of previously issued Common Shares and represents the nominal value of those shares cancelled.

22. Commitments and contingencies

Operating leases

Signet occupies certain properties and holds machinery and vehicles under operating leases; it does not have any capital leases.

Rental expense for operating leases is as follows:

	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>
(in millions)			
Minimum rentals	\$323.7	\$316.0	\$311.7
Contingent rent.....	11.1	7.8	9.8
Sublease income.....	(0.9)	(2.9)	(5.1)
Total	<u>\$333.9</u>	<u>\$320.9</u>	<u>\$316.4</u>

The future minimum operating lease payments for operating leases having initial or non-cancelable terms in excess of one year are as follows:

(in millions)	
Fiscal 2015	\$ 311.1
Fiscal 2016	275.4
Fiscal 2017	245.8
Fiscal 2018	212.6
Fiscal 2019	181.8
Thereafter	<u>937.7</u>
Total	<u>\$2,164.4</u>

Signet has entered into certain sale and leaseback transactions of certain properties. Under these transactions it continues to occupy the space in the normal course of business. Gains on the transactions are deferred and recognized as a reduction of rent expense over the life of the operating lease.

Contingent property liabilities

Approximately 44 UK property leases had been assigned by Signet at February 1, 2014 (and remained unexpired and occupied by assignees at that date) and approximately 19 additional properties were sub-let at that date. Should the assignees or sub-tenants fail to fulfill any obligations in respect of those leases or any other leases which have at any other time been assigned or sub-let, Signet or one of its UK subsidiaries may be liable for those defaults. The number of such claims arising to date has been small, and the liability, which is charged to the income statement as it arises, has not been material.

Capital commitments

At February 1, 2014 Signet has committed to spend \$42.3 million (February 2, 2013: \$33.6 million) related to capital commitments. These commitments principally relate to the expansion and renovation of stores.

Legal proceedings

As previously reported, in March 2008, a group of private plaintiffs (the “Claimants”) filed a class action lawsuit for an unspecified amount against Sterling Jewelers Inc. (“Sterling”), a subsidiary of Signet, in the U.S. District Court for the Southern District of New York alleging that US store-level employment practices are discriminatory as to compensation and promotional activities with respect to gender. In June 2008, the District Court referred the matter to private arbitration where the Claimants sought to proceed on a class-wide basis.

Discovery has been completed. The Claimants filed a motion for class certification and Sterling opposed the motion. A hearing on the class certification motion was held in late February 2014. The motion is now pending before the Arbitrator.

Also as previously reported, on September 23, 2008, the U.S. Equal Employment Opportunity Commission (“EEOC”) filed a lawsuit against Sterling in the U.S. District Court for the Western District of New York. The EEOC’s lawsuit alleges that Sterling engaged in intentional and disparate impact gender discrimination with respect to pay and promotions of female retail store employees from January 1, 2003 to the present. The EEOC asserts claims for unspecified monetary relief and non-monetary relief against the Company on behalf of a class of female employees subjected to these alleged practices. Non-expert fact discovery closed in mid-May 2013. In September 2013, Sterling made a motion for partial summary judgment on procedural grounds, which was referred to a Magistrate Judge. The Magistrate Judge heard oral arguments on the summary judgment motion in December 2013. On January 2, 2014, the Magistrate Judge issued his Report, Recommendation and Order, recommending that the Court grant Sterling’s motion for partial summary judgment and dismiss the EEOC’s claims in their entirety. The EEOC filed its objections to the Magistrate Judge’s ruling and Sterling filed its response thereto. The District Court Judge heard oral arguments on the EEOC’s objections to the Magistrate Judge’s ruling on March 7, 2014 and on March 10, 2014 entered an order dismissing the action with prejudice. The EEOC has until May 12, 2014 to appeal the District Court Judge’s dismissal of the action to United States Court of Appeals for the Second Circuit.

Sterling denies the allegations of both parties and has been defending these cases vigorously. At this point, no outcome or amount of loss is able to be estimated.

In the ordinary course of business, Signet may be subject, from time to time, to various other proceedings, lawsuits, disputes or claims incidental to its business, which the Company believe are not significant to Signet’s consolidated financial position, results of operations or cash flows.

23. Share-based compensation

Signet operates several share-based compensation plans which can be categorized as the “Omnibus Plan,” “Share Saving Plans,” and the “Executive Plans.”

Impact on results

Share-based compensation expense and the associated tax benefits are as follows:

	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>
<i>(in millions)</i>			
Share-based compensation expense	<u>\$14.4</u>	<u>\$15.7</u>	<u>\$17.0</u>
Income tax benefit.....	<u>\$ (5.2)</u>	<u>\$ (5.4)</u>	<u>\$ (5.7)</u>

The Fiscal 2014, Fiscal 2013 and Fiscal 2012 expense includes \$0.4 million, \$1.9 million and \$4.4 million, respectively, of share-based compensation incurred in connection with the Chief Executive Officer’s (“CEO”) employment agreement dated September 29, 2010, for amounts foregone from his former employment. Under this agreement, 289,554 shares valued at \$12.5 million were granted based upon the mid-market closing price of Signet’s stock on January 18, 2011. Of the shares granted, 116,392 shares vested on January 19, 2011, 92,083 shares vested in Fiscal 2013, 61,127 shares vested in Fiscal 2014 and 19,952 shares are expected to vest in Fiscal 2015, based on the vesting schedule of his foregone awards.

Unrecognized compensation cost related to awards granted under share-based compensation plans is as follows:

	Unrecognized Compensation Cost		
	Fiscal 2014	Fiscal 2013	Fiscal 2012
(in millions)			
Omnibus Plan.....	\$ 14.4	\$ 14.6	\$ 16.3
Share Saving Plans.....	2.9	2.9	3.3
CEO Shares.....	—	0.4	2.3
Total	\$ 17.3	\$ 17.9	\$ 21.9
Weighted average period of amortization	1.8 years	1.7 years	1.6 years

As of April 2012, the Company opted to satisfy share option exercises and the vesting of restricted stock and restricted stock units (“RSUs”) under its plans with the issuance of treasury shares. Prior to April 2012, all share option exercises and award vestings were satisfied through the issuance of new shares.

Omnibus Plan

In Fiscal 2010, Signet adopted the Signet Jewelers Limited Omnibus Incentive Plan (the “Omnibus Plan”). Awards that may be granted under the Omnibus Plan include restricted stock, RSUs, stock options and stock appreciation rights. The Fiscal 2014, Fiscal 2013 and Fiscal 2012 Awards granted under the Omnibus Plan have two elements, time-based restricted stock and performance-based restricted stock units. The time-based restricted stock has a three year cliff vesting period, subject to continued employment and has the same voting rights and dividend rights as Common Shares (which are payable once the shares have vested). Performance-based restricted stock units granted in Fiscal 2012 and Fiscal 2013 vest based upon actual cumulative operating income achieved for the relevant three year performance period compared to cumulative targeted operating income metrics established in the underlying grant agreement. In Fiscal 2014, an additional performance measure was included for the performance-based restricted stock units for senior executives, to include a return on capital employed (“ROCE”) metric during the relevant three year performance period compared to target levels established in the underlying grant agreements. The relevant performance is measured over a three year vesting period from the start of the fiscal year in which the award is granted. The Omnibus Plan permits the grant of awards to employees for up to 7,000,000 Common Shares.

The significant assumptions utilized to estimate the weighted-average fair value of awards granted under the Omnibus Plan are as follows:

	Omnibus Plan		
	Fiscal 2014	Fiscal 2013	Fiscal 2012
Share price ⁽¹⁾	\$ 67.39	\$ 47.15	\$ 44.33
Risk free interest rate ⁽¹⁾	0.3%	0.4%	1.4%
Expected term ⁽¹⁾	2.8 years	2.9 years	2.9 years
Expected volatility ⁽¹⁾	41.7%	44.2%	45.1%
Dividend yield ⁽¹⁾	1.1%	1.2%	0.7%
Fair value ⁽¹⁾	\$ 66.10	\$ 46.12	\$ 43.52

(1) Weighted average.

The risk free interest rate is based on the US Treasury (for US-based award recipients) or UK Gilt (for UK-based award recipients) yield curve in effect at the grant date with remaining terms equal to the expected term of the awards. The expected term utilized is based on the contractual vesting period of the awards. The expected volatility is determined by calculating the historical volatility of Signet’s share price over the previous 10 years.

The Fiscal 2014 activity for awards granted under the Omnibus Plan is as follows:

	Omnibus Plans ⁽¹⁾			
	<u>No. of shares</u>	<u>Weighted average grant date fair value</u>	<u>Weighted average remaining contractual life</u>	<u>Intrinsic value⁽²⁾</u>
	<u>millions</u>			<u>millions</u>
Outstanding at February 2, 2013.....	1.2	\$40.86	1.1 years	\$73.1
Fiscal 2014 activity:				
Granted.....	0.3	\$66.10		
Vested	(0.4)	\$33.62		
Lapsed	(0.1)	\$46.58		
Outstanding at February 1, 2014.....	<u>1.0</u>	<u>\$51.44</u>	<u>1.0 years</u>	<u>\$80.1</u>

(1) Includes shares issued to the CEO, whose contract includes share based compensation for amounts foregone from his prior employment.

(2) Intrinsic value for outstanding restricted stock and RSUs is based on the fair market value of Signet's common stock on the last business day of the fiscal year.

The following table summarizes additional information about awards granted under the Omnibus Plan:

	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>
(in millions)			
Total intrinsic value of awards vested	<u>\$25.3</u>	<u>\$28.5</u>	<u>\$ 0.5</u>

Share Saving Plans

Signet has three share option savings plans (collectively “the Share Saving Plans”) available to employees as follows:

- Employee Share Savings Plan, for US employees
- Sharesave Plan, for UK employees
- Irish Sharesave Plan for Republic of Ireland employees

The Share Saving Plans are compensatory and compensation expense is recognized over the requisite service period. In any 10 year period not more than 10% of the issued Common Shares of the Company from time to time may, in aggregate, be issued or be issuable pursuant to options granted under the Share Saving Plans or any other employees share plans adopted by Signet.

The Employee Share Savings Plan is a savings plan intended to qualify under US Section 423 of the US Internal Revenue Code and allows employees to purchase Common Shares at a discount of approximately 15% to the closing price of the New York Stock Exchange on the date of grant. Options granted under the Employee Share Savings Plan vest after 24 months and are generally only exercisable between 24 and 27 months of the grant date.

The Sharesave and Irish Sharesave Plans allow eligible employees to purchase Common Shares at a discount of approximately 20% below a determined market price based on the London Stock Exchange. The market price is determined as the average middle market price for the three trading days prior to the invitation date, or the market price on the day immediately preceding the participation date, or other market price agreed in writing, whichever is the higher value. Options granted under the Sharesave Plan and the Irish Sharesave Plan vest after 36 months and are generally only exercisable between 36 and 42 months from commencement of the related savings contract.

The significant assumptions utilized to estimate the weighted-average fair value of awards granted under the Share Saving Plans are as follows:

	Share Saving Plans		
	Fiscal 2014	Fiscal 2013	Fiscal 2012
Share price ⁽¹⁾	\$ 72.65	\$ 49.89	\$ 40.09
Exercise price ⁽¹⁾	\$ 59.75	\$ 41.17	\$ 28.32
Risk free interest rate ⁽¹⁾	0.7%	0.4%	0.7%
Expected term ⁽¹⁾	2.7 years	2.7 years	3.0 years
Expected volatility ⁽¹⁾	40.2%	41.0%	43.0%
Dividend yield ⁽¹⁾	1.1%	1.4%	1.0%
Fair value ⁽¹⁾	\$ 22.89	\$ 15.40	\$ 11.55

(1) Weighted average.

The risk free interest rate is based on the US Treasury (for US-based award recipients) or UK Gilt (for UK-based award recipients) yield curve in effect at the grant date with remaining terms equal to the expected term of the awards. The expected term utilized is based on the contractual vesting period of the awards, inclusive of any exercise period available to award recipients after vesting. The expected volatility is determined by calculating the historical volatility of Signet's share price over the previous 10 years.

The Fiscal 2014 activity for awards granted under the Share Saving Plans is as follows:

	Share Saving Plans			
	No. of shares	Weighted average exercise price	Weighted average remaining contractual life	Intrinsic value ⁽¹⁾
	millions			millions
Outstanding at February 2, 2013.....	0.3	\$32.48	1.9 years	\$9.8
Fiscal 2014 activity:				
Granted.....	0.1	\$59.75		
Exercised.....	(0.1)	\$27.32		
Lapsed.....	—	\$ —		
Outstanding at February 1, 2014.....	0.3	\$44.06	1.7 years	\$9.4
Exercisable at February 2, 2013	—	\$ —	—	\$—
Exercisable at February 1, 2014	—	\$ —	—	\$—

(1) Intrinsic value for outstanding awards is based on the fair market value of Signet's common stock on the last business day of the fiscal year.

The following table summarizes additional information about awards granted under the Share Saving Plans:

	Fiscal 2014	Fiscal 2013	Fiscal 2012
(in millions)			
Weighted average grant date fair value per share of awards granted	<u>\$22.89</u>	<u>\$15.40</u>	<u>\$11.55</u>
Total intrinsic value of options exercised.....	<u>\$ 4.9</u>	<u>\$ 3.3</u>	<u>\$ 1.1</u>
Cash received from share options exercised	<u>\$ 2.9</u>	<u>\$ 2.7</u>	<u>\$ 3.2</u>

Executive Plans

Signet operates three 2003 executive share plans (the "2003 Plans"), together referred to as the "Executive Plans." Option awards under the Executive Plans are generally granted with an exercise price equal to the market price of the Company's shares at the date of grant. Options under the Executive Plans are subject to certain internal performance criteria and cannot be exercised unless Signet achieves an annual rate of compound growth in earnings per share above the retail price index. The performance criteria are measured over a three year period from the start of the fiscal year in which the award is granted. Effective from Fiscal 2008, grants awarded under the 2003 Plans, other than for employee directors, are no longer subject to the performance criteria. Signet's Executive Plans, which are shareholder approved, permit the grant of share options to employees for up to 10% of the issued Common Shares over any 10 year period, including any other employees

share plans adopted by Signet or a maximum of 5% over 10 years including discretionary option plans. A maximum of 8,568,841 shares may be issued pursuant to options granted to US and UK participants in the Executive Plans. During Fiscal 2014, the plan periods for the Executive Plans expired. As a result, no additional awards may be granted under the Executive Plans as of February 1, 2014.

The Fiscal 2014 activity for awards granted under the Executive Plans is as follows:

	Executive Plans			
	No. of shares	Weighted average exercise price	Weighted average remaining contractual life	Intrinsic value ⁽¹⁾
	millions			millions
Outstanding at February 2, 2013.....	0.3	\$ 39.07	3.4 years	\$ 6.5
Fiscal 2014 activity:				
Granted.....	—	\$ —		
Exercised.....	(0.2)	\$ 39.28		
Lapsed.....	—	\$ —		
Outstanding at February 1, 2014.....	<u>0.1</u>	<u>\$ 39.11</u>	<u>3.5 years</u>	<u>\$ 4.1</u>
Exercisable at February 2, 2013	0.3	\$ 39.07		\$ 6.5
Exercisable at February 1, 2014	<u>0.1</u>	<u>\$ 39.11</u>		<u>\$ 4.1</u>

(1) Intrinsic value for outstanding awards is based on the fair market value of Signet's common stock on the last business day of the fiscal year.

The following table summarizes additional information about awards granted under the Executive Plans:

	Fiscal 2014	Fiscal 2013	Fiscal 2012
(in millions)			
Total intrinsic value of options exercised.....	<u>\$ 4.8</u>	<u>\$ 9.0</u>	<u>\$ 5.2</u>
Cash received from share options exercised	<u>\$ 6.3</u>	<u>\$ 18.9</u>	<u>\$ 7.4</u>

24. Related party transactions

There are no material related party transactions.

25. Subsequent Event

On February 19, 2014, Signet entered into a definitive agreement with Zale Corporation ("Zale") to acquire all of Zale's issued and outstanding common stock for \$21.00 per share in cash, or approximately \$1.4 billion including net debt. The proposed acquisition reflects our strategy to diversify our businesses and extend our international footprint. The acquisition is expected to be financed through the securitization of a significant portion of Signet's US accounts receivable portfolio, bank debt and other debt financing. Signet has secured a commitment for bridge financing and a new underwritten term loan facility in connection with the transaction. Completion of the transaction is subject to customary closing conditions, including approval by Zale stockholders and regulatory approval.

QUARTERLY FINANCIAL INFORMATION—UNAUDITED

The sum of the quarterly earnings per share data may not equal the full year amount as the computations of the weighted average shares outstanding for each quarter and the full year are calculated independently.

The following information incorporates the change in accounting for extended service plans that is described in Item 6 and Item 8.

	Fiscal 2014 Quarters ended			
	May 4, 2013	August 3, 2013	November 2, 2013	February 1, 2014
<i>(in millions, except per share amounts)</i>				
Sales	\$993.6	\$ 880.2	\$771.4	\$1,564.0
Gross margin	382.8	309.7	239.2	648.8
Net income	91.8	67.4	33.6	175.2
Earnings per share – basic	\$ 1.14	\$ 0.84	\$ 0.42	\$ 2.20
– diluted	\$ 1.13	\$ 0.84	\$ 0.42	\$ 2.18

	Fiscal 2013 Quarters ended			
	April 28, 2012	July 28, 2012	October 27, 2012	February 2, 2013
<i>(in millions, except per share amounts)</i>				
Sales	\$900.0	\$853.9	\$716.2	\$1,513.3
Gross margin	353.7	311.2	235.4	637.1
Net income	82.5	70.7	34.9	171.8
Earnings per share – basic	\$ 0.96	\$ 0.86	\$ 0.43	\$ 2.13
– diluted	\$ 0.96	\$ 0.85	\$ 0.43	\$ 2.12

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The directors review the effectiveness of Signet's system of internal controls in the following areas:

- financial;
- operational;
- compliance; and
- risk management.

Signet's disclosure controls and procedures are designed to help ensure that processes and procedures for information management are in place at all levels of the business. The disclosure controls and procedures aim to provide reasonable assurance that any information disclosed by Signet in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The procedures are also designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions to be made regarding required disclosure. Signet's Disclosure Control Committee, which has a written Charter, consists of the Chief Financial Officer, Signet's Company Secretary, the Vice President of Investor Relations and the Financial Controller, who consult with Signet's external advisers and auditor, as necessary. These procedures are designed to enable Signet to make timely, appropriate and accurate public disclosures. The activities and findings of the Disclosure Control Committee are reported to the Audit Committee.

Based on their evaluation of Signet's disclosure controls and procedures, as of February 1, 2014 and in accordance with the requirements of Section 302 of the Sarbanes-Oxley Act of 2002, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures are effective and provide reasonable assurance that information regarding Signet is recorded, processed, summarized and reported and that the information is accumulated and communicated to management to allow timely decisions regarding required disclosure.

Management's annual report on internal control over financial reporting

Signet's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act).

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management conducted an evaluation of internal control over financial reporting based on the framework in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management determined that Signet's internal control over financial reporting was effective as of February 1, 2014.

KPMG LLP, which has audited the consolidated financial statements of Signet for Fiscal 2014, has also audited the effectiveness of internal control over financial reporting. An unqualified opinion has been issued thereon, the details of which are included within this Annual Report on Form 10-K.

Directors' responsibility statement

The directors of the Company confirm that, to the best of their knowledge and belief:

- The financial statements, prepared in accordance with US GAAP, give a true and fair view of the assets, liabilities, financial position and profit for the Company and the undertakings included in the consolidation taken as a whole; and
- Pursuant to the Disclosure and Transparency Rules made under the UK Financial Services and Markets Act 2000, the following sections of the Company's Annual Report on Form 10-K contain a fair review of the development and performance of the business and the position of the Company, and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face:
 1. Item 1 "Business" on pages 5 – 26
 2. Item 1A "Risk factors" on pages 27 – 37
 3. Item 7 "Management's discussion and analysis of financial condition and results of operations" on pages 54 – 83
 4. Item 7A "Quantitative and qualitative disclosures about market risk" on pages 84 – 85

On behalf of the Board

Michael W. Barnes
Chief Executive Officer

Ronald Ristau
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

March 27, 2014

Changes in internal control over financial reporting

There were no changes in internal control over financial reporting during the quarter ended February 1, 2014 that have materially affected, or are reasonably likely to materially affect, Signet's internal control over financial reporting.