SIGNET JEWELERS LTD
Form 10-K
March 16, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended January 28, 2017
Commission file number 1-32349

SIGNET JEWELERS LIMITED
(Exact name of Registrant as specified in its charter)

Bermuda	Not Applicable
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

Clarendon House
2 Church Street
Hamilton HM11
Bermuda
(441) 296 5872
(Address and telephone number including area code of principal executive offices)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Shares of $0.18 each	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate web site, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of regulation S-K is not contained herein, and will not be contained to the best of Registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x
The aggregate market value of voting common shares held by non-affiliates of the Registrant (based upon the closing sales price quoted on the New York Stock Exchange) as of July 29, 2016 was $6,638,040,057.
Number of common shares outstanding on March 10, 2017: 68,300,375
DOCUMENTS INCORPORATED BY REFERENCE
The Registrant will incorporate by reference information required in response to Part III, Items 10-14, from its definitive proxy statement for its annual meeting of shareholders, to be held on June 28, 2017.

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FISCAL 2017 ANNUAL REPORT ON FORM 10-K
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REFERENCES

Unless the context otherwise requires, references to "Signet" or the "Company," refer to Signet Jewelers Limited (and before September 11, 2008 to Signet Group plc) and its consolidated subsidiaries. References to the "Parent Company" are to Signet Jewelers Limited.

PRESENTATION OF FINANCIAL INFORMATION

All references to "dollars," "US dollars," "$," "cents" and "c" are to the lawful currency of the United States of America. Signe prepares its financial statements in US dollars. All references to "British pound," "pounds," "British pounds," "£," "pence" and are to the lawful currency of the United Kingdom. All references to "Canadian dollar" or "C$" are to the lawful currency of Canada.

Percentages in tables have been rounded and accordingly may not add up to 100%. Certain financial data may have been rounded. As a result of such rounding, the totals of data presented in this document may vary slightly from the actual arithmetical totals of such data.

Throughout this Annual Report on Form 10-K, financial data has been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). However, Signet gives certain additional non-GAAP measures in order to provide increased insight into the underlying or relative performance of the business. An explanation of each non-GAAP measure used can be found in Item 6.

Fiscal year and fourth quarter

Signet's fiscal year ends on the Saturday nearest to January 31. As used herein, "Fiscal 2018," "Fiscal 2017," "Fiscal 2016," "Fiscal 2015," "Fiscal 2014," and "Fiscal 2013" refer to the 53 week period ending February 3, 2018, the 52 week periods ending January 28, 2017, January 30, 2016, January 31, 2015, February 1, 2014, and the 53 week period ending February 2, 2013, respectively. Fourth quarter references the 13 weeks ended January 28, 2017 ("fourth quarter") and the 13 weeks ended January 30, 2016 ("prior year fourth quarter").

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements which are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, based upon management's beliefs and expectations as well as on assumptions made by and data currently available to management, appear in a number of places throughout this Annual Report on Form 10-K and include statements regarding, among other things, Signet's results of operation, financial condition, liquidity, prospects, growth, strategies and the industry in which Signet operates. The use of the words "expects," "intends," "anticipates," "estimates," "predicts," "believes," "should," "potential," "r "forecast," "objective," "plan," or "target," and other similar expressions are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to a number of risks and uncertainties, including but not limited to general economic conditions, regulatory changes following the United Kingdom's announcement to exit from the European Union, a decline in consumer spending, the merchandising, pricing and inventory policies followed by Signet, the reputation of Signet and its brands, the level of competition in the jewelry sector, the cost and availability of diamonds, gold and other precious metals, regulations relating to customer credit, seasonality of Signet's business, financial market risks, deterioration in customers' financial condition, exchange rate fluctuations, changes in Signet's credit rating, changes in consumer attitudes regarding jewelry, management of social, ethical and environmental risks, the development and maintenance of Signet's omni-channel retailing, security breaches and other disruptions to Signet's information technology infrastructure and databases, inadequacy in and disruptions to internal controls and systems, changes in assumptions used in making accounting estimates relating to items such as extended service plans and pensions, risks relating to Signet being a Bermuda corporation, the impact of the acquisition of Zale Corporation on relationships, including with employees, suppliers, customers and competitors, an adverse decision in legal proceedings, and our ability to successfully integrate Zale Corporation's operations and to realize synergies from the transaction.

For a discussion of these risks and other risks and uncertainties which could cause actual results to differ materially from those expressed in any forward looking statement, see Item 1A and elsewhere in this Annual Report on Form 10-K. Signet undertakes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances, except as required by law.

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PART I

ITEM 1. BUSINESS

OVERVIEW

Signet Jewelers Limited ("Signet" or the "Company") is the world's largest retailer of diamond jewelry. Signet is incorporated in Bermuda and its address and telephone number are shown on the cover of this document. The Company, with 3,682 stores and kiosks at January 28, 2017, manages its business by store brand grouping, a description of which follows:

- The Sterling Jewelers division is one reportable segment. It operated 1,588 stores in all 50 US states at January 28, 2017. Its stores operate nationally in malls and off-mall locations principally as Kay Jewelers ("Kay"), Kay Jewelers Outlet, Jared The Galleria Of Jewelry ("Jared") and Jared Vault. The division also operates a variety of mall-based regional brands.
- The Zale division, which was acquired in May 2014 (see Note 3 of Item 8 for additional information), consists of two reportable segments:

Zale Jewelry, which operated 970 jewelry stores at January 28, 2017, is located primarily in shopping malls in North America. Zale Jewelry includes the US store brand Zales (Zales Jewelers and Zales Outlet), which operates in all 50 US states, and the Canada store brand Peoples Jewellers, which operates in nine provinces. The division also operates the Gordon's Jewelers and Mappins Jewellers regional brands.

Piercing Pagoda, which operated 616 mall-based kiosks at January 28, 2017, is located in shopping malls in the US and Puerto Rico.

- The UK Jewelry division is one reportable segment. It operated 508 stores at January 28, 2017. Its stores operate in shopping malls and off-mall locations (i.e. high street) principally as H.Samuel and Ernest Jones.

Certain company activities (e.g. diamond sourcing) are managed as a separate operating segment and are aggregated with unallocated corporate administrative functions in the segment "Other" for financial reporting purposes. Signet's diamond sourcing function includes our diamond polishing factory in Botswana. See Note 4 of Item 8 for additional information regarding the Company's reportable segments.

MISSION & STRATEGY

Signet's mission is to help guests "Celebrate Life and Express Love." Our Vision 2020 and beyond strategy is to be the world's premier jeweler by relentlessly connecting with customers, earning their trust with every interaction everywhere. Our five strategic pillars all center on a customer first omni-channel experience. These pillars included below define our key priorities and growth focus areas.

- Grow in the mid-market
- Best in bridal
- Win in fashion and gifting
- Digital first and data driven
- People, purpose and passion

Growing in the mid-market drives our competitive strengths focused on merchandising, marketing, omni-channel and productivity initiatives. We define the mid-market jewelry sector based on the value of products that consumers purchase. We consider this market to be defined by jewelry purchases with price points ranging from $50 to $10,000, which essentially excludes costume and luxury jewelry categories. The vast majority of Signet's sales (over 95%) are in this range of price points. This subset of the total US jewelry market is approximately $41 billion or about half the total US market. In pursuit of this strategic pillar, we continuously review our US national store brands performance and have concluded that our customer population has several distinct shopping and purchasing characteristics or customer identities. Consequently, we attempt to grow our share of the mid-market by differentiating customers based on attitudes and behaviors, versus demographic information. This approach to customer segmentation results in distinct customer identities:

- The "Sentimentalist" - a seeker of high-quality, timeless jewelry which invokes sentimental value.
- The "Gifter" - a customer that is not highly knowledgeable of jewelry but purchases for others.
- The "Influencer" - a customer that uses jewelry to show status and is knowledgeable of brands. The Influencer is a customer focused on both self-purchase and gifting.

- The “Stylish Shopper” - a customer that wears jewelry often and considers it an essential aspect of fashion.
- The “Practical Shopper” - a customer that focuses on inexpensive, everyday jewelry.

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Although each of our US national store brand customers share many of these five customer traits, each store brand attracts a heavier weighting of certain types of customers. This customer segmentation approach empowers Signet to define our highest-priority growth opportunities within the mid-market (i.e., where Signet will play), to differentiate and optimize our store brands, including guest experience, merchandise brands and marketing. Our brand discussion included within Item 1 includes alignment of these customer identities with our US national store brands.

Being the best in bridal is an ongoing journey, not a destination. In jewelry, bridal represents the closest thing to a necessity for our customers. We continuously look to develop differentiated bridal jewelry products, increasing targeted marketing programs, delivering the best guest experience by our sales associates, advancing vertical integration in our supply chain and offering credit financing. Additionally, we continue to evolve our best in bridal strategy to target millennials. With this target demographic shifting its marriage pattern to later in life, our focus on gaining market share during these peak spending years to come is key to our best in bridal strategy.

As fashion and behavioral trends evolve, we continue to adapt to ensure our strategies encompass all opportunities to drive profitable growth. Excellence in bridal categories is a mainstay in our success, however we have sharpened focus on fashion jewelry and gift merchandise to capture growing opportunities within demographic groups such as millennials. We believe executing against this strategic pillar will effectively compliment our other strategic pillars, as well as enhance traffic through all channels.

Operating in an evolving retail landscape requires a strategic focus on digital channels and interaction with our guests through a number of media to support our strategic pillar of “Digital First and Data Driven.” Our omni-channel approach to educating, selling and serving of customers is uniquely important in jewelry retail because the purchase of jewelry is personal, intimate and typically viewed as an important experience. The Internet often represents the first interaction a customer or prospective guest will have with us when a jewelry-buying occasion arises. As trust is the most important factor in why people buy jewelry where they do, customers overwhelmingly complete their purchases in our stores with our trusted knowledgeable sales associates. We continue to place increasing emphasis on data analytics to support our interactions with customers, enable our sales associates and optimize all aspects of our business. Being best in digital and data driven is a crucial step of our omni-channel approach.

In order to truly accomplish our core mission of helping our guests “Celebrate Life and Express Love,” we must have people with high capability and passion. We will continue our efforts to attract, develop and retain the best and the brightest individuals in the jewelry and watch industry. The expression of romance and appreciation through bridal jewelry and gift giving are very important to our guests, as is self-reward. Guests associate Signet’s brands with high quality jewelry and an outstanding guest experience. As a result, the training of sales associates to understand the guests’ requirements, communicate the value of the merchandise selected and ensure guest needs are met remains a high priority.

Competition and Signet Competitive Strengths

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, online retail and auction sites, shopping clubs, home shopping television channels and direct home sellers. 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.

Signet’s competitive strengths include: strong store brands, outstanding guest experience, branded differentiated and exclusive merchandise, sector-leading advertising, diversified real estate portfolio, supply chain leadership, customer finance programs, and financial strength and flexibility. Signet increases the attraction of its store brands to guests 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. The Company intends to further develop and refine its 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.

Operational Strategy

In setting financial objectives for Fiscal 2018, consideration was given to several factors including the continued integration of Zale, Signet's Vision 2020 strategy and the economic and retail environments in which the Company does business. Signet will execute on its strategic priorities and continue to make strategic investments for the future. Our focus in Fiscal 2018 will be on the following:

- Omni-Channel capabilities and repositioning of investments and resources to drive customer experience both in-store and on-line.
- Continued product innovation in both bridal and fashion.
- Further development and investments in IT infrastructure to enable future growth.
- Driving efficiencies across the organization in both processes and costs and maximizing return on investments.

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Financial objectives for the business in Fiscal 2018 are to position the Company for long-term growth by:

- Expanding our gross margin rate through merchandise initiatives, operating efficiencies and cost control. Signet anticipates the cost of diamonds, our most significant input cost, to increase at low-to-mid single digit rates.
- Investing to strengthen our customer service proposition and our infrastructure for the long-term. This is expected to result in de-leverage of selling, general and administrative expenses.
- Gaining profitable market share through brand differentiation and market segmentation, product cost control and asset management.
- Diversification of store portfolio weighted toward off-mall locations. This includes closure of 165-170 stores, primarily focused on mall-based regional brands and opening of 90-115 new stores, primarily Kay off-mall.
- Investing $260 to $275 million of capital in new stores, store remodels, information technology infrastructure and distribution facilities to drive future growth.
- Completion of Signet's strategic credit review previously announced in May 2016.

Capital Strategy

The Company expects to maintain a strong balance sheet that provides the flexibility to execute its strategic priorities, invest in its business, and then return excess cash to shareholders while ensuring adequate liquidity. Signet is committed to maintaining its investment grade rating because long-term, it intends to pursue value-enhancing strategic growth initiatives. Among the key tenets of Signet's capital strategy:

- Achieve adjusted debt[1]/ adjusted EBITDAR[1] ("adjusted leverage ratio") of 3.5x or below. This would allow the Company to utilize available sources of debt in Fiscal 2018 and beyond.
- Distribute 70% to 80% of annual free cash flow[1] in the form of stock repurchases or dividends assuming no other strategic uses of capital.
- Consistently increase the dividend annually assuming no other strategic uses of capital.

The Company has a remaining share repurchase authorization as of the end of Fiscal 2017 of $510.6 million.

(1) Adjusted debt, Adjusted EBITDAR, and free cash flow are non-GAAP measures. Signet believes they are useful measures to provide insight into how the Company intends to use capital. See Item 6 for reconciliation.

BACKGROUND

Operating segments

The business is managed as five reportable segments: the Sterling Jewelers division (61.3% of sales and 93.8% of operating income), the Zale division, which is comprised of the Zale Jewelry segment (24.2% of sales and 8.1% of operating income) and the Piercing Pagoda segment (4.1% of sales and 1.5% of operating income) and the UK Jewelry division (10.1% of sales and 6.0% of operating income). All divisions are managed by an executive committee, which is chaired by Signet's Chief Executive Officer, who reports to the Board of Directors of Signet (the "Board"). The executive committee is responsible for operating decisions within parameters established by the Board. Additionally, as a result of the acquisition of a diamond polishing factory in Gaborone, Botswana in Fiscal 2014, management established a separate reportable segment ("Other"). Other consists of all non-reportable segments, including subsidiaries involved in the purchasing and conversion of rough diamonds to polished stones and unallocated corporate administrative functions. See Note 4 of Item 8 for additional information regarding the Company's segments.

Trademarks and trade names

Signet is not dependent on any material patents or licenses in any of its divisions. Signet has several well-established trademarks and trade names which are significant in maintaining its reputation and competitive position in the jewelry retailing industry. Some of these registered trademarks and trade names include the following:

- Kay Jewelers®; Kay Jewelers Outlet®; Jared The Galleria Of Jewelry®; Jared Vault®; Jared Jewelry Boutique®; JB Robinson® Jewelers; Marks & Morgan Jewelers®; Every kiss begins with Kay®; He went to Jared®; Celebrate Life. Express Love.®; the Leo® Diamond; Hearts Desire®; Artistry Diamonds®; Charmed Memories®; Diamonds in Rhythm®; Fourone™; Open Hearts by Jane Seymour®; Radiant Reflections®; Colors in Rhythm®; Chosen by Jared™; Now and Forever®; and Ever Us™.
- Zales®; Zales Jewelers™; Zales the Diamond Store®; Zales Outlet®; Gordon's Jewelers®; Peoples Jewellers®; Peoples the Diamond Store®; Peoples Outlet the Diamond Store®; Mappins®; Piercing Pagoda®; Arctic Brilliance Canadian

Diamonds®; Brilliant Buy®; Brilliant Value®; Celebration Diamond®; Expressionist™; From This Moment®; Let Love Shine®; The Celebration Diamond Collection®; Unstoppable Love®; and Endless Brilliance®.

- H.Samuel®; Ernest Jones®; Ernest Jones Outlet Collection™; Leslie Davis®; Commitment®; Forever Diamonds®; Kiss Collection®; Princessa Collection®; Radiance®; Secrets of the Sea®; Shades of Gold®; and Viva Colour®.

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Store locations

Signet operates retail jewelry stores in a variety of real estate formats including mall-based, free-standing, strip center and outlet store locations. As of January 28, 2017, Signet operated 3,066 stores and 616 kiosks across 5.1 million square feet of retail space in the US, UK, Canada and Puerto Rico. This represented an increase of 1.6% and 2.6% in locations and retail space, respectively, from Fiscal 2016 due to new store growth as Signet opened 162 stores and closed 105 stores during Fiscal 2017. Store locations by country and territory as of January 28, 2017 are disclosed in Item 2.

Guest experience

The guest experience is an essential element in the success of our business and Signet strives to continually improve the quality of the guest experience. Therefore the ability to recruit, develop and retain qualified jewelry consultants is an important element in enhancing guest satisfaction. We have comprehensive recruitment, training and incentive programs in place, including an annual flagship training conference in advance of the holiday season.

Signet continues to invest in technology to enhance the guest experience, such as a clienteling system that we have initially implemented in our Sterling Jewelers division. This technology provides a single view of the guest with the capability to holistically capture guest information for the purpose of driving incremental sales to our guests. This allows jewelry consultants to improve and personalize their interactions with guests before, during and after store visits, to inform them of the latest merchandise offerings and fashion trends. Additionally, in Fiscal 2018, Signet will complete the roll out of digital gemscopes to every store location in North America. These gemscopes leverage proprietary software to provide an enhanced digital view of gem stones and include the ability to email the image to the guest and the Jared Design & Service Center when sent for repair.

We use employee and guest satisfaction metrics to monitor and improve performance.

Omni-Channel

As a specialty jeweler, Signet's business differs from many other retailers such that a purchase of merchandise from any of Signet's stores is personal, intimate and typically viewed as an important experience. Due to this dynamic, guests often invest time on Signet websites and social media to experience the merchandise assortments prior to visiting brick-and-mortar stores to execute a purchase transaction. Particularly related to high value transactions, guests will supplement their online experience with an in-store visit prior to finalizing a purchase.

Through Signet's websites, we educate guests and provide them with a source of information on products and brands, available merchandise, as well as the ability to buy online. Our websites are integrated with each division's stores, so that merchandise ordered online may be picked up at a store or delivered to the guest. Brand websites continue to make an important and growing contribution to the guest experience, as well as to each division's marketing programs.

For Fiscal 2018, the Company is focused on:

- Investments in technology, including eCommerce platforms, focused on improving the online journey. Customer journey enhancements include user generated content, enhanced personalization / behavioral targeting, creative execution and brand differentiation. In addition, we are focused on omni-channel wishlist, online merchandising, in-store appointment booking, bridal configuration and much more.
- Optimization of marketing through prioritizing dollars to digital spend and targeted marketing through traditional media.
- Increased use of data analytics, clienteling and other key touch points to achieve a more comprehensive view of the customer and allow us to anticipate their needs.

Signet's supplier relationships allow it to display suppliers' inventories on the brand websites for sale to guests without holding the items in its inventory until the products are ordered by guests, which are referred to as "virtual inventory." Virtual inventory expands the choice of merchandise available to guests both online and in-store.

Raw materials

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 45%, and gold about 14%, of Signet's cost of merchandise sold, respectively.

Signet undertakes hedging for a portion of its requirement for gold through the use of 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.

Diamond sourcing

Signet procures its diamonds mostly as finished jewelry and, to a smaller extent, as loose polished diamonds and rough diamonds which are in turn polished in Signet's Botswana factory.

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Finished jewelry

Signet purchases finished product where management has identified compelling value based on product design, cost and availability, among other factors. Under certain types of arrangements, this method of purchasing also provides the Company with the opportunity to reserve inventory held by vendors and to make returns or exchanges with suppliers, which reduces the risk of over- or under-purchasing. Signet’s scale, strong balance sheet and robust procurement systems enable it to purchase merchandise at advantageous prices and on favorable terms.

Loose diamonds

Signet purchases loose polished diamonds in global markets (e.g. India, Israel) from a variety of sources (e.g. polishers, traders). Signet mounts stones in settings purchased from manufacturers using third parties and in-house resources. By using these approaches, the cost of merchandise is reduced and the consistency of quality is maintained enabling Signet to provide better value to guests. Buying loose diamonds helps allow 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.

Rough diamonds

Signet continues to take steps to advance its vertical integration, which includes rough diamond sourcing and processing. Signet’s objective with this initiative is to secure additional, reliable and consistent supplies of diamonds for guests worldwide while achieving further efficiencies in the supply chain. In Fiscal 2014, Signet acquired a diamond polishing factory in Gaborone, Botswana. The Company is a DeBeers sightholder, and receives contracted allocations of rough diamonds from Rio Tinto, DeBeers and Alrosa. Signet has also established a diamond liaison office in India and a diamond trading office in New York to further support its sourcing initiative.

Rough diamonds are purchased directly from the miners and then have the stones marked, cut and polished in Signet’s own polishing facility. Any stones deemed unsuitable for Signet’s needs are sold to third parties with the objective of recovering the original cost of the stones.

Merchandising and purchasing

Management believes that a competitive strength is our industry-leading merchandising. Merchandise selection, innovation, availability and value are all critical success factors. The range of merchandise offered and the high level of inventory availability are supported centrally by extensive and continuous research and testing. Signet’s jewelry design center in New York evaluates global design trends, innovates, and helps our merchant teams develop new jewelry collections that resonate with guests.

Best-selling products are identified and replenished rapidly through analysis of sales by stock keeping unit. This approach enables Signet to deliver a focused assortment of merchandise to maximize sales and inventory turn, and minimize the need for discounting. Signet believes it is able to offer greater value and consistency of merchandise than its competitors due to its supply chain strengths. The scale and information systems available to us and the evolution of jewelry fashion trends allow for the careful testing of new merchandise in a range of representative stores. This enables us to make informed decisions about which merchandise to select, thereby increasing our ability to satisfy guests’ requirements while reducing the likelihood of having to discount merchandise.

Merchandise mix

Details of merchandise mix (excluding repairs, warranty and other miscellaneous sales) are shown below:

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	Sterling Jewelers division	Zale division	UK Jewelry division	Total Signet
Fiscal 2017				
Diamonds and diamond jewelry	77 %	60 %	35 %	68 %
Gold and silver jewelry, including charm bracelets	9 %	28 %	17 %	15 %
Other jewelry, including gift category	8 %	9 %	16 %	9 %
Watches	6 %	3 %	32 %	8 %
	100 %	100 %	100 %	100 %
Fiscal 2016				
Diamonds and diamond jewelry	77 %	61 %	34 %	65 %
Gold and silver jewelry, including charm bracelets	9 %	27 %	16 %	17 %
Other jewelry, including gift category	8 %	9 %	18 %	9 %
Watches	6 %	3 %	32 %	9 %
	100 %	100 %	100 %	100 %
Fiscal 2015				
Diamonds and diamond jewelry	76 %	61 %	31 %	63 %
Gold and silver jewelry, including charm bracelets	10 %	26 %	19 %	14 %
Other jewelry, including gift category	8 %	9 %	17 %	11 %
Watches	6 %	4 %	33 %	12 %
	100 %	100 %	100 %	100 %

The bridal category, which includes engagement, wedding and anniversary purchases, is predominantly diamond jewelry. Like fashion jewelry and watches, bridal is to an extent dependent on the economic environment as guests can trade up or down price points depending on their available budget. In Fiscal 2017, bridal sales declined in-line with merchandise sales overall. Declines in the Sterling and Zale divisions were partially offset by growth in the UK. An important element in enabling Signet's bridal business is customer financing. Bridal represented approximately 50% of Signet's total merchandise sales. The performance difference between branded and non-branded bridal was immaterial.

Gift giving is particularly important during the Holiday Season, Valentine's Day and Mother's Day. In Fiscal 2017, Signet had several successful fashion jewelry collections including Ever Us™ and Vera Wang® (not all collections are sold in every store brand).

Merchandise is categorized as non-branded, third party branded, and branded differentiated and exclusive.

Non-branded merchandise includes items and styles such as bracelets, gold necklaces, solitaire diamond rings, and diamond stud earrings. Third party branded merchandise includes mostly watches, but also includes ranges of charm bracelets. 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 (e.g Ever Us, Vera Wang Love, Neil Lane).

Branded differentiated and exclusive ranges

Management believes that the development of branded differentiated and exclusive merchandise raises the profile of Signet's brands, helps to drive sales and provides its well-trained sales associates with a powerful selling proposition. National television advertisements include elements that drive brand awareness and purchase intent of these ranges. 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 leverage its supply chain strengths.

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. Virtually all of Signet's consignment inventory is held in the US.

Suppliers

In Fiscal 2017, the five largest suppliers collectively accounted for 20.4% of total purchases, with the largest supplier comprising 5.5%. Signet 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.

Marketing and advertising

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, Signet continues to strengthen and promote its store brands and merchandise brands by delivering superior customer service and building brand name

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recognition. The Company's omni-channel approach leverages marketing investments in television, digital media (desktop, mobile and social), radio, print, catalog, direct mail, point of sale signage and in-store displays, as well as coupon books and outdoor signage for the Outlet channels.

While marketing activities are undertaken throughout the year, the level of activity is concentrated at periods when guests are expected to be most receptive to marketing messages, which is ahead of Christmas Day, Valentine's Day and Mother's Day. A majority of the expenditure is spent on national television advertising, which is used to promote the store brands. Within such advertisements, Signet also promotes certain merchandise ranges, in particular its branded differentiated and exclusive merchandise and other branded products. Statistical and technology-based systems are employed to support customer relationship marketing programs that use a proprietary database to build guest loyalty and strengthen the relationship with guests through mail, email, social media and telephone communications. The programs target current guests with special savings and merchandise offers during key sales periods. Our targeted marketing efforts are aligned with our customer segmentation approach which, as discussed previously, differentiates our brands by focusing on customer attitudes and behaviors, rather than demographic information. In addition, invitations to special in-store promotional events are extended throughout the year.

Details of gross advertising, advertising before vendor contributions, by division is shown below:

	Fiscal 2017		Fiscal 2016		Fiscal 2015	
	Gross advertising spending (in millions)	as a % of divisional sales	Gross advertising spending (in millions)	as a % of divisional sales	Gross advertising spending (in millions)	as a % of divisional sales
Sterling Jewelers division	$258.6	6.6 %	$261.2	6.5 %	$246.6	6.6 %
Zale division	100.2	5.5 %	98.7	5.4 %	64.6	5.3 %
UK Jewelry division	21.8	3.4 %	24.3	3.3 %	21.8	2.9 %
Signet	$380.6	5.9 %	$384.2	5.9 %	$333.0	5.8 %

Customer finance

In our North American markets, Signet sells products for cash and for payment through major credit cards and third-party financing like PayPal. In addition, customer financing is offered through proprietary credit programs that are provided either in-house or through outsourced relationships with select major lenders.

Consumer credit programs are an integral part of our business and enable incremental retail sales as well as building customer loyalty. Our in-house credit programs also generate revenues from finance charges and other fees on these credit programs, while saving on interchange fees that Signet would incur if our customers used major credit cards only.

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 are leased. In Fiscal 2017, global net store space increased 2.6% as a result of new store growth focused on off-mall locations. The greatest opportunity for new stores is in locations outside traditional covered malls which further diversifies Signet's real estate portfolio.

Recent investment in the store portfolio is set out below:

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(in millions)	Sterling Jewelers division	Zale division	UK Jewelry division	Total Signet
Fiscal 2017				
New store capital investment	$ 42.9	$ 22.2	$ 2.5	$67.6
Remodels and other store capital investment	47.9	35.1	15.3	98.3
Total store capital investment	$ 90.8	$ 57.3	$ 17.8	$165.9
Fiscal 2016				
New store capital investment	$ 48.3	$ 12.1	$ 3.3	$63.7
Remodels and other store capital investment	50.6	25.0	16.3	91.9
Total store capital investment	$ 98.9	$ 37.1	$ 19.6	$155.6
Fiscal 2015				
New store capital investment	$ 52.6	$ 4.4	$ 2.4	$59.4
Remodels and other store capital investment	52.6	15.1	11.3	$79.0
Total store capital investment	$ 105.2	$ 19.5	$ 13.7	$138.4

Seasonality

Signet’s sales are seasonal, with the first quarter slightly exceeding 20% of annual sales, the second and third quarters each approximating 20% and the fourth quarter accounting for almost 40% of annual sales, with December being by far the most important month of the year. The “Holiday Season” consists of results for the months of November and December. As a result, approximately 45% to 55% of Signet’s annual operating income normally occurs in the fourth quarter, comprised of nearly all of the UK Jewelry and Zale divisions’ annual operating income and about 40% to 45% of the Sterling Jewelers division’s annual operating income.

Employees

In Fiscal 2017, the average number of full-time equivalent persons employed was 29,566. 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 and Canada are covered by collective bargaining agreements. Signet considers its relationship with its employees to be excellent.

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Average number of employees:[1]			
Sterling Jewelers	16,342	16,140	16,147
Zale[2]	9,602	9,309	9,241
UK Jewelry	3,398	3,370	3,292
Other[3]	224	238	269
Total	29,566	29,057	28,949

(1) Full-time equivalents (“FTEs”).

(2) Includes 1,051 FTEs, 1,201 FTEs and 1,217 FTEs employed in Canada in Fiscal 2017, Fiscal 2016 and Fiscal 2015, respectively.

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

Regulation

Signet is required to comply with numerous 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. Management monitors changes in these laws to endeavor to comply with applicable requirements.

Markets

Signet operates in the US, Canada and UK markets.

US

According to the US Bureau of Economic Analysis and Census Bureau, the total jewelry and watch market was approximately $80 billion at the end of 2016, up nearly 5% from the prior year. This implies a Signet jewelry market share of approximately 7%. Since 2000, the industry average annual growth rate is 3.2%. Nearly 90% of the market is represented by jewelry, with the balance being attributable to watches. According to the latest data from the US Labor Department, there were nearly 21,000 jewelry stores in the country, down approximately 1.6% from the prior year.

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Canada

The jewelry market in Canada, according to Euromonitor, has grown steadily over the past five years, rising to an estimated C$7.2 billion in 2014, the latest data available to Signet. This represents a compound annual growth rate of 4.6%. Euromonitor estimates that 2014 was up 3% in dollars and 2% in units.

UK

In the UK, the jewelry and watch market stands at about £4.1 billion, according to Mintel. That market saw a recovery in 2015 with growth of 1.2%. Self-purchasing among young women and gifting among men represent the largest parts of the precious jewelry market. The growth represents a slight slowdown from that achieved in 2014 due to a shift towards lighter-weight pieces and a decrease in average selling prices.

STERLING JEWELERS DIVISION

The Sterling Jewelers division operates jewelry stores in malls and off-mall locations in all 50 US states under national brands including Kay, Kay Jewelers Outlet, Jared and Jared Vault, as well as a variety of mall-based regional brands.

Sterling Jewelers store brand reviews

Store activity by brand

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Kay	68	42	58
Jared	8	18	17
Regional brands	—	—	—
Total stores opened or acquired during the year	76	60	75
Kay	(5)	(7)	(20)
Jared	(3)	(1)	—
Regional brands	(20)	(16)	(22)
Total stores closed during the year	(28)	(24)	(42)
Kay	1,192	1,129	1,094
Jared	275	270	253
Regional brands	121	141	157
Total stores open at the end of the year	1,588	1,540	1,504
Kay	$2.124	$2.178	$2.112
Jared[1]	$4.379	$4.650	$4.794
Regional brands	$1.242	$1.333	$1.318
Average sales per store (millions)[2]	$2.449	$2.518	$2.467
Kay	1,826	1,697	1,597
Jared	1,177	1,153	1,089
Regional brands	151	175	196
Total net selling square feet (thousands)	3,154	3,025	2,882
Increase in net store selling space	4.3%	5.0%	4.9%

(1) Includes sales from all Jared store formats, including the smaller square footage and lower average sales per store concepts of Jared 4.0, Jared Jewelry Boutique and Jared Vault.

(2) Based only upon stores operated for the full fiscal year and calculated on a 52-week basis.

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Sales data by brand

Fiscal 2017	Sales (millions)	Change from previous year Same store sales	Total sales
Kay	$ 2,539.7	(1.4)%	0.4 %
Jared	1,227.5	(4.1)%	(2.0)%
Regional brands	163.2	(9.6)%	(20.6)%
Sterling Jewelers	$ 3,930.4	(2.6)%	(1.5)%

Kay Jewelers

Kay accounted for 40% of Signet's sales in Fiscal 2017 (Fiscal 2016: 39%) and operated 1,192 stores in 50 states as of January 28, 2017 (January 30, 2016: 1,129 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. Like the rest of our store banners, Kay targets a mid-market jewelry customer. But where Kay differs is that it particularly targets a customer, we identify as a "gifter," who knows they need to buy jewelry but does not enjoy shopping and needs help to get it done right.

Details of Kay's performance over the last three years is shown below:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Sales (millions)	$2,539.7	$2,530.3	$2,346.2
Average sales per store (millions)	$2.124	$2.178	$2.112
Stores at year end	1,192	1,129	1,094
Total net selling square feet (thousands)	1,826	1,697	1,597

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 malls and off-mall stores. Off-mall stores primarily are located in outlet malls and power centers. The Sterling Jewelers store footprint will continue to diversify in Fiscal 2018 as new stores will be principally Kay stores in off-mall locations.

The following table summarizes the current composition of stores as of January 28, 2017 and net openings (closures) in the past three years:

	Stores at January 28, 2017	Net openings (closures) Fiscal 2017	Fiscal 2016	Fiscal 2015
Mall	751	(4)	6	2
Off-mall and outlet	441	67	29	37
Total	1,192	63	35	39

Jared The Galleria Of Jewelry

With 275 stores in 40 states as of January 28, 2017 (January 30, 2016: 270 stores), Jared is a leading off-mall destination specialty retail jewelry store chain, based on sales. Jared accounted for 19% of Signet's sales in Fiscal 2017 (Fiscal 2016: 19%). Jared is the fourth largest US specialty retail jewelry brand by sales. Like the rest of our store banners, Jared targets a mid-market jewelry customer. But where Jared differs is that it particularly targets a customer, we identify as a "sentimentalist," who enjoys shopping for jewelry and cares very much about the details of the product and shopping process.

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

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Sales (millions)	$1,227.5	$1,252.9	$1,188.8

Average sales per store (millions)[1]	$4.379	$4.650	$4.794
Stores at year end	275	270	253
Total net selling square feet (thousands)	1,177	1,153	1,089

(1) Includes sales from all Jared store formats, including the smaller square footage and lower average sales per store concepts of Jared 4.0, Jared Jewelry Boutique and Jared Vault.

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Jared offers superior guest service and enhanced selection of merchandise. 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 salon, 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 usually operate in retail centers that contain strong retail co-tenants, including big box, destination stores and some smaller specialty units.

Jared also operates Jared Jewelry Boutiques within malls. These mall stores have a smaller footprint than standard Jared locations and generally less than 2,000 square feet of selling space. A similar off-mall concept known as Jared 4.0, which utilizes approximately 3,600 square feet of selling space, allows for store openings in smaller markets, expands the Jared brand and increases the return on Jared advertising investment. Finally, Jared operates an outlet-mall concept known as Jared Vault which utilizes approximately 1,600 square feet of selling space. These stores are smaller than off-mall Jareds and offer a mix of identical products as Jared, as well as different, outlet-specific products at lower prices.

The following table summarizes the current composition of stores as of January 28, 2017 and net openings (closures) in the past three years:

	Stores at	Net openings (closures)		
	January 28, 2017	Fiscal 2017	Fiscal 2016	Fiscal 2015
Mall	10	(1)	3	8
Off-mall and outlet	265	6	14	42
Total	275	5	17	50

Sterling Jewelers regional brands

The Sterling Jewelers division also operates mall stores under a variety of established regional nameplates. Regional brands in the Sterling Jewelers division accounted for 3% of Signet's sales in Fiscal 2017 (Fiscal 2016: 3%) and as of January 28, 2017, include 121 regional brand stores in 29 states (January 30, 2016: 141 stores in 31 states). The leading brands include JB Robinson Jewelers, Marks & Morgan Jewelers and Belden Jewelers. Also included in the regional nameplates are Goodman Jewelers, LeRoy's Jewelers, Osterman Jewelers, Rogers Jewelers, Shaw's Jewelers and Weisfield Jewelers. The Company's strategy is to reduce regional brand locations through conversion to national store brands or through closure upon lease expiration.

Details of the regional brands' performance over the last three years is shown below:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Sales (millions)	$163.2	$205.5	$230.0
Average sales per store (millions)	$1.242	$1.333	$1.318
Stores at year end	121	141	157
Total net selling square feet (thousands)	151	175	196

Sterling Jewelers operating review

Other sales

Custom design services represent less than 5% of sales but provide higher than average profitability. Our custom jewelry initiative has a proprietary computer selling system and in-store design capabilities. Design & Service Centers, located in Jared stores, are staffed with skilled artisans who support the custom business generated by other Sterling Jewelers division stores, as well as the Jared stores in which they are located. The custom design and repair function has its own field management and training structure.

Repair services represent less than 5% of sales, approximately 30% of transactions and are an important opportunity to build customer loyalty. The Jared Design & Service Centers, open the same hours as the store, also support other Sterling Jewelers and Zale division stores' repair business.

The Sterling Jewelers division sells extended service plans covering lifetime repair service for jewelry and jewelry replacement plans. The lifetime repair service 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. Jewelry replacement plans require the issuance of new replacement merchandise if the original merchandise is determined to be defective or damaged within a defined period in accordance with the plan agreement. Any repair work is performed in-house.

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Customer finance

General

Our in-house consumer financing program provides Signet with a competitive advantage through the enabling of incremental profitable sales that would not occur without a consumer financing program. Several factors inherent in the US jewelry business support the circumstances through which Signet is uniquely positioned to generate profitable incremental business through its consumer financing program. These factors include a high average transaction value; a significant population of customers seeking to finance merchandise primarily in the bridal category; and the minimum scale necessary to administer credit programs efficiently. In addition, our credit program provides other benefits to our business overall, including:

- complementing our "Best in Bridal" strategy in that 50% of merchandise sales are bridal and 75% of Sterling Jewelers division bridal sales utilize our credit as form of tender.
- providing a database of regular guests and spending habits.
- establishing collection policies designed to minimize risk and maximize future sales as opposed to a focus on maximizing earnings from outstanding balances.

For our in-house credit program, as of January 28, 2017 and January 30, 2016, 55% and 53%, respectively, of balances due were from customers who were acquired as users of our credit program more than 12 months prior to their most recent purchase.

Our in-house consumer financing program has been centralized since 1990 and is fully integrated into the management of the Sterling Jewelers division. It is not a separate operating division nor does it report separate results. All assets and liabilities relating to consumer financing are shown on the balance sheet and there are no associated off-balance sheet arrangements. 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 and at a reduced rate for up to 36 months in select offers, subject to certain conditions. In most US states, guests also are offered optional third-party credit insurance.

As part of our operational strategy discussed previously, management continues to review strategic options related to its in-house consumer financing programs, which include optimizing our current in-house program or utilizing a full-outsourced model.

Underwriting

The majority of credit applications originate in one of our retail locations and are approved or denied automatically based on proprietary origination models. Origination and purchase authorization strategies are designed by a dedicated Risk Management team, which is separate and distinct from our retail sales organization ensuring that financing decisions are not influenced by sales driven objectives. Our underwriting process considers one or more of the following elements: credit bureau information; income and address verification; current income and debt levels. We have developed and refined proprietary statistical models that provide standardized credit decisions, and drive the optimization of credit limit assignment, down payment requirements and more significant debt service requirements as compared to general consumer lending standards. For certain credit applicants that may have past credit problems or lack credit history, we use stricter underwriting criteria. These additional requirements may include items such as verification of employment and minimum down payment levels. Part of our ability to control delinquency and net charge-offs is based on the level of required down payments, tailored credit limits and more significant debt service requirements as mentioned above. Underwriting risk tolerance has not been altered in the past 10 years. Several factors can influence portfolio risk outside of the initial origination and subsequent authorization decisions including macro-economic conditions, regulatory environment, operational system stability and strategy execution, store execution, and the ability of marketing and prospecting activities to attract a consistent risk weighted mix of new applicants to the receivable.

The scores of Fair Isaac Corporation ("FICO"), a widely-used financial metric for assessing a person's credit rating are used to benchmark portfolio and origination risk over time. Ten to twenty point ranges tend to be grouped together to form tiers of risk and scores can range from a low of 0 to over 800. The following aggregate FICO metrics for the portfolio demonstrate the overall consistency of our financing strategy approach:

	Fiscal 2017	Fiscal 2016	Fiscal 2015

Balance weighted FICO score - New Additions	684	684	685
Balance weighted FICO score - Portfolio	661	662	663

Credit monitoring and collections

Our 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 their credit facility. On average, our receivable portfolio turns every 9-10 months. We closely monitor the credit portfolio to identify delinquent accounts early, and dedicate resources to contacting customers concerning past due accounts when they are as few as 5 days in arrears. Collectors are focused on a quality customer experience using risk-based calling and strategic account segmentation.

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The quality of our credit loan portfolio at any time reflects, among other factors: 1) the creditworthiness of our customers, 2) general economic conditions, 3) the success of our account management and collection activities, and 4) a variety of variables that change over time such as the proportion of new versus seasoned accounts or changes in the relative growth rate in sales between our various retail brands or formats. Cash flows associated with the granting of credit to guests of the individual store are included in the projections used when considering store investment proposals.

Portfolio aging

Since inception of its in-house financing, Signet measures delinquency and establishes loss allowances using a form of the recency method. This form of the recency method relies upon qualifying payments determined by management to measure delinquency. In general, an account will not remain current unless a qualifying payment is received. A customer is aged to the next delinquency level if they fail to make a qualifying payment by their monthly aging. A customer's account ages each month five days after their due date listed on their statement, allowing for a grace period before collection efforts begin. A qualifying payment can be no less than 75% of the scheduled payment, increasing with the delinquency level. If an account holder is two payments behind, then they must make a full minimum payment to return to current status. If an account holder is three payments behind, then they must make three full payments before returning to a current status. If an account holder is more than three payments behind, then the entire past due amount is required to return to a current status. Establishing qualifying payment methods in accounting for delinquencies is appropriate considering the high minimum payments that are required of customers. The weighted average minimum payment required as a percentage of the outstanding balance was 8% at year end Fiscal 2017. The minimum payment does not decline as the balance declines. These two facts combined (higher scheduled payment requirement and no decline in payment requirement as balance decreases) allow Signet to collect on the receivable significantly faster than other retail/bank card accounts, which require a 5% or less minimum payment, reducing risk and more quickly freeing up customer open to buy for additional purchases. Of all payments received in Fiscal 2017, 97% were equal to or greater than the scheduled monthly payment, which is in line with experience during Fiscal 2016.

See Note 1 of Item 8 for additional information regarding qualifying payments.

Allowances for uncollectible amounts are recorded as a charge to cost of goods sold in the income statement. The allowance is calculated using a model that analyzes factors such as delinquency rates and recovery rates. An allowance for amounts 90 days aged and under on a recency basis is established based on historical loss experience and payment performance information. A 100% allowance is made for any amount aged more than 90 days on a recency basis and any amount associated with an account the owner of which has filed for bankruptcy. An account is 90 days aged on a recency basis when there has not been a qualifying payment made within 90 days of the billing date. The net bad debt expensed on the income statement is equal to the sum of the total change in the allowance for uncollectible accounts and the total amount of charged off balances less any recoveries for accounts previously charged off. The allowance calculation is reviewed by management to assess whether, based on economic events, additional analysis is required to appropriately estimate losses inherent in the portfolio.

We deem accounts to be uncollectible and charge off when the account is both more than 120 days aged on a recency basis and 240 days aged on a contractual basis at the end of a month. Over the last 12 months, we have recovered 16% of charged-off amounts through our collection activities and the sale of previously charged off accounts. We track our charge-offs both gross, before recoveries, and net, after recoveries.

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Customer financing statistics[1]

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Total sales (millions)	$3,930.4	$3,988.7	$3,765.0
Credit sales (millions)	$2,438.3	$2,451.2	$2,277.1
Credit sales as % of total Sterling Jewelers sales[2]	62.0 %	61.5 %	60.5 %
Net bad debt expense (millions)[3]	$212.1	$190.5	$160.0
Opening receivables (millions)	$1,855.9	$1,666.0	$1,453.8
Closing receivables (millions)	$1,952.0	$1,855.9	$1,666.0
Number of active credit accounts at year end[4][7]	1,401,456	1,423,619	1,352,298
Average outstanding account balance at year end[7]	$1,405	$1,319	$1,245
Average monthly collection rate	11.0 %	11.5 %	11.9 %
Ending bad debt allowance as a % of ending accounts receivable[1]	7.1 %	7.0 %	6.8 %
Net charge-offs as a % of average gross accounts receivable[1][5][7]	10.7 %	9.9 %	9.3 %
Non performing receivables as a % of ending accounts receivable[1]	4.1 %	4.0 %	3.8 %
Credit portfolio impact:			
Net bad debt expense (millions)[3]	$(212.1)	$(190.5)	$(160.0)
Late charge income (millions)	$36.0	$33.9	$31.3
Interest income from in-house customer finance programs (millions)[6]	$277.6	$252.5	$217.9
	$101.5	$95.9	$89.2

(1) See Note 11 of Item 8 for additional information.
(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) Net charge-offs calculated as gross charge-offs less recoveries. See Note 11 of Item 8 for additional information.
(6) See Note 10 of Item 8. Primary component of other operating income, net, on the consolidated income statement.
(7) See the liquidity and capital resources section of Item 7 for additional discussion regarding this metric.

ZALE DIVISION

The Zale division consists of two reportable segments: Zale Jewelry and Piercing Pagoda. Zale Jewelry operates jewelry stores located primarily in shopping malls throughout the US, Canada and Puerto Rico. Piercing Pagoda operates through mall-based kiosks throughout the US and Puerto Rico. In Fiscal 2017, approximately 14% of goods purchased in the Zale division were denominated in Canadian dollars (Fiscal 2016: 9%).

On May 29, 2014, Signet acquired 100% of the outstanding shares of Zale Corporation and Zale Corporation became a wholly-owned consolidated subsidiary of Signet (the “Acquisition”, see Note 3 in Item 8 for additional information related to the Acquisition). As such, Fiscal 2016 reflects the first full year of results as Fiscal 2015 reflects only the results since the acquisition date.

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Zale store brand reviews

Store activity by brand

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Zales	40	24	731
Peoples	2	2	146
Regional brands	—	—	139
Total Zale Jewelry	42	26	1,016
Piercing Pagoda	35	12	615
Total stores opened or acquired during the year	77	38	1,631
Zales	(19)	(10)	(15)
Peoples	(4)	(1)	(2)
Regional brands	(26)	(10)	(27)
Total Zale Jewelry	(49)	(21)	(44)
Piercing Pagoda	(24)	(12)	(10)
Total stores closed during the year	(73)	(33)	(54)
Zales	751	730	716
Peoples	143	145	144
Regional brands	76	102	112
Total Zale Jewelry	970	977	972
Piercing Pagoda	616	605	605
Total stores open at the end of the year	1,586	1,582	1,577
Zales	$1.327	$1.467	$0.942 [3]
Peoples	$1.267	$1.353	$1.096 [3]
Regional brands	$0.982	$0.942	$0.682 [3]
Total Zale Jewelry	$1.290	$1.394	$0.934 [3]
Piercing Pagoda	$0.506	$0.376	$0.228 [3]
Average sales per store (millions)[1]	$0.988	$1.003	$0.662 [3]
Zales	1,039	1,010	990
Peoples	190	193	192
Regional brands	82	112	125
Total Zale Jewelry[2]	1,311	1,315	1,307
Piercing Pagoda	115	114	115
Total net selling square feet (thousands)[2]	1,426	1,429	1,422
Decrease (increase) in net store selling space	(0.2)%	0.5%	n/a

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

(2) Includes 227 thousand, 240 thousand and 240 thousand square feet of net selling space in Canada in Fiscal 2017, Fiscal 2016 and Fiscal 2015, respectively.

(3) Fiscal 2015 average sales per store calculated based on sales since date of Acquisition.

n/a Not applicable as Zale division was acquired in Fiscal 2015.

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Sales data by brand

Fiscal 2017	Sales (millions)	Change from previous year Same store sales	Total sales
Zales	$1,257.4	(1.4)%	1.3 %
Peoples	204.9	(4.6)%	(4.6)%
Regional brands	87.4	(9.6)%	(22.2)%
Total Zale Jewelry	$1,549.7	(2.4)%	(1.2)%
Piercing Pagoda	263.1	6.6 %	8.2 %
Zale division[1]	$1,812.8	(1.2)%	0.1 %

(1) The Zale division same store sales includes merchandise and repair sales and excludes warranty and insurance revenues.

Zale Jewelry

Zale Jewelry is comprised of three core national brands, Zales Jewelers, Zales Outlet and Peoples Jewellers and two regional brands, Gordon’s Jewelers and Mappins Jewellers. Each brand specializes in jewelry and watches, with merchandise and marketing emphasis focused on diamond products.

Zales Jewelers, including Zales Outlet

Zales Jewelers operates primarily in shopping malls and offers a broad range of bridal, diamond solitaire and fashion jewelry. Zales Outlet operates in outlet malls and neighborhood power centers and capitalizes on Zales Jewelers’ national marketing and brand recognition. Like the rest of our store banners, Zales targets a mid-market jewelry customer. But where Zales differs is that it particularly targets a customer, we identify as a “stylish shopper,” for whom trend and leading styles are very important. Zales Jewelers and Zales Outlet are collectively referred to as “Zales.” Zales accounted for 20% of Signet’s sales in Fiscal 2017 (Fiscal 2016: 19%) and operated a total of 751 stores, including 744 stores in the United States and 7 stores in Puerto Rico as of January 28, 2017 (January 30, 2016: 730 total stores). Zales is positioned as “The Diamond Store” given its emphasis on diamond jewelry, especially in bridal and fashion.

Details of Zales’ performance since the Acquisition in Fiscal 2015 is shown below:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Sales (millions)	$1,257.4	$1,241.0	$800.9
Average sales per store (millions)	$1.327	$1.467	$0.942[1]
Stores at year end	751	730	716
Total net selling square feet (thousands)	1,039	1,010	990

(1) Fiscal 2015 average sales per store calculated based on sales since date of the Acquisition.

Zales mall stores typically occupy about 1,700 square feet and have approximately 1,300 square feet of selling space, whereas Zales off-mall stores typically occupy about 2,400 square feet and have approximately 1,700 square feet of selling space.

The following table summarizes the current composition of stores as of January 28, 2017 and net openings (closures) since the Acquisition:

	Stores at	Net openings (closures)

	January 28, 2017	Fiscal 2017	Fiscal 2016	Fiscal 2015
Mall	588	12	9	(6)
Off-mall and outlet	163	9	5	—
Total	751	21	14	(6)

Peoples Jewellers

Peoples Jewellers (“Peoples”) is Canada’s largest jewelry retailer, offering jewelry at affordable prices. Peoples accounted for 3% of Signet’s sales in Fiscal 2017 (Fiscal 2016: 3%) and operated 143 stores in Canada as of January 28, 2017 (January 30, 2016: 145 stores). Peoples is positioned as “Canada’s #1 Diamond Store” emphasizing its diamond business while also offering a wide selection of gold jewelry, gemstone jewelry and watches.

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Details of Peoples' performance since the Acquisition in Fiscal 2015 is shown below:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Sales (millions)	$204.9	$214.8	$174.5
Average sales per store (millions)[1]	$1.267	$1.353	$1.096(1)
Stores at year end	143	145	144
Total net selling square feet (thousands)	190	193	192

[1] Fiscal 2015 average sales per store calculated based on sales since date of the Acquisition.

Peoples stores typically occupy about 1,600 square feet and have approximately 1,300 square feet of selling space.

Zale Jewelry regional brands

The Zale division also operates the regional store brands Gordon's Jewelers ("Gordon's"), in the US, and Mappins Jewellers ("Mappins"), in Canada. Regional brands in the Zale Jewelry segment accounted for 1% of Signet's sales in Fiscal 2017 (Fiscal 2016: 2%) and operated a total of 76 stores, including 42 stores in the US and 34 stores in Canada as of January 28, 2017 (January 30, 2016: 102 total stores). The Company expects the number of regional brands locations to continue to decline through conversion to national store brands or through closure upon lease expiration.

Details of the regional brands' performance since the Acquisition is shown below:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Sales (millions)	$87.4	$112.4	$93.3
Average sales per store (millions)[1]	$0.982	$0.942	$0.682[1]
Stores at year end	76	102	112
Total net selling square feet (thousands)	82	112	125

[1] Fiscal 2015 average sales per store calculated based on sales since date of the Acquisition.

Piercing Pagoda

Piercing Pagoda operates through mall-based kiosks in the US and Puerto Rico. Piercing Pagoda accounted for 4% of Signet's sales in Fiscal 2017 (Fiscal 2016: 4%) and operated a total of 616 stores, including 609 stores in the United States and 7 stores in Puerto Rico as of January 28, 2017 (January 30, 2016: 605 total stores). Details of Piercing Pagoda's performance since the Acquisition in Fiscal 2015 is shown below:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Sales (millions)	$263.1	$243.2	$146.9
Average sales per store (millions)[1]	$0.506	$0.376	$0.228[1]
Stores at year end	616	605	605
Total net selling square feet (thousands)	115	114	115

[1] Fiscal 2015 average sales per store calculated based on sales since date of the Acquisition.

Piercing Pagodas are generally located in high traffic areas that are easily accessible and visible within regional shopping malls. The typical customer is the female self-purchaser. Piercing Pagoda offers a selection of gold, silver and diamond jewelry in basic styles at moderate prices.

Zale operating review

Other sales

Repair services represent approximately 2% of sales and 4% of transactions and are an important opportunity to build customer loyalty. During Fiscal 2017, Zale utilized the Jared Design & Service Centers to support its repair business for all US locations, which was an increase from approximately 200 stores in Fiscal 2016.

The Zale division sells extended service plans on certain products covering lifetime repair service and jewelry replacement. The lifetime extended service 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 or a replacement option if the merchandise cannot be repaired. Zale Jewelry also offers guests a two year fine watch warranty. Additionally, Zale Jewelry and Piercing Pagoda offer a one year jewelry replacement program, which requires the issuance of new replacement merchandise if the original

merchandise is determined to be defective or damaged in accordance with the plan agreement.

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Customer finance

Our consumer credit program is an integral part of our business and is a major driver of customer loyalty. Guests are offered revolving and interest free credit plans under our private label credit card programs offered in conjunction with Comenity Bank and TD Bank Services in Canada, in conjunction with other alternative finance vehicles, including Signet's in-house consumer credit program beginning in late Fiscal 2016. These provide guests of the Zale division with a wide variety of financing options. Participation of the Zale division in Signet's in-house consumer credit program was immaterial in Fiscal 2017. Nearly 47% of Zale sales in the US were financed by private label customer credit in Fiscal 2017 (Fiscal 2016: 42%). Canadian private label credit card sales represented 32% of Canadian sales in Fiscal 2017 (Fiscal 2016: 29%).

UK JEWELRY DIVISION

The UK Jewelry division transacts mainly in British pounds, as sales and the majority of operating expenses are incurred in that currency and its results are then translated into US dollars for external reporting purposes. In Fiscal 2017, approximately 25% of goods purchased were made in US dollars (Fiscal 2016: 25%). The following information for the UK Jewelry division is given in British pounds as management believes that this presentation assists in understanding the performance of the UK Jewelry division. Movements in the US dollar to British pound exchange rate therefore may have an impact on the results of Signet, particularly in periods of exchange rate volatility. See Item 6 for analysis of results at constant exchange rates; non-GAAP measures.

UK market

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

UK Jewelry store brand reviews

Store activity by brand

	Fiscal 2017	Fiscal 2016	Fiscal 2015
H.Samuel	6	2	—
Ernest Jones	3	8	8
Total stores opened or acquired during the year	9	10	8
H.Samuel	(3)	(3)	(2)
Ernest Jones	(1)	(2)	(1)
Total stores closed during the year	(4)	(5)	(3)
H.Samuel	304	301	302
Ernest Jones	204	202	196
Total stores open at the end of the year	508	503	498
H.Samuel	£0.748	£0.763	£0.760
Ernest Jones	£1.114	£1.142	£1.092
Average sales per store (millions)[1]	£0.894	£0.910	£0.887
H.Samuel	329	326	327
Ernest Jones	197	194	185
Total net selling square feet (thousands)	526	520	512
Increase in net store selling space	1.0 %	1.5 %	1.8 %

[1] Based only upon stores operated for the full fiscal year and calculated on a 52-week basis.

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Sales data by brand

Fiscal 2017	Sales (millions)	Change from previous year: Same store sales	Total sales at constant exchange rates[1]	Total sales
H.Samuel	£ 245.0	(1.3)%	(0.9)%	(13.9)%
Ernest Jones	244.4	1.6 %	2.8 %	(10.6)%
UK Jewelry	£ 489.4	0.1 %	0.9 %	(12.3)%

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

H.Samuel

H.Samuel accounted for 5% of Signet's sales in Fiscal 2017 (Fiscal 2016: 6%), and is the largest specialty retail jewelry store brand in the UK by number of stores. H.Samuel has 150 years of jewelry heritage, with a target customer focused on inexpensive fashion-trend oriented, everyday jewelry. The typical store selling space is 1,100 square feet. H.Samuel continues to focus on larger store formats in regional shopping centers. Details of H.Samuel's performance over the last three years is shown below:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Sales (millions)	£245.0	£247.4	£240.3
Average sales per store (millions)	£0.748	£0.763	£0.760
Stores at year end	304	301	302
Total net selling square feet (thousands)	329	326	327

Ernest Jones

Ernest Jones (including stores selling under the Leslie Davis nameplate) accounted for 5% of Signet's sales in Fiscal 2017 (Fiscal 2016: 6%), and is the second largest specialty retail jewelry store brand in the UK by number of stores. It serves the upper middle market, with a target customer focused on high-quality, timeless jewelry. The typical store selling space is 900 square feet. Details of Ernest Jones' performance over the last three years is shown below:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Sales (millions)	£244.4	£237.9	£217.8
Average sales per store (millions)	£1.114	£1.142	£1.092
Stores at year end	204	202	196
Total net selling square feet (thousands)	197	194	185

UK Jewelry operating review

Customer finance

In Fiscal 2017, approximately 8% of the division's sales were made through a customer finance program provided through a third party (Fiscal 2016: 7%). Signet does not provide this service itself in the UK due to low demand for customer finance.

OTHER

Other consists of all non-reportable operating segments, including activities related to the direct sourcing of rough diamonds, and is aggregated with unallocated corporate administrative functions.

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IMPACT OF CLIMATE CHANGE

Signet recognizes that climate change is a major risk to society and therefore continues to take steps to reduce Signet's climatic impact. Management believes that climate change has a largely indirect influence on Signet's performance and that it is of limited significance to the business.

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 US Securities and Exchange Commission ("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. The public also may read and copy any of these filings at the SEC's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-732-0330. The SEC also maintains a website at www.sec.gov that contains the Company's filings.

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ITEM 1A. RISK FACTORS

A decline in consumer spending 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. 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.

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, level of customer traffic in shopping malls and other retail centers, employment, the level of consumers’ disposable income, 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.

As 10% of Signet’s sales are accounted for by its UK Jewelry 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 Jewelry division, as well as adversely impact the US economy.

Global economic conditions and regulatory changes following the United Kingdom’s announced intention to exit from the European Union could adversely impact Signet’s business and results of operations located in, or closely associated with, the United Kingdom.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union (often referred to as Brexit) in a national referendum. The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last at least two years after the government of the United Kingdom formally initiates a withdrawal process. This will be either accompanied or followed by negotiations between the European Union and the United Kingdom concerning the future relations between the parties. Nevertheless, the referendum has created significant uncertainty about the future relationship between the United Kingdom and the European Union. This includes uncertainty with respect to the laws and regulations, including regulations applicable to Signet’s business that will apply in the United Kingdom in the event of a withdrawal. The referendum has also given rise to calls for the governments of other European Union member states to consider a referendum on withdrawal from the European Union for their territory. These developments, or the perception that any of them could occur, could adversely impact global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Any of these factors could depress economic activity, which could adversely impact our business, financial condition and results of operations especially those located in, or closely associated with, the United Kingdom. Brexit could lead to long-term volatility in the currency markets and there could be long-term detrimental effects on the value of the British Pound. Brexit could also impact other currencies. Signet uses foreign currency derivative instruments to hedge certain exposures to currency exchange rate risks. The results of the Brexit referendum could increase Signet’s exposure to foreign currency rate exchange risks and reduce its ability to effectively use certain derivative instruments as a way to hedge risks.

Any deterioration in consumers’ financial position or changes to the regulatory requirements regarding the granting of credit to customers could adversely impact the Company’s sales, earnings and the collectability of accounts receivable.

More than half of Signet’s sales in the US and Canada utilize its in-house or third-party customer financing programs and an additional 35% of purchases are made using third party bank cards. Any significant deterioration in general economic conditions or increase in consumer debt levels may inhibit consumers’ use of credit and decrease consumers’ ability to satisfy Signet’s requirement for access to customer finance and could in turn have an adverse effect on the Company’s sales. Furthermore, any downturn in general or local economic conditions, in particular an increase in unemployment in the markets in which the Signet operates, may adversely affect its collection of outstanding accounts receivable, its net bad debt charge and hence earnings.

Additionally, Signet’s ability to extend credit to customers and the terms on which it is achieved depends on many factors, including compliance with applicable laws and regulations in the US and Canada, any of which may change

from time to time, and such changes 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 Company, or by third parties, and this could adversely impact sales, income or cash flow.

The US Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) was signed into law in July 2010. Among other things, the Dodd-Frank Act created 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 financing 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 of the Sterling Jewelers and Zale divisions, which could adversely affect their 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. In addition, the stock market has experienced price and volume fluctuations that have affected the market price of many retail and other stocks in a manner unrelated, or disproportionate, to the operating performance of these companies.

Signet provides public guidance on its expected operating and financial results for future periods. Although Signet believes that this guidance provides investors and analysts with a better understanding of management's expectations for the future and is useful to its stockholders and potential stockholders, such guidance is comprised of forward-looking statements subject to the risks and uncertainties described in this report and in our other public filings and public statements. Signet's actual results may not always be in line with or exceed the provided guidance or the expectations of our investors and analysts, especially in times of economic uncertainty. In the past, when the Company has reduced its previously provided guidance, the market price of Signet's common stock has declined. If, in the future, Signet's operating or financial results for a particular period do not meet our guidance or the expectations of our investors and analysts or if we reduce our guidance for future periods, the market price of our common stock may decline.

In addition, Signet may fail to meet the expectations of its stockholders or of analysts at some time in the future. If the analysts that regularly follow the Company's stock lower their rating or lower their projections for future growth and financial performance, the Company's stock price could decline.

Signet's sales, operating income, cash and inventory levels fluctuate on a seasonal basis.

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. Additionally, in anticipation of increased sales activity in the Holiday Season, Signet incurs certain significant incremental expenses prior to and during peak selling seasons, including advertising and costs associated with hiring a substantial number of temporary employees to supplement our existing workforce.

Deterioration in the Company's capital structure or financial performance could result in constraints on capital or financial covenant breaches. In addition, a portion of the Company's debt is variable rate and volatility in benchmark interest rates could adversely impact the Company's financial results.

While Signet has a strong balance sheet with adequate liquidity to meet its operating requirements, the credit ratings agencies periodically review our capital structure and the quality and stability of our earnings. A deterioration in Signet's capital structure or the quality and stability of earnings could result in a downgrade of Signet's credit rating. Any negative ratings actions could also constrain the capital available to the Company, could limit the Company's access to funding for its operations, funding dividends and share repurchases, and increase the Company's financing costs. Changes in general credit market conditions could also affect Signet's ability to access capital at rates and on terms we determine to be attractive. If our ability to access capital becomes constrained, our interest costs will likely increase, which could have a material adverse effect on our results of operations, financial condition and cash flows. Additionally, as a result of the Company's exposure to variable interest rate debt, volatility in benchmark interest rates could adversely impact the Company's financial results.

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 financing if current lenders required cancellation of facilities or early repayment.

Fluctuations in foreign exchange rates could adversely impact the Company's results of operations and financial condition.

Signet publishes its consolidated annual financial statements in US dollars. At January 28, 2017, Signet held approximately 91% of its total assets in entities whose functional currency is the US dollar and generated approximately 86% of its sales and 94% of its operating income in US dollars for the fiscal year then ended. All the remaining assets, sales and operating income are in UK British pounds and Canadian dollars. Therefore, the

Company’s results of operations and balance sheet are subject to fluctuations in the exchange rates between the US dollar and both the British pound and Canadian dollar. Accordingly, any decrease in the weighted average value of the British pound or Canadian dollar 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 based on the daily exchange rates experienced by the UK Jewelry division and the Canadian subsidiaries of the Zale division in the fiscal month.
Where British pounds or Canadian dollars are held or used to fund the cash flow requirements of the business, any decrease in the weighted average value of the British pound or Canadian dollar against the US dollar would reduce the amount of cash and cash equivalents.
In addition, the prices of certain materials and products bought on the international markets by Signet are denominated in foreign currencies. As a result, Signet and its subsidiaries have exposures to exchange rate fluctuations on its cost of goods sold, as well as volatility of input prices if foreign manufacturers and suppliers are impacted by exchange rate fluctuations.

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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 accounted for about 45%, and gold about 14%, of Signet's merchandise costs in Fiscal 2017.
In Fiscal 2017, prices for the assortment of polished diamonds utilized by Signet decreased slightly compared to prior year. 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 in the gold price in recent years. 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 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, 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 currently cover less than 1% of annual worldwide gold production (based upon recent estimates), the final rules require Signet and other affected companies that file with the SEC to make specified country of origin inquiries of our suppliers, and otherwise to exercise reasonable due diligence in determining the country of origin and certain other information relating to any of the statutorily designated minerals (gold, tin, tantalum and tungsten), that are used in products sold by Signet in the US and elsewhere. On May 27, 2016, Signet filed with the SEC its Form Specialized Disclosure ("SD") and accompanying Conflict Minerals Report in accordance with the SEC's rules, which together describe our country

of origin inquiries and due diligence measures relating to the source and chain of custody of those designated minerals Signet deemed necessary to the functionality or production of our products, the results of those activities and our related determinations with respect to the calendar year ended December 31, 2015.

There may be reputational risks associated with the potential negative response of our customers and other stakeholders to future disclosures by Signet in the event that, due to the complexity of the global supply chain, Signet is unable to sufficiently verify the origin of the relevant metals. Also, if future responses to verification requests by suppliers of any of the covered minerals used in our products are inadequate or adverse, Signet's ability to obtain merchandise may be impaired and our compliance costs may increase. 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 any division or across a wide range of merchandise, the impact on earnings will depend on, among other factors, the pricing by competitors of similar products in the same geographic area and the response by customers to higher prices. Such price increases may result in lower sales and adversely impact earnings.

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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 and other forms of expenditure, such as electronics and travel, also compete for consumers' discretionary expenditure, particularly 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 Company's ability to satisfy the accounting requirements for "hedge accounting," or the 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 Sterling Jewelers and UK Jewelry divisions and hedges the US dollar requirements of its UK Jewelry 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 Company's inability to obtain merchandise that customers wish to purchase, particularly ahead of and during the fourth quarter, could 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 could 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 5.5% 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 suppliers in the future due to a change in a supplier's sourcing practices or Signet's compliance with laws and internal policies.

Luxury and prestige watch manufacturers and distributors normally grant agencies the right to sell their ranges on a store-by-store basis. 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.

The Company's ability 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, 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.

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The retail jewelry industry is highly fragmented and competitive.
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 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.
Signet faces significant competition from independent and regional 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 Signet division's have a national pricing strategy.
The Company's inability to rent stores that satisfy management's operational and financial criteria could adversely impact 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. 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 in new projects. Limited new real estate development taking place would make it challenging to identify and secure suitable new store locations. The UK Jewelry division has a more diverse range of store locations than in the US or Canada, 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 Jewelry 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.
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. 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.
Inadequacies in and disruption to 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, and those of our service providers. 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.
Signet is in the process of substantially modifying our enterprise resource planning systems, which involves updating or replacing legacy systems with successor systems over the course of several years. These system changes and upgrades can require significant capital investments and dedication of resources. While Signet follows a disciplined methodology when evaluating and making such changes, there can be no assurances that the Company will

successfully implement such changes, that such changes will occur without disruptions to its operations or that the new or upgraded systems will achieve the desired business objectives. Any damage, disruption or shutdown of the Company's information systems, or the failure to successfully implement new or upgraded systems, could have a direct material adverse effect on Signet's results of operations.

An inability to successfully develop and maintain a relevant omni-channel experience for customers could adversely impact Signet's business and results of operations.

Signet's business has evolved from an in-store experience to interaction with customers across numerous channels, including in-store, online, mobile and social media, among others. Omni-channel retailing is rapidly evolving and Signet must keep pace with changing customer expectations and new developments by our competitors. Our customers are increasingly using computers, tablets, mobile phones and other devices to comparison shop, determine product availability and complete purchases online. Signet must compete by offering a consistent and convenient shopping experience for our customers regardless of the ultimate sales channel and by investing in, providing and maintaining digital tools for our customers

that have the right features and are reliable and easy to use. If Signet is unable to make, improve or develop relevant customer-facing technology in a timely manner, the Company's ability to compete and its results of operations could be materially and adversely affected. In addition, if Signet's online activities or other customer-facing technology systems do not function as designed, the Company may experience a loss of customer confidence, data security breaches, lost sales or be exposed to fraudulent purchases, any of which could materially and adversely affect our business operations, reputation and results of operations.

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 Sterling Jewelers division, maintains its own customer financing 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 propriety 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 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, we may not timely anticipate evolving techniques used to effect security breaches that may result in damage, disruptions or shutdowns of Signet's and our third-party vendors' networks and infrastructure due to attacks by hackers, including phishing or other cyber-attacks, 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, including personal, proprietary or confidential information about Signet, our customers or our third-party vendors, and personally identifiable information of Signet's customers and employees could be accessed, manipulated, publicly disclosed, lost or stolen, exposing our customers to the risk of identity theft and exposing Signet or our third-party vendors to a risk of loss or misuse of this information. To date, these attacks or breaches have not had a material impact on Signet's business or operations; however, 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, significant breach-notification costs, lost sales and a disruption to operations (including our ability to process consumer transactions and manage inventories), media attention, and damage to Signet's reputation, which could adversely affect Signet's business. In addition, it could harm Signet's reputation and ability to execute its business through service and business interruptions, management distraction and/or damage to physical infrastructure, which could adversely impact sales, costs and earnings. If Signet is the target of a cybersecurity attack resulting in unauthorized disclosure of our customer data, we may be required to undertake costly notification and credit monitoring procedures. Compliance with these laws will likely increase the costs of doing business.

The regulatory environment related to information security, data collection and privacy is becoming increasingly demanding, with new and changing requirements applicable to Signet's business, and compliance with those requirements could result in additional costs, such as costs related to organizational changes, implementing additional protection technologies, training employees and engaging consultants.

These risks could have a material adverse effect on Signet's results of operations, financial condition and cash flow.

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

Signet is involved in legal proceedings incidental to its business. Litigation is inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts

of management time and result in the diversion of significant operational resources.

In March 2008, private plaintiffs filed a class action lawsuit for an unspecified amount against Sterling Jewelers Inc. ("Sterling"), a subsidiary of Signet, in US 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 US 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 25 in Item 8.

In August 2016, individual plaintiffs filed putative class actions asserting claims under the federal securities laws in the US District Court for the Southern District of New York against the Company and its Chief Executive Officer and Chief Financial Officer seeking an unspecified amount of damages. The cases were consolidated and an amended complaint was filed in January 2017. Plaintiffs sought leave from court which was granted to file a second amended complaint. Signet denies the current allegations and intends to defend the case vigorously. If, however, it is unsuccessful in its defense, Signet could be required to pay substantial damages. At this point, no outcome or amount of loss is able to be estimated. See Note 25 in Item 8.

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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 adversely affect the Company's business.
State, federal and global laws and regulations regarding employment change frequently and the ultimate cost of compliance cannot be precisely estimated. 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.
Collective bargaining activity could disrupt the Company's operations, increase our labor costs or interfere with the ability of our management to focus on executing our business strategies.
The employees of our diamond polishing factory in Garborone, Botswana are covered by a collective bargaining agreement. If relationships with these employees become adverse, operations at the factory could experience labor disruptions such as strikes, lockouts, boycotts and public demonstrations. Labor regulation and the negotiation of new or existing collective bargaining agreements could lead to higher wage and benefit costs, changes in work rules that raise operating expenses, legal costs and limitations on our ability to take cost saving measures during economic downturns.
The Company's ability to comply with changes in laws and regulations could adversely affect our business.
Signet's policies and procedures are designed to comply with all applicable laws and regulations. Changing legal and regulatory requirements in the US and other jurisdictions in which Signet operates 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 existing taxation benefits, rules or practices may adversely affect the Company's financial results.
The Company operates through various subsidiaries in numerous countries throughout the world. Consequently, Signet is subject to changes in tax laws, treaties or regulations or the interpretation or enforcement thereof in the United States or jurisdictions where any subsidiaries operate or are incorporated. Tax laws, treaties and regulations are highly complex and subject to interpretation. The Company's income tax expense is based upon interpretation of the tax laws in effect in various countries at the time such expense was incurred. If these tax laws, treaties or regulations were to change or any tax authority were to successfully challenge our assessment of the effects of such laws, treaties and regulations in any country, this could result in a higher effective tax rate on the Company's taxable earnings, which could have a material adverse effect on the Company's results of operations.
In addition, the Organization for Economic Co-Operation and Development ("OECD") has published an action plan seeking multilateral cooperation to reform the taxation of multinational companies. Countries already have begun to implement some of these action items, and likely will continue to adopt more of them over the next several years. This may result in unilateral or uncoordinated local country application of the action items. Any such inconsistencies in the tax laws of countries where the Company operates or is incorporated may lead to increased uncertainty with respect to tax positions or otherwise increase the potential for double taxation. Proposals for U.S. tax reform also potentially could have a significant adverse effect on us. In addition, the European Commission has conducted investigations in multiple countries focusing on whether local country tax legislation or rulings provide preferential tax treatment in violation of European Union state aid rules. Any impacts of these actions could increase the Company's tax liabilities, which in turn could have a material adverse effect on the Company's results of operations and financial condition.
The Parent Company is incorporated in Bermuda. The directors intend to conduct the Parent Company's affairs such that, based on current law and practice of the relevant tax authorities, the Parent Company will not become resident for tax purposes in any other territory. At the present time, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by the Parent Company or by its shareholders in respect of its common shares. The Parent Company has obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 31, 2035, be applicable to it or to any of its operations or to its shares, debentures or other obligations except insofar as such tax

applies to persons ordinarily resident in Bermuda or is payable by it in respect of real property owned or leased by it in Bermuda. Given the limited duration of the Minister of Finance’s assurance, the Parent Company cannot be certain that it will not be subject to Bermuda tax after March 31, 2035. In the event the Parent Company were to become subject to any Bermuda tax after such date, it could have a material adverse effect on the Parent Company’s results of operations and financial condition.

Likewise, Signet’s non-U.S. subsidiaries operate in a manner that they should not be subject to U.S. income tax because none of them should be treated as engaged in a trade or business in the U.S. If, despite this, the IRS were to successfully contend that the Parent Company or any of its non-U.S. subsidiaries are engaged in a trade or business in the U.S., such entity could be subject to U.S. corporate income and branch profits taxes on the portion of its earnings effectively connected to such U.S. business, which could adversely affect the Company’s results of operations.

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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, Canada 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 or integrating 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 or integrating an acquisition, a business combination or a major business initiative, including our 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 our current activities and divert significant management time and resources. Signet's current borrowing agreements place certain limited constraints on our ability to make an acquisition or enter into a business combination, and future borrowing agreements could place tighter constraints on such actions.

Additional indebtedness relating to the acquisition of Zale Corporation reduces the availability of cash to fund other business initiatives.

Signet's additional indebtedness to fund the acquisition of Zale Corporation has significantly increased Signet's outstanding debt. This additional indebtedness requires us to dedicate a portion of our cash flow to servicing this debt, which may impact the availability of cash to fund other business initiatives, including dividends and share repurchases. 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 acquired business may affect our ability to satisfy the financial covenants included in the terms of the financing arrangements.

Failure to successfully combine Signet's and Zale Corporation's businesses in the expected time frame may adversely affect the future results of the combined company, and there is no assurance that we will be able to fully achieve integration-related efficiencies or that those achieved will offset transaction-related costs.

The success of the transaction will depend, in part, on our ability to successfully combine the Signet and Zale businesses in order to realize the anticipated benefits and synergies from combination. 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. In addition, we have incurred a number of substantial transaction and integration-related costs associated with completing the transaction, combining the operations of the two companies and taking steps to achieve desired synergies. Transaction costs include, but are not limited to, fees paid to legal, financial, accounting and integration advisors, regulatory filing fees and printing costs. Additional unanticipated costs may be incurred in the integration of our and Zale Corporation'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.

Additionally, these integration difficulties could result in declines in the market value of our common stock.

The Company's ability to protect intellectual property could have a negative impact on our brands, reputation and operating results.

Signet's trade names, trademarks, copyrights, patents and other intellectual property are important assets and an essential element of the Company's strategy. The unauthorized reproduction, theft or misappropriation of Signet's intellectual property could diminish the value of its brands or reputation and cause a decline in sales. Protection of Signet's intellectual property and maintenance of distinct branding are particularly important as they distinguish our products and services from those of our competitors. The costs of defending our intellectual property may adversely affect the Company's operating results. In addition, any infringement or other intellectual property claim made against Signet, whether or not it has merit, could be time-consuming, result in costly litigation, cause product delays, or require the Company to enter into royalty or licensing agreements. As a result, any such claim could have a material adverse effect on Signet's operating results.

If the Company’s goodwill or indefinite-lived intangible assets become impaired, we may be required to record significant charges to earnings.

We have a substantial amount of goodwill and indefinite-lived intangible assets on our balance sheet as a result of the Zale Corporation acquisition. We review goodwill and indefinite-lived intangible assets for impairment annually or whenever events or circumstances indicate impairment may have occurred. Application of the impairment test requires judgment, including the identification of reporting units, assignment of assets, liabilities and goodwill to reporting units, and the determination of fair value of each reporting unit. There is a risk that a significant deterioration in a key estimate or assumption or a less significant deterioration to a combination of assumptions or the sale of a part of a reporting unit could result in an impairment charge in the future, which could have a significant adverse impact on our reported earnings.

For further information on our testing for goodwill impairment, see “Critical Accounting Policies” under Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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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 termination protection agreements with such key personnel, the retention of their services cannot be guaranteed and the loss of such services could have a material adverse effect on Signet's ability to conduct its business. Competition for key personnel in the retail industry is intense, and Signet's future success will also depend on our ability to attract and retain talented personnel. 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 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The following table provides the location, use and size of our distribution, corporate and other non-retail facilities required to support the Company's global operations as of January 28, 2017:

Location	Function	Approximate square footage	Lease or Own	Lease expiration
Akron, Ohio[1]	Corporate and distribution	460,000	Lease	2047
Akron, Ohio	Credit	86,000	Lease	2047
Akron, Ohio	Training	12,000	Lease	2047
Akron, Ohio	Repair Center	38,000	Own	N/A
Akron, Ohio	Corporate	34,900	Lease	2019
Barberton, Ohio	Non-merchandise fulfillment	135,000	Lease	2031
New York City, New York	Design	4,600	Lease	2020
New York City, New York	Diamond trading	2,000	Lease	2021
Irving, Texas[2]	Corporate and distribution	414,000	Lease	2018
Toronto, Ontario (Canada)	Distribution and fulfillment	26,000	Lease	2019
Birmingham, UK	Corporate and eCommerce fulfillment	255,000	Own	N/A
Borehamwood, Hertfordshire (UK)	Corporate and distribution	36,200	Lease	2020
Gaborone, Botswana	Diamond polishing	34,200	Own	N/A
Mumbai, India	Diamond liaison	3,000	Lease	2018

(1) Signet is expanding the Akron headquarters by approximately 80,000 square feet to enhance distribution capabilities. The expansion is scheduled to be open for operation by the end of Fiscal 2018.

(2) Signet will be relocating the Dallas headquarters to a new 225,000 square foot facility upon expiration of the existing lease for the facility in Irving, Texas. The lease for this new headquarters will expire in 2028. Additionally, Signet is currently building a 31,000 square foot freestanding repair facility in Dallas, Texas, similar to the repair center in Akron, Ohio. It is scheduled to open for operation in March 2017 with the new lease set to expire in 2028.

Sufficient distribution exists in all geographies to meet the respective needs of the Company's operations.

Global retail property

Signet attributes great importance to the location and appearance of its stores. Accordingly, in each of Signet's divisions, investment decisions on selecting sites and refurbishing stores are made centrally, and strict real estate and investment criteria are applied. Below is a summary of property details by geography for our retail operations as of January 28, 2017:

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	Sterling Jewelers division				Zale division						UK Jewelry division			Signet
	Kay	Jared	Regional brands	Total	Zales	Peoples	Regional brands	Total Zale Jewelry	Piercing Pagoda	Total	H.Samuel	Ernest Jones	Total	Total stores
US	1,192	275	121	1,588	744	—	42	786	609	1,395	—	—	—	2,983
Canada	—	—	—	—	—	143	34	177	—	177	—	—	—	177
Puerto Rico	—	—	—	—	7	—	—	7	7	14	—	—	—	14
United Kingdom	—	—	—	—	—	—	—	—	—	—	291	199	490	490
Republic of Ireland	—	—	—	—	—	—	—	—	—	—	11	4	15	15
Channel Islands	—	—	—	—	—	—	—	—	—	—	2	1	3	3
Total	1,192	275	121	1,588	751	143	76	970	616	1,586	304	204	508	3,682

Store locations by US state, Canadian province and Puerto Rico, as of January 28, 2017, are as follows:

	Sterling Jewelers division				Zale division						Signet
	Kay	Jared	Regional brands	Total	Zales	Peoples	Regional brands	Total Zale Jewelry	Piercing Pagoda	Total	Total Stores
Alabama	25	4	3	32	12	—	—	12	4	16	48
Alaska	3	—	1	4	2	—	—	2	—	2	6
Arizona	20	9	1	30	14	—	—	14	11	25	55
Arkansas	9	1	—	10	10	—	3	13	—	13	23
California	79	19	1	99	56	—	—	56	40	96	195
Colorado	16	6	—	22	15	—	—	15	4	19	41
Connecticut	13	2	2	17	10	—	—	10	16	26	43
Delaware	4	2	—	6	4	—	1	5	6	11	17
Florida	83	23	7	113	57	—	5	62	70	132	245
Georgia	50	13	4	67	22	—	—	22	12	34	101
Hawaii	8	1	—	9	8	—	—	8	—	8	17
Idaho	5	1	—	6	2	—	—	2	—	2	8
Illinois	45	12	4	61	26	—	—	26	21	47	108
Indiana	29	6	6	41	13	—	—	13	13	26	67
Iowa	18	2	1	21	6	—	—	6	4	10	31
Kansas	9	2	—	11	7	—	—	7	5	12	23
Kentucky	21	3	6	30	8	—	—	8	6	14	44
Louisiana	17	3	1	21	16	—	6	22	—	22	43
Maine	6	1	1	8	1	—	—	1	2	3	11
Maryland	31	10	5	46	16	—	—	16	23	39	85
Massachusetts	25	6	3	34	12	—	—	12	23	35	69
Michigan	40	9	8	57	22	—	—	22	11	33	90
Minnesota	17	5	3	25	9	—	—	9	7	16	41
Mississippi	14	—	—	14	8	—	—	8	—	8	22
Missouri	22	5	—	27	12	—	—	12	6	18	45
Montana	3	—	—	3	1	—	—	1	—	1	4
Nebraska	8	—	—	8	3	—	—	3	1	4	12
Nevada	10	3	1	14	7	—	1	8	5	13	27
New Hampshire	11	4	2	17	7	—	—	7	7	14	31
New Jersey	32	7	—	39	20	—	—	20	33	53	92

New Mexico	5	1	—	6	9	—	2	11	4	15	21

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New York	67	9	3	79	43	—	—	43	64	107	186
North Carolina	46	12	1	59	20	—	1	21	19	40	99
North Dakota	4	—	—	4	3	—	—	3	1	4	8
Ohio	66	16	21	103	19	—	—	19	23	42	145
Oklahoma	10	2	—	12	11	—	4	15	—	15	27
Oregon	16	3	—	19	5	—	—	5	5	10	29
Pennsylvania	62	11	7	80	36	—	1	37	63	100	180
Rhode Island	4	1	—	5	2	—	—	2	3	5	10
South Carolina	26	3	2	31	10	—	—	10	6	16	47
South Dakota	3	—	—	3	3	—	—	3	1	4	7
Tennessee	28	8	3	39	18	—	1	19	5	24	63
Texas	76	30	—	106	99	—	17	116	21	137	243
Utah	10	3	—	13	2	—	—	2	3	5	18
Vermont	2	—	—	2	1	—	—	1	1	2	4
Virginia	40	10	7	57	26	—	—	26	27	53	110
Washington	19	3	7	29	14	—	—	14	12	26	55
West Virginia	10	—	6	16	6	—	—	6	8	14	30
Wisconsin	23	4	4	31	8	—	—	8	13	21	52
Wyoming	2	—	—	2	3	—	—	3	—	3	5
US	1,192	275	121	1,588	744	—	42	786	609	1,395	2,983
Alberta	—	—	—	—	—	23	8	31	—	31	31
British Columbia	—	—	—	—	—	24	2	26	—	26	26
Manitoba	—	—	—	—	—	5	—	5	—	5	5
New Brunswick	—	—	—	—	—	3	—	3	—	3	3
Newfoundland	—	—	—	—	—	2	—	2	—	2	2
Nova Scotia	—	—	—	—	—	7	2	9	—	9	9
Ontario	—	—	—	—	—	68	21	89	—	89	89
Prince Edward Island	—	—	—	—	—	2	1	3	—	3	3
Saskatchewan	—	—	—	—	—	9	—	9	—	9	9
Canada	—	—	—	—	—	143	34	177	—	177	177
Puerto Rico	—	—	—	—	7	—	—	7	7	14	14
Total North America	1,192	275	121	1,588	751	143	76	970	616	1,586	3,174

North America retail property

Signet’s Sterling Jewelers, Zale Jewelry and Piercing Pagoda segments operate stores and kiosks in the US, with substantially all of the locations being leased. In addition to a minimum annual rent cost, the majority of mall stores are also liable to pay rent based on sales above a specified base level. In Fiscal 2017, most of the mall stores and kiosks only made base rental payments. Under the terms of a typical lease, the Company is required to conform and maintain its usage to agreed standards, including meeting required advertising expenditure as a percentage of sales, and are responsible for its proportionate share of expenses associated with common area maintenance, utilities and taxes of the mall.

The initial term of a mall store lease is generally ten years for Sterling Jewelers and Zale Jewelry and one to five years for Piercing Pagoda kiosks. Towards the end of a lease, management evaluates whether to renew a lease and refit the store, using similar operational and investment criteria as for a new store. Where management is uncertain whether the location will meet management’s required return on investment, but the store is profitable, the leases may be renewed for one to five years, during which time the store’s performance is further evaluated. There are typically about 250 such mall stores at any one time in the Sterling Jewelers segment, as well as the Zale Jewelry segment. Jared stores are normally opened on 10 to 15 year leases with options to extend the lease, and rents are not sales related. A refurbishment of a Jared store is normally undertaken every five to ten years.

The Zale Jewelry segment operates stores in Canada and Puerto Rico, all under operating leases, with terms and characteristics similar to the US locations described above. The Piercing Pagoda segment operates kiosks in Puerto Rico, all under operating leases, with terms and characteristics similar to the US locations described above.

At January 28, 2017, the average unexpired lease term of leased premises for the Sterling Jewelers segment was approximately 5 years, and approximately 52% of these leases had terms expiring within five years. The cost of remodeling a mall store is similar to the cost of a new mall store, which is typically between $0.3 million and $0.7 million, depending on the scope of the remodel project. Jared refurbishments typically cost on average less than $0.2 million. New Jared stores typically cost between $2.1 million and $3.1 million. In Fiscal 2017, a total of 64 store locations were remodeled (Fiscal 2016: 95 locations).

At January 28, 2017, the average unexpired lease term of leased premises for the Zale Jewelry and Piercing Pagoda segments was 4 and 2 years, respectively, with approximately 80% of these leases having terms expiring within five years. The cost of remodeling a Zale Jewelry mall store is similar to the cost of a new mall store, which is typically between $0.3 million and $0.7 million. The cost of a new Piercing Pagoda kiosk approximates $0.1 million. In Fiscal 2017, store remodels were completed at 42 Zale Jewelry stores and 83 Piercing Pagoda kiosks. In Fiscal 2016, store remodels were completed at 45 Zale Jewelry stores and 74 Piercing Pagoda kiosks.

In the US, the Sterling Jewelers, Zale Jewelry and Piercing Pagoda segments collectively lease approximately 20% of store and kiosk locations from a single lessor. In Canada, Zale Jewelry leases approximately 50% of its store locations from four lessors, with no individual lessor relationship exceeding 15% of its store locations. The segments had no other relationship with any lessor relating to 10% or more of its locations.

During the past five fiscal years, the Company generally has been successful in renewing its store leases as they expire and has not experienced difficulty in securing suitable locations for its stores. No store lease is individually material to Signet’s Sterling Jewelers, Zale Jewelry or Piercing Pagoda operations.

UK retail property

The UK Jewelry division’s stores are generally leased under full repairing and insuring leases (equivalent to triple net leases in the US). Wherever possible, Signet is shortening the length of new leases that it enters into, or including break clauses in order to improve the flexibility of its lease commitments. At January 28, 2017, the average unexpired lease term of UK Jewelry premises was 5 years, and a majority of leases had either break clauses or terms expiring within five years. Rents are usually subject to upward review every five years if market conditions so warrant. An increasing proportion of rents also have an element related to the sales of a store, subject to a minimum annual value. At the end of the lease period, subject to certain limited exceptions, UK Jewelry leaseholders generally have statutory rights to enter into a new lease of the premises on negotiated terms. As current leases expire, Signet believes that it will be able to renew leases, if desired, for present store locations or to obtain leases in equivalent or improved locations in the same general area. Signet has not experienced difficulty in securing leases for suitable locations for its UK Jewelry stores. No store lease is individually material to Signet’s UK Jewelry operations.

A typical UK Jewelry store undergoes a major remodel every ten years and a less costly refurbishment every five years. It is intended that these investments will be financed by cash from operating activities. The cost of remodeling a regular store is typically between £150,000 and £600,000 for both H.Samuel and Ernest Jones, while remodels in prestigious locations typically doubles those costs.

The UK Jewelry division has no relationship with any lessor relating to 10% or more of its store locations.

Other

The Company has entered into agreements to assign or sublease certain premises as of January 28, 2017. See Note 25 of Item 8 for additional information.

ITEM 3. LEGAL PROCEEDINGS

See discussion of legal proceedings in Note 25 of Item 8.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market and dividend information

The principal trading market for the Company's common shares is the New York Stock Exchange (symbol: SIG). The following table sets forth the high and low sale prices per common share and the dividends per share declared on the common shares during the periods indicated:

	Fiscal 2017			Fiscal 2016		
	High	Low	Dividend	High	Low	Dividend
First quarter	$124.03	$94.71	$ 0.26	$139.78	$117.39	$ 0.22
Second quarter	$109.48	$79.26	$ 0.26	$137.62	$118.62	$ 0.22
Third quarter	$95.50	$73.16	$ 0.26	$150.94	$117.56	$ 0.22
Fourth quarter	$98.72	$79.99	$ 0.26	$149.73	$113.39	$ 0.22

On February 16, 2016, the Company filed a voluntary application with the United Kingdom's Financial Conduct Authority to delist its common shares from the London Stock Exchange ("LSE"). Signet took this action as a result of less than 1% of the Company's annual trading volume being executed on the LSE. As a result, the benefit of LSE listing was outweighed by the monetary expense, regulatory burdens and time spent on LSE-driven activity. Common shares of the Company continued to trade on the LSE until close of business on March 15, 2016.

On March 9, 2017, the Board of Directors (the "Board") declared a 19% increase in the first quarter dividend, resulting in an increase from $0.26 to $0.31 per Signet common share. Future payments of quarterly dividends will be based on Signet's ability to satisfy all applicable statutory and regulatory requirements and its continued financial strength. Any future payment of cash dividends will depend upon such factors as Signet's earnings, capital requirements, financial condition, restrictions under Signet's credit facility, legal restrictions and other factors deemed relevant by the Board.

Number of common shareholders

As of March 10, 2017, there were approximately 7,370 shareholders of record.

Repurchases of equity securities

The following table contains the Company's repurchases of common shares in the fourth quarter of Fiscal 2017:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs[(1)]	Approximate dollar value of shares that may yet be purchased under the plans or programs
October 30, 2016 to November 26, 2016	—	$ —	—	$668,086,614
November 27, 2016 to December 24, 2016	—	$ —	—	$668,086,614
December 25, 2016 to January 28, 2017	1,311,540	$ 87.01 [(1)]	1,311,540	$510,586,584
Total	1,311,540	$ 87.01 [(1)]	1,311,540	$510,586,584

(1) In February 2016 and August 2016, the Board of Directors authorized the repurchase of Signet's common shares up to $750.0 million and $625.0 million, respectively, for a combined total of $1,375.0 million (the "2016 Program"). The Company entered into an accelerated share repurchase ("ASR") agreement on October 5, 2016 to repurchase $525.0 million of the Company's common shares and took delivery of 4.7 million shares. In December 2016, the Company finalized the transaction and received an additional 1.3 million shares. Total shares repurchased under the ASR were 6.0 million shares at an average purchase price of $87.01 per share based on the volume-weighted

average price of the Company's common shares traded during the pricing period, less an agreed discount. See Note 6 of Item 8 for additional information.

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Performance graph

The following performance graph and related information shall not be deemed “soliciting material” or to be filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that Signet specifically incorporates it by reference into such filing.

Historical share price performance should not be relied upon as an indication of future share price performance. The following graph compares the cumulative total return to holders of Signet’s common shares against the cumulative total return of the S&P 500 Index and the S&P 500 Specialty Retail Index for the five year period ended January 28, 2017. The comparison of the cumulative total returns for each investment assumes that $100 was invested in Signet’s common shares and the respective indices on January 28, 2012 through January 28, 2017.

Related Shareholder Matters

The Parent Company is classified by the Bermuda Monetary Authority as a non-resident of Bermuda for exchange control purposes. Issues and transfers of common shares involving persons regarded as non-residents of Bermuda for exchange control purposes may be effected without specific consent under the Exchange Control Act 1972 of Bermuda and regulations thereunder. Issues and transfers of common shares involving persons regarded as residents in Bermuda for exchange control purposes may require specific prior approval under the Exchange Control Act 1972 of Bermuda and regulations thereunder.

The owners of common shares who are non-residents of Bermuda are not subject to any restrictions on their rights to hold or vote their shares. Because the Parent Company is classified as a non-resident of Bermuda for exchange control purposes, there are no restrictions on its ability to transfer funds into and out of Bermuda or to pay dividends, other than in respect of local Bermuda currency.

There is no reciprocal tax treaty between Bermuda and the United States regarding withholding taxes. Under existing Bermuda law, there is no Bermuda income or withholding tax on dividends paid by the Parent Company to its shareholders. Furthermore, under existing Bermuda law, no Bermuda tax is levied on the sale or transfer of Signet common shares.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The financial data included below for Fiscal 2017, Fiscal 2016 and Fiscal 2015 has 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 2014 and Fiscal 2013 has been derived from the previously published consolidated audited financial statements not included in this document.

FINANCIAL DATA:	Fiscal 2017	Fiscal 2016	Fiscal 2015[1]	Fiscal 2014	Fiscal 2013[2]
Income statement:	(in millions)				
Sales	$6,408.4	$6,550.2	$5,736.3	$4,209.2	$3,983.4
Gross margin	$2,360.8	$2,440.4	$2,074.2	$1,580.5	$1,537.4
Selling, general and administrative expenses	$(1,880.2)	$(1,987.6)	$(1,712.9)	$(1,196.7)	$(1,138.3)
Operating income	$763.2	$703.7	$576.6	$570.5	$560.5
Net income attributable to common shareholders	$531.3	$467.9	$381.3	$368.0	$359.9
Adjusted EBITDA[3]	$955.0	$891.5	$762.9	$680.7	$659.9
Same store sales percentage (decrease) increase	(1.9)%	4.1%	4.1%	4.4%	3.3%
	(Income statement as a % of sales)				
Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Gross margin	36.8%	37.3%	36.2%	37.5%	38.6%
Selling, general and administrative expenses	(29.3)%	(30.4)%	(29.9)%	(28.4)%	(28.6)%
Operating income	11.9%[4]	10.7%[4]	10.0%[4]	13.5%	14.1%
Net income attributable to common shareholders	8.3%	7.1%	6.6%	8.7%	9.0%
Adjusted EBITDA[3]	14.9%	13.6%	13.3%	16.2%	16.6%
Per share data:					
Earnings per common share:					
Basic	$7.13	$5.89	$4.77	$4.59	$4.37
Diluted	$7.08	$5.87	$4.75	$4.56	$4.35
Dividends declared per common share	$1.04	$0.88	$0.72	$0.60	$0.48
Weighted average common shares outstanding:	(in millions)				
Basic	74.5	79.5	79.9	80.2	82.3
Diluted	76.7	79.7	80.2	80.7	82.8
Balance sheet:	(in millions)				
Total assets[5]	$6,597.8	$6,464.9	$6,203.0	$3,916.1	$3,616.5
Total liabilities[5]	$3,495.7	$3,404.2	$3,392.6	$1,353.0	$1,286.6
Series A redeemable convertible preferred shares	$611.9	n/a	n/a	n/a	n/a
Net (debt) cash[3]	$(1,310.3)	$(1,241.0)	$(1,256.4)	$228.3	$301.0
Working capital	$3,438.9	$3,437.0	$3,210.3	$2,467.0	$2,292.2
Common shares outstanding	68.3	79.4	80.3	80.2	81.4

(1) On May 29, 2014, the Company completed the acquisition of Zale Corporation. Fiscal 2015 results include Zale Corporation's results since the date of acquisition. See Note 3 of Item 8 for additional information.

(2) 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.

(3) Adjusted EBITDA and net (debt) cash are non-GAAP measures; see "GAAP and non-GAAP Measures" below.

(4) The acquisition of Zale in May 2014, with operating margins lower than that of Signet, caused an overall lower operating margin for Signet.

(5) Results reclassified in accordance with Signet's adoption of Accounting Standards Update 2015-03, which requires debt issuance costs to be presented on the balance sheet as a direct deduction from the debt liability. See Note 2 of Item 8 for additional information.

n/a Not applicable as Series A redeemable convertible preferred shares were issued in October 2016.

	Fiscal 2017		Fiscal 2016		Fiscal 2015[1]		Fiscal 2014		Fiscal 2013	
Other financial data:										
Free cash flow (in millions)[2]	$400.3		$216.8		$62.8		$82.8		$178.5	
Effective tax rate	23.9	%	28.9	%	29.5	%	35.0	%	35.4	%
ROCE[2]	21.4	%	21.0	%	19.5	%	25.2	%	28.1	%
Adjusted leverage ratio[2]	3.6x		3.3x		3.5x		1.8x		1.8x	
Store and employee data:										
Store locations (at end of period)	3,682		3,625		3,579		1,964		1,954	
Number of employees (full-time equivalents)	29,566	(3)	29,057	(3)	28,949	(3)	18,179	(3)	17,877	

(1) On May 29, 2014, the Company completed the acquisition of Zale Corporation. Fiscal 2015 includes Zale Corporation's results since the date of acquisition. See Note 3 of Item 8 for additional information.

(2) Free cash flow, ROCE and adjusted leverage ratio are non-GAAP measures; see "GAAP and non-GAAP Measures" below.

(3) Number of employees includes 163, 194, 226 and 211 full-time equivalents employed in the diamond polishing plant located in Botswana for Fiscal 2017, Fiscal 2016, Fiscal 2015, and Fiscal 2014, respectively.

GAAP AND NON-GAAP MEASURES

The discussion and analysis of Signet's results of operations, financial condition and liquidity contained in this Annual Report on Form 10-K 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 British pound and Canadian dollar 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 British pound and Canadian dollar 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 Statements at Constant Exchange Rates

Movements in the British pound and Canadian dollar to US dollar exchange rates have an impact on Signet's results. The UK Jewelry division is managed in British pounds and the Canadian reporting unit of the Zale Jewelry segment in Canadian dollars as sales and a majority of operating expenses are incurred in those foreign currencies. The results for each are then translated into US dollars for external reporting purposes. Management believes it assists in understanding the performance of Signet and its segments 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 British pound and Canadian dollar to US dollar exchange rates to analyze and explain changes and trends in Signet's underlying business, which is consistent with the manner in which management evaluates performance of its businesses which do not operate using the US dollar as their functional currency. Additionally, in connection with management's evaluation of its attainment of performance goals, currency effects are excluded.

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(a) Fiscal 2017 percentage change in results at constant exchange rates

(in millions, except per share amounts)	Fiscal 2017	Fiscal 2016	Change %	Impact of exchange rate movement	Fiscal 2016 at constant exchange rates (non-GAAP)	Change % from Fiscal 2016 at constant exchange rates (non-GAAP)
Sales by segment:						
Sterling Jewelers	$3,930.4	$3,988.7	(1.5)%	$ —	$ 3,988.7	(1.5)%
Zale Jewelry	1,549.7	1,568.2	(1.2)%	(3.0)	1,565.2	(1.0)%
Piercing Pagoda	263.1	243.2	8.2 %	—	243.2	8.2 %
UK Jewelry	647.1	737.6	(12.3)%	(96.4)	641.2	0.9 %
Other	18.1	12.5	44.8 %	—	12.5	44.8 %
Total sales	6,408.4	6,550.2	(2.2)%	(99.4)	6,450.8	(0.7)%
Cost of sales	(4,047.6)	(4,109.8)	1.5 %	67.2	(4,042.6)	(0.1)%
Gross margin	2,360.8	2,440.4	(3.3)%	(32.2)	2,408.2	(2.0)%
Selling, general and administrative expenses	(1,880.2)	(1,987.6)	5.4 %	23.1	(1,964.5)	4.3 %
Other operating income, net	282.6	250.9	12.6 %	—	250.9	12.6 %
Operating income (loss) by segment:						
Sterling Jewelers	715.8	718.6	(0.4)%	—	718.6	(0.4)%
Zale Jewelry[(1)]	62.2	44.3	40.4 %	0.4	44.7	39.1 %
Piercing Pagoda[(2)]	11.2	7.8	43.6 %	—	7.8	43.6 %
UK Jewelry	45.6	61.5	(25.9)%	(10.2)	51.3	(11.1)%
Other[(3)]	(71.6)	(128.5)	44.3 %	0.7	(127.8)	44.0 %
Total operating income	763.2	703.7	8.5 %	(9.1)	694.6	9.9 %
Interest expense, net	(49.4)	(45.9)	(7.6)%	—	(45.9)	(7.6)%
Income before income taxes	713.8	657.8	8.5 %	(9.1)	648.7	10.0 %
Income taxes	(170.6)	(189.9)	10.2 %	1.8	(188.1)	9.3 %
Net income	543.2	467.9	16.1 %	(7.3)	460.6	17.9 %
Dividends on redeemable convertible preferred shares	(11.9)	—	nm	—	—	nm
Net income attributable to common shareholders	$531.3	$467.9	13.5 %	$ (7.3)	$ 460.6	15.3 %
Basic earnings per share	$7.13	$5.89	21.1 %	$ (0.10)	$ 5.79	23.1 %
Diluted earnings per share	$7.08	$5.87	20.6 %	$ (0.09)	$ 5.78	22.5 %

(1) Zale Jewelry includes net operating loss impact of $16.4 million and $23.1 million for purchase accounting adjustments in Fiscal 2017 and Fiscal 2016, respectively.

(2) Piercing Pagoda includes net operating loss impact of $0.4 million and $3.3 million for purchase accounting adjustments in Fiscal 2017 and Fiscal 2016, respectively.

(3) Other includes $28.4 million in Fiscal 2017 of integration costs for consulting expenses associated with information technology (“IT”) implementations, severance related to organizational changes and and expenses associated with the settlement of miscellaneous legal matters pending as of the date of the Zale acquisition. Other includes $78.9 million in Fiscal 2016 of transaction and integration costs primarily attributable to the legal settlement of $34.2 million over appraisal rights, expenses associated with legal, tax, accounting, IT implementations and consulting services, as well as severance costs.

nm Not meaningful.

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(b) Fourth quarter Fiscal 2017 percentage change in results at constant exchange rates

(in millions, except per share amounts)	13 weeks ended January 28, 2017	13 weeks ended January 30, 2016	Change %	Impact of exchange rate movement	13 weeks ended January 30, 2016 at constant exchange rates (non-GAAP)	Change % from 13 weeks ended January 30, 2016 at constant exchange rates (non-GAAP)
Sales by segment:						
Sterling Jewelers	$1,398.1	$1,452.5	(3.7)%	$ —	$ 1,452.5	(3.7)%
Zale Jewelry	554.9	577.0	(3.8)%	2.1	579.1	(4.2)%
Piercing Pagoda	83.7	78.1	7.2 %	—	78.1	7.2 %
UK Jewelry	227.6	282.6	(19.5)%	(47.2)	235.4	(3.3)%
Other	5.6	2.4	133.3 %	—	2.4	133.3 %
Total sales	2,269.9	2,392.6	(5.1)%	(45.1)	2,347.5	(3.3)%
Cost of sales	(1,324.4)	(1,376.6)	3.8 %	27.2	(1,349.4)	1.9 %
Gross margin	945.5	1,016.0	(6.9)%	(17.9)	998.1	(5.3)%
Selling, general and administrative expenses	(615.3)	(686.6)	10.4 %	8.9	(677.7)	9.2 %
Other operating income, net	69.0	63.7	8.3 %	—	63.7	8.3 %
Operating income (loss) by segment:						
Sterling Jewelers	298.0	305.4	(2.4)%	—	305.4	(2.4)%
Zale Jewelry[(1)]	62.7	54.2	15.7 %	0.3	54.5	15.0 %
Piercing Pagoda[(2)]	9.0	8.8	2.3 %	—	8.8	2.3 %
UK Jewelry	42.6	57.8	(26.3)%	(9.6)	48.2	(11.6)%
Other[(3)]	(13.1)	(33.1)	60.4 %	0.3	(32.8)	60.1 %
Total operating income	399.2	393.1	1.6 %	(9.0)	384.1	3.9 %
Interest expense, net	(13.0)	(12.1)	(7.4)%	—	(12.1)	(7.4)%
Income before income taxes	386.2	381.0	1.4 %	(9.0)	372.0	3.8 %
Income taxes	(88.7)	(109.1)	18.7 %	1.8	(107.3)	17.3 %
Net income	297.5	271.9	9.4 %	(7.2)	264.7	12.4 %
Dividends on redeemable convertible preferred shares	(9.7)	—	nm	—	—	nm
Net income attributable to common shareholders	$287.8	$271.9	5.8 %	$ (7.2)	$ 264.7	8.7 %
Basic earnings per share	$4.17	$3.43	21.6 %	$ (0.09)	$ 3.34	24.9 %
Diluted earnings per share	$3.92	$3.42	14.6 %	$ (0.09)	$ 3.33	17.7 %

(1) Zale Jewelry includes net operating loss impact of $3.2 million and $6.0 million for purchase accounting adjustments in Fiscal 2017 and Fiscal 2016, respectively.

(2) Piercing Pagoda includes net operating loss impact of $0.1 million and $0.2 million for purchase accounting adjustments in Fiscal 2017 and Fiscal 2016, respectively.

(3) Other includes $9.9 million for the 13 weeks ended January 28, 2017 of integration costs for consulting expenses associated with IT implementations, severance related to organizational changes and expenses associated with the settlement of miscellaneous legal matters pending as of the date of the Zale acquisition. Other includes $19.1 million for the 13 weeks ended January 30, 2016 of transaction and integration costs primarily attributed to expenses associated with legal, tax, accounting, IT implementations and consulting services, as well as severance costs.

nm Not meaningful.

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(c) Fiscal 2016 percentage change in results at constant exchange rates

(in millions, except per share amounts)	Fiscal 2016	Fiscal 2015	Change %	Impact of exchange rate movement	Fiscal 2015 at constant exchange rates (non-GAAP)	Change % from Fiscal 2015 at constant exchange rates (non-GAAP)
Sales by segment:						
Sterling Jewelers	$3,988.7	$3,765.0	5.9 %	$ —	$ 3,765.0	5.9 %
Zale Jewelry	1,568.2	1,068.7	46.7 %	(31.7)	1,037.0	51.2 %
Piercing Pagoda	243.2	146.9	65.6 %	—	146.9	65.6 %
UK Jewelry	737.6	743.6	(0.8)%	(47.3)	696.3	5.9 %
Other	12.5	12.1	3.3 %	—	12.1	3.3 %
Total sales	6,550.2	5,736.3	14.2 %	(79.0)	5,657.3	15.8 %
Cost of sales	(4,109.8)	(3,662.1)	(12.2)%	56.2	(3,605.9)	(14.0)%
Gross margin	2,440.4	2,074.2	17.7 %	(22.8)	2,051.4	19.0 %
Selling, general and administrative expenses	(1,987.6)	(1,712.9)	(16.0)%	21.2	(1,691.7)	(17.5)%
Other operating income, net	250.9	215.3	16.5 %	0.2	215.5	16.4 %
Operating income (loss) by segment:						
Sterling Jewelers	718.6	624.3	15.1 %	—	624.3	15.1 %
Zale Jewelry[(1)]	44.3	(1.9)		0.3	(1.6)	nm
Piercing Pagoda[(2)]	7.8	(6.3)	nm	—	(6.3)	nm
UK Jewelry	61.5	52.2	17.8 %	(2.0)	50.2	22.5 %
Other[(3)]	(128.5)	(91.7)	(40.1)%	0.3	(91.4)	(40.6)%
Total operating income	703.7	576.6	22.0 %	(1.4)	575.2	22.3 %
Interest expense, net	(45.9)	(36.0)	(27.5)%	—	(36.0)	(27.5)%
Income before income taxes	657.8	540.6	21.7 %	(1.4)	539.2	22.0 %
Income taxes	(189.9)	(159.3)	(19.2)%	0.1	(159.2)	(19.3)%
Net income	$467.9	$381.3	22.7 %	(1.3)	380.0	23.1 %
Basic earnings per share	$5.89	$4.77	23.5 %	$ (0.01)	$ 4.76	23.7 %
Diluted earnings per share	$5.87	$4.75	23.6 %	$ (0.01)	$ 4.74	23.8 %

(1) Zale Jewelry includes net operating loss impact of $23.1 million and $35.1 million for purchase accounting adjustments in Fiscal 2016 and Fiscal 2015, respectively.

(2) Piercing Pagoda includes net operating loss impact of $3.3 million and $10.8 million for purchase accounting adjustments in Fiscal 2016 and Fiscal 2015, respectively.

(3) Other includes $78.9 million and $59.8 million of transaction and integration expenses in Fiscal 2016 and Fiscal 2015, respectively. Transaction and integration costs include expenses associated with advisor fees for legal, tax, accounting, IT implementations and consulting, severance and the legal settlement of $34.2 million over appraisal rights in Fiscal 2016.

nm Not meaningful.

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(d) Fourth quarter Fiscal 2016 percentage change in results at constant exchange rates

(in millions, except per share amounts)	13 weeks ended January 30, 2016	13 weeks ended January 31, 2015	Change %	Impact of exchange rate movement	13 weeks ended January 31, 2015 at constant exchange rates (non-GAAP)	Change % from 13 weeks ended January 31, 2015 at constant exchange rates (non-GAAP)
Sales by segment:						
Sterling Jewelers	$ 1,452.5	$ 1,358.3	6.9 %	$ —	$ 1,358.3	6.9 %
Zale Jewelry	577.0	564.6	2.2 %	(16.3)	548.3	5.2 %
Piercing Pagoda	78.1	72.1	8.3 %	—	72.1	8.3 %
UK Jewelry	282.6	278.0	1.7 %	(11.1)	266.9	5.9 %
Other	2.4	3.4	(29.4)%	—	3.4	(29.4)%
Total sales	2,392.6	2,276.4	5.1 %	(27.4)	2,249.0	6.4 %
Cost of sales	(1,376.6)	(1,364.3)	(0.9)%	18.0	(1,346.3)	(2.3)%
Gross margin	1,016.0	912.1	11.4 %	(9.4)	902.7	12.6 %
Selling, general and administrative expenses	(686.6)	(634.5)	(8.2)%	7.7	(626.8)	(9.5)%
Other operating income, net	63.7	54.1	17.7 %	0.2	54.3	17.3 %
Operating income (loss) by segment:						
Sterling Jewelers	305.4	260.0	17.5 %	—	260.0	17.5 %
Zale Jewelry[(1)]	54.2	32.8	65.2 %	0.4	33.2	63.3 %
Piercing Pagoda[(2)]	8.8	3.3	166.7 %	—	3.3	166.7 %
UK Jewelry	57.8	53.8	7.4 %	(2.0)	51.8	11.6 %
Other[(3)]	(33.1)	(18.2)	(81.9)%	0.1	(18.1)	(82.9)%
Total operating income	393.1	331.7	18.5 %	(1.5)	330.2	19.0 %
Interest expense, net	(12.1)	(7.9)	(53.2)%	(0.1)	(8.0)	(51.3)%
Income before income taxes	381.0	323.8	17.7 %	(1.6)	322.2	18.2 %
Income taxes	(109.1)	(95.8)	(13.9)%	0.2	(95.6)	(14.1)%
Net income	$ 271.9	$ 228.0	19.3 %	$ (1.4)	$ 226.6	20.0 %
Basic earnings per share	$ 3.43	$ 2.85	20.4 %	$ (0.01)	$ 2.84	20.8 %
Diluted earnings per share	$ 3.42	$ 2.84	20.4 %	$ (0.01)	$ 2.83	20.8 %

(1) Zale Jewelry includes net operating loss impact of $6.0 million and $14.7 million for purchase accounting adjustments in Fiscal 2016 and Fiscal 2015, respectively.

(2) Piercing Pagoda includes net operating loss impact of $0.2 million and $6.1 million for purchase accounting adjustments in Fiscal 2016 and Fiscal 2015, respectively.

(3) Other includes $19.1 million and $9.2 million of transaction and integration expenses in Fiscal 2016 and Fiscal 2015, respectively, which are primarily attributable to advisor fees for legal, tax, accounting, IT implementations and consulting services, as well as severance costs.

2. Operating data reflecting the impact of material acquisitions and acquisition-related costs

The below table reflects the impact of costs associated with the acquisition of Zale Corporation (the "Acquisition"), along with certain other accounting adjustments made. Management finds the information useful to analyze the results of the business excluding these items in order to appropriately evaluate the performance of the business without the impact of significant and unusual items. Management views acquisition-related impacts as events that are not necessarily reflective of operational performance during a period. In particular, management believes the consideration of measures that exclude such expenses can assist in the comparison of operational performance in

different periods which may or may not include such expenses.

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(a) Fiscal 2017 operating data reflecting the impact of integration costs and accounting adjustments

(in millions, except per share amount and % of sales)	Signet consolidated, as reported		Accounting adjustments[1]	Integration costs[2]	Adjusted Signet	
Sales	$6,408.4	100.0 %	$ (13.3)	$ —	$6,421.7	100.0 %
Cost of sales	(4,047.6)	(63.2)%	2.0	—	(4,049.6)	(63.1)%
Gross margin	2,360.8	36.8 %	(11.3)	—	2,372.1	36.9 %
Selling, general and administrative expenses	(1,880.2)	(29.3)%	(5.5)	(28.4)	(1,846.3)	(28.7)%
Other operating income, net	282.6	4.4 %	—	—	282.6	4.4 %
Operating income	763.2	11.9 %	(16.8)	(28.4)	808.4	12.6 %
Interest expense, net	(49.4)	(0.8)%	—	—	(49.4)	(0.8)%
Income before income taxes	713.8	11.1 %	(16.8)	(28.4)	759.0	11.8 %
Income taxes	(170.6)	(2.6)%	6.2	10.8	(187.6)	(2.9)%
Net income	$543.2	8.5 %	$ (10.6)	$ (17.6)	$571.4	8.9 %
Dividends on redeemable convertible preferred shares	(11.9)	nm	—	—	(11.9)	nm
Net income attributable to common shareholders	$531.3	8.3 %	$ (10.6)	$ (17.6)	$559.5	8.7 %
Earnings per share - diluted	$7.08		$ (0.14)	$ (0.23)	$7.45	

(1) Includes the impact of all acquisition adjustments recognized in conjunction with the Acquisition in Fiscal 2015.

(2) Integration costs are consulting expenses associated with IT implementations, severance related to organizational changes and expenses associated with the settlement of miscellaneous legal matters pending as of the date of the Zale acquisition. These costs are included within Signet's Other segment.

(b) Fourth quarter Fiscal 2017 operating data reflecting the impact of integration costs and accounting adjustments

(in millions, except per share amount and % of sales)	Signet consolidated, as reported		Accounting adjustments[1]	Integration costs[2]	Adjusted Signet	
Sales	$2,269.9	100.0 %	$ (2.6)	$ —	$2,272.5	100.0 %
Cost of sales	(1,324.4)	(58.3)%	0.9	—	(1,325.3)	(58.3)%
Gross margin	945.5	41.7 %	(1.7)	—	947.2	41.7 %
Selling, general and administrative expenses	(615.3)	(27.1)%	(1.6)	(9.9)	(603.8)	(26.6)%
Other operating income, net	69.0	3.0 %	—	—	69.0	3.0 %
Operating income	399.2	17.6 %	(3.3)	(9.9)	412.4	18.1 %
Interest expense, net	(13.0)	(0.6)%	—	—	(13.0)	(0.5)%
Income before income taxes	386.2	17.0 %	(3.3)	(9.9)	399.4	17.6 %
Income taxes	(88.7)	(3.9)%	1.1	3.8	(93.6)	(4.1)%
Net income	$297.5	13.1 %	$ (2.2)	$ (6.1)	$305.8	13.5 %
Dividends on redeemable convertible preferred shares	(9.7)	nm	—	—	(9.7)	nm
Net income attributable to common shareholders	$287.8	12.7 %	$ (2.2)	$ (6.1)	$296.1	13.0 %
Earnings per share - diluted	$3.92		$ (0.03)	$ (0.08)	$4.03	

(1) Includes the impact of all acquisition adjustments recognized in conjunction with the Acquisition in Fiscal 2015.

(2) Integration costs include consulting expenses associated with IT implementations, severance related to organizational changes and expenses associated with the settlement of miscellaneous legal matters pending as of the date of the Zale acquisition. These costs are included within Signet's Other segment.

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(c) Fiscal 2016 operating data reflecting the impact of acquisition-related costs and accounting adjustments

(in millions, except per share amount and % of sales)	Signet consolidated, as reported		Accounting adjustments[1]	Transaction/Integration costs[2]	Adjusted Signet	
Sales	$6,550.2	100.0 %	$ (27.2)	$ —	$6,577.4	100.0 %
Cost of sales	(4,109.8)	(62.7)%	(8.4)	—	(4,101.4)	(62.4)%
Gross margin	2,440.4	37.3 %	(35.6)	—	2,476.0	37.6 %
Selling, general and administrative expenses	(1,987.6)	(30.4)%	9.2	(78.9)	(1,917.9)	(29.1)%
Other operating income, net	250.9	3.8 %	—	—	250.9	3.8 %
Operating income	703.7	10.7 %	(26.4)	(78.9)	809.0	12.3 %
Interest expense, net	(45.9)	(0.7)%	—	—	(45.9)	(0.7)%
Income before income taxes	657.8	10.0 %	(26.4)	(78.9)	763.1	11.6 %
Income taxes	(189.9)	(2.9)%	9.3	16.8	(216.0)	(3.3)%
Net income	$467.9	7.1 %	$ (17.1)	$ (62.1)	$547.1	8.3 %
Dividends on redeemable convertible preferred shares	—	—	—	—	—	—
Net income attributable to common shareholders	$467.9	7.1 %	$ (17.1)	$ (62.1)	$547.1	8.3 %
Earnings per share - diluted	$5.87		$ (0.21)	$ (0.78)	$6.86	

(1) Includes the impact of all acquisition adjustments recognized in conjunction with the Acquisition in Fiscal 2015.

(2) Transaction and integration costs are primarily attributable to the legal settlement of $34.2 million over appraisal rights, expenses associated with legal, tax, accounting, IT implementations and consulting services, as well as severance costs. These costs are included within Signet's Other segment.

(d) Fourth quarter Fiscal 2016 operating data reflecting the impact of acquisition-related costs and accounting adjustments

(in millions, except per share amount and % of sales)	Signet consolidated, as reported		Accounting adjustments[1]	Transaction/Integration costs[2]	Adjusted Signet	
Sales	$2,392.6	100.0 %	$ (5.2)	$ —	$2,397.8	100.0 %
Cost of sales	(1,376.6)	(57.5)%	0.5	—	(1,377.1)	(57.4)%
Gross margin	1,016.0	42.5 %	(4.7)	—	1,020.7	42.6 %
Selling, general and administrative expenses	(686.6)	(28.7)%	(1.5)	(19.1)	(666.0)	(27.8)%
Other operating income, net	63.7	2.6 %	—	—	63.7	2.6 %
Operating income	393.1	16.4 %	(6.2)	(19.1)	418.4	17.4 %
Interest expense, net	(12.1)	(0.5)%	—	—	(12.1)	(0.5)%
Income before income taxes	381.0	15.9 %	(6.2)	(19.1)	406.3	16.9 %
Income taxes	(109.1)	(4.5)%	1.8	6.9	(117.8)	(4.9)%
Net income	$271.9	11.4 %	$ (4.4)	$ (12.2)	$288.5	12.0 %
Dividends on redeemable convertible preferred shares	—	—	—	—	—	—
Net income attributable to common shareholders	$271.9	11.4 %	$ (4.4)	$ (12.2)	$288.5	12.0 %
Earnings per share - diluted	$3.42		$ (0.06)	$ (0.15)	$3.63	

(1) Includes the impact of all acquisition adjustments recognized in conjunction with the Acquisition in Fiscal 2015.

(2)

Transaction and integration costs are primarily attributed to expenses associated with legal, tax, accounting, IT implementations and consulting services, as well as severance costs. These costs are included within Signet’s Other segment.

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3. Net Debt

Net debt is a non-GAAP measure defined as the total of cash and cash equivalents less loans, overdrafts and long-term debt. Management considers this metric to be helpful in understanding the total indebtedness of the Company after consideration of liquidity available from cash balances on-hand.

(in millions)	January 28, 2017	January 30, 2016	January 31, 2015
Cash and cash equivalents	$98.7	$137.7	$193.6
Loans and overdrafts	(91.1)	(57.7)	(95.7)
Long-term debt	(1,317.9)	(1,321.0)	(1,354.3)
Net debt	$(1,310.3)	$(1,241.0)	$(1,256.4)

4. Return on Capital Employed Excluding Goodwill (“ROCE”)

ROCE is a non-GAAP measure 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, 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. Further, this metric is utilized in evaluating management performance and incorporated into management’s long-term incentive plan metrics.

	Fiscal 2017	Fiscal 2016	Fiscal 2015	Fiscal 2014	Fiscal 2013
ROCE	21.4%	21.0%	19.5%	25.2%	28.1%

5. 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. 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 is an indicator used by management frequently in evaluating its overall liquidity and determining appropriate capital allocation strategies. Free cash flow does not represent the residual cash flow available for discretionary expenditure.

(in millions)	Fiscal 2017	Fiscal 2016	Fiscal 2015
Net cash provided by operating activities	$678.3	$443.3	$283.0
Purchase of property, plant and equipment	(278.0)	(226.5)	(220.2)
Free cash flow	$400.3	$216.8	$62.8

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6. Leverage Ratio

The leverage ratio is a non-GAAP measure calculated by dividing Signet's adjusted debt by adjusted EBITDAR. Adjusted debt is a non-GAAP measure defined as debt recorded in the consolidated balance sheet, plus Series A redeemable convertible preferred shares, plus an adjustment for operating leases (8x annual rent expense), less 70% of outstanding in-house finance receivables recorded in the consolidated balance sheet. Adjusted EBITDAR is a non-GAAP measure. Adjusted EBITDAR is defined as earnings before interest and income taxes (operating income), depreciation and amortization, and non-cash acquisition-related accounting adjustments ("Adjusted EBITDA") and further excludes rent expense for properties occupied under operating leases, non-cash share-based compensation expense and the income statement impact of the finance receivables related to the in-house credit program. Adjusted EBITDA and Adjusted EBITDAR are considered important indicators of operating performance as they exclude the effects of financing and investing activities by eliminating the effects of interest, depreciation and amortization costs and accounting adjustments. Management believes these financial measures are helpful to enhancing investors' ability to analyze trends in Signet's business and evaluate Signet's performance relative to other companies. Management also utilizes these metrics to evaluate its current credit profile, which is similar to rating agency methodologies.

(in millions)	Fiscal 2017	Fiscal 2016	Fiscal 2015	Fiscal 2014	Fiscal 2013
Adjusted debt:					
Long-term debt	$1,317.9	$1,321.0	$1,354.3	$—	$—
Loans and overdrafts	91.1	57.7	95.7	19.3	—
Series A redeemable convertible preferred shares[1][4]	611.9	n/a	n/a	n/a	n/a
Adjustments:					
8x rent expense	4,195.2	4,205.6	3,703.2	2,589.6	2,528.0
70% of in-house credit program financing receivables	(1,269.3)	(1,208.2)	(1,087.0)	(949.2)	(835.0)
Adjusted debt	$4,946.8	$4,376.1	$4,066.2	$1,659.7	$1,693.0
Adjusted EBITDAR:					
Operating income	$763.2	$703.7	$576.6	$570.5	$560.5
Depreciation and amortization on property, plant and equipment[2]	175.0	161.4	140.4	110.2	99.4
Amortization of definite-lived intangibles[2][3]	13.8	13.9	9.3	—	—
Amortization of unfavorable leases and contracts[3]	(19.7)	(28.7)	(23.7)	—	—
Other non-cash accounting adjustments[3]	22.7	41.2	60.3	—	—
Adjusted EBITDA	$955.0	$891.5	$762.9	$680.7	$659.9
Rent expense	524.4	525.7	462.9	323.7	316.0
Share-based compensation expense	8.0	16.4	12.1	14.4	15.7
Finance income from in-house credit program	(277.6)	(252.5)	(217.9)	(186.4)	(159.7)
Late charge income[4]	(36.0)	(33.9)	(31.3)	(29.4)	(27.5)
Net bad debt expense[4]	212.1	190.5	160.0	138.3	122.4
Adjusted EBITDAR	$1,385.9	$1,337.7	$1,148.7	$941.3	$926.8
Adjusted Leverage ratio	3.6x	3.3x	3.5x	1.8x	1.8x

(1) Series A redeemable convertible preferred shares were issued in October 2016.

(2) Total amount of depreciation and amortization reflected on the consolidated statement of cash flows for Fiscal 2017, Fiscal 2016 and Fiscal 2015 equals $188.8 million, $175.3 million and $149.7 million, respectively, which includes $13.8 million, $13.9 million and $9.3 million, respectively, related to the amortization of definite-lived intangibles, primarily favorable leases and trade names.

(3) Total net operating loss relating to Acquisition accounting adjustments is $16.8 million, $26.4 million and $45.9 million for Fiscal 2017, Fiscal 2016 and Fiscal 2015, respectively, as reflected in the non-GAAP tables above.

(4)

Adjusted debt and adjusted EBITDA have been recalculated to align with methodologies commonly utilized by credit rating agencies and others in evaluating leverage.

n/a Not applicable.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements which are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, based upon management's beliefs and expectations as well as on assumptions made by and data currently available to management, appear in a number of places throughout this Annual Report on Form 10-K and include statements regarding, among other things, Signet's results of operation, financial condition, liquidity, prospects, growth, strategies and the industry in which Signet operates. The use of the words "expects," "intends," "anticipates," "estimates," "predicts," "believes," "should," "potential," "r "forecast," "objective," "plan," or "target," and other similar expressions are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to a number of risks and uncertainties, including but not limited to general economic conditions, regulatory changes following the United Kingdom's announcement to exit from the European Union, a decline in consumer spending, the merchandising, pricing and inventory policies followed by Signet, the reputation of Signet and its brands, the level of competition in the jewelry sector, the cost and availability of diamonds, gold and other precious metals, regulations relating to customer credit, seasonality of Signet's business, financial market risks, deterioration in customers' financial condition, exchange rate fluctuations, changes in Signet's credit rating, changes in consumer attitudes regarding jewelry, management of social, ethical and environmental risks, the development and maintenance of Signet's omni-channel retailing, security breaches and other disruptions to Signet's information technology infrastructure and databases, inadequacy in and disruptions to internal controls and systems, changes in assumptions used in making accounting estimates relating to items such as extended service plans and pensions, risks related to Signet being a Bermuda corporation, the impact of the acquisition of Zale Corporation on relationships, including with employees, suppliers, customers and competitors, an adverse decision in legal proceedings, and our ability to successfully integrate Zale Corporation's operations and to realize synergies from the transaction.

For a discussion of these risks and other risks and uncertainties which could cause actual results to differ materially from those expressed in any forward looking statement, see Item 1A and elsewhere in this Annual Report on Form 10-K. Signet undertakes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances, except as required by law.

GAAP AND NON-GAAP MEASURES

The following discussion and analysis of the results of operations, financial condition and liquidity is based upon the consolidated financial statements of Signet which are prepared in accordance with US GAAP. The following information 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. See Item 6 for the required disclosures related to these measures. Signet provides such non-GAAP information in reporting its financial results to give investors additional data to evaluate its operations. The Company's 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.

Exchange Translation Impact

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. In Fiscal 2018, it is anticipated a five percent movement in the British pound to US dollar exchange rate would impact income before income taxes by approximately $2.2 million, while a five percent movement in the Canadian dollar to US dollar exchange rate would have a negligible impact on income before income taxes.

Transactions Affecting Comparability of Results of Operations and Liquidity and Capital Resources

The comparability of the Company's operating results for Fiscal 2017, Fiscal 2016 and Fiscal 2015 presented herein has been affected by certain transactions, including:

- The Zale Acquisition that closed on May 29, 2014, as described in Note 3 of Item 8, resulting in Zale contributing 247 days of performance during the year-to-date period of Fiscal 2015 based on the timing of the acquisition;
- Certain transaction and integration costs;

- Zale Acquisition financing as described in Note 3 and Note 20 of Item 8, including global financing arrangements; and
- Certain purchase accounting adjustments.

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Fiscal 2017 Overview

Same store sales decreased 1.9% compared to an increase of 4.1% in Fiscal 2016; total sales were down 2.2% to $6,408.4 million compared to $6,550.2 million in Fiscal 2016. Operating margin increased 120 basis points to 11.9% compared to 10.7% in Fiscal 2016. Operating income increased 8.5% to $763.2 million compared to $703.7 million in Fiscal 2016. Diluted earnings per share increased 20.6% to $7.08 compared to $5.87 in Fiscal 2016. Higher profit dollars and the increased operating margin rate were driven by operating expense reductions, a decrease in transaction/integration costs, and efficiencies in field operations and corporate support initiatives. See “GAAP and Non-GAAP Measures” section in Item 6 for additional information.

Signet’s long-term debt was $1,317.9 million at January 28, 2017 and $1,321.0 million at January 30, 2016. Cash and cash equivalents were $98.7 million and $137.7 million, as of January 28, 2017 and January 30, 2016, respectively. During Fiscal 2017, Signet repurchased 11.2 million shares at an average cost of $89.10 per share. Of the $1.0 billion worth of repurchases, $625.0 million were executed to offset dilution from the October preferred convertible offering.

Drivers of Operating Profitability

The key measures and drivers of operating profitability are:

- total sales - driven by the change in same store sales and net store selling space;
- gross margin; and
- level of selling, general and administrative expenses.

Same Store Sales

Same store sales growth is calculated by comparison of sales in stores that were open in both the current and the prior fiscal year. Sales from stores that have been open for less than 12 months, including acquisitions, are excluded from the comparison until their 12-month anniversary. Sales after the 12-month anniversary are compared against the equivalent prior period sales within the comparable store sales comparison. Stores closed in the current financial period are included up to the date of closure and the comparative period is correspondingly adjusted. Stores that have been relocated or expanded, but remain within the same local geographic area, are included within the comparison with no adjustment to either the current or comparative period. Stores that have been refurbished are also included within the comparison except for the period when the refurbishment was taking place, when those stores are excluded from the comparison both for the current year and for the comparative period. Sales to employees are also excluded. Comparisons at divisional level are made in local currency and consolidated comparisons are made at constant exchange rates and exclude the effect of exchange rate movements by recalculating the prior period results as if they had been generated at the weighted average exchange rate for the current period. eCommerce sales are included in the calculation of same store sales for the period and the comparative figures from the anniversary of the launch of the relevant website. Same store sales exclude the 53rd week in the fiscal year in which it occurs. Management considers same store sales useful as it is a major benchmark used by investors to judge performance within the retail industry.

Net Store Selling Space

	Sterling Jewelers division	Zale division	UK Jewelry division	Total Signet
Fiscal 2017				
Openings	76	77	9	162
Closures	(28)	(73)	(4)	(105)
Net change in store selling space	4.3 %	(0.2)%	1.0 %	2.6 %
Fiscal 2016				
Openings	60	38	10	108
Closures	(24)	(33)	(5)	(62)
Net change in store selling space	5.0 %	0.5 %	1.5 %	3.3 %
Fiscal 2015				
Openings	75	12	8	95
Closures	(42)	(54)	(3)	(99)
Net change in store selling space	4.9 %	n/a	1.8 %	48.1 %(1)

(1) Excluding Zale division, net change in store selling space for Signet was 4% in Fiscal 2015.
n/a Not applicable as Zale division was acquired on May 29, 2014. See Note 3 of Item 8 for additional information.

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Cost of Sales and Gross Margin

Cost of sales is mostly composed of merchandise costs (net of discounts and allowances). Cost of sales also contains:

- Occupancy costs such as rent, common area maintenance, depreciation and real estate tax.
- Net bad debt expense and customers' late payments primarily under the Sterling Jewelers customer finance program.
- Store operating expenses such as utilities, displays and merchant credit costs.
- Distribution costs including freight, processing, inventory shrinkage and related payroll.

As the classification of cost of sales or selling, general and administrative expenses varies from retailer to retailer and few retailers have in-house customer finance programs, Signet's gross margin percentage may not be directly comparable to other retailers.

Factors that influence gross margin include pricing, changes in merchandise costs (principally diamonds), changes in non-merchandise components of cost of sales (as described above), changes in sales mix, foreign exchange, gold and currency hedges and the economics of services such as repairs and extended service plans. The price of diamonds varies depending on their size, cut, color and clarity. At times, Signet uses gold and currency hedges to reduce its exposure to market volatility in the cost of gold and the pound sterling to the US dollar exchange rate, but it is not able to do so for diamonds. For gold and currencies, the hedging period can extend to 24 months, although the majority of hedge contracts will normally be for a maximum of 12 months.

The percentage mix of the merchandise cost component of cost of sales, based on US dollars, is as follows:

	Sterling Jewelers division	Zale division	UK Jewelry division	Total Signet
Fiscal 2017				
Diamonds	54 %	36 %	16 %	45 %
Gold	14 %	14 %	15 %	14 %
All Other	32 %	50 %	69 %	41 %
Fiscal 2016				
Diamonds	53 %	39 %	15 %	45 %
Gold	14 %	14 %	16 %	14 %
All Other	33 %	47 %	69 %	41 %

Signet uses an average cost inventory methodology and, as jewelry inventory turns slowly, the impact of movements in the cost of diamonds and gold takes time to be fully reflected in the gross margin. Signet's inventory turns faster in the fourth quarter than in the other three quarters, therefore, changes in the cost of merchandise is more impactful on the gross margin in that quarter. Furthermore, Signet's hedging activities result in movements in the purchase cost of merchandise taking some time before being reflected in the gross margin. An increase in inventory turn would accelerate the rate at which commodity costs impact gross margin.

Accounts receivable comprise a large volume of transactions with no one customer representing a significant balance. The net bad debt expense includes an estimate of the allowance for losses as of the balance sheet date. The allowance 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 90 days aged and under based on historical loss information and payment performance. A small portion of sales under the Zale banners are financed through our in-house customer programs but represent an immaterial amount of the Company's credit sales, receivable balance, and bad debt expense.

Selling, General and Administrative Expense ("SGA")

SGA expense primarily includes store staff and store administrative costs as well as advertising and promotional costs. It also includes field support center expenses such as information technology, credit, finance, eCommerce and other operating expenses not specifically categorized elsewhere in the consolidated income statements.

The primary drivers of staffing costs are the number of full time equivalent employees and the level of compensation, taxes and other benefits paid. Management varies, on a store by store basis, the hours worked based on the expected level of selling activity, subject to minimum staffing levels required to operate the store. Non-store staffing levels are

less variable. A significant element of compensation is performance based and is primarily dependent on sales and operating profit.

The level of advertising expenditure can vary. The largest element of advertising expenditure is national television advertising and is determined by management's judgment of the appropriate level of advertising impressions and the cost of purchasing media.

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Other Operating Income

Other operating income is predominantly interest income arising from in-house customer finance provided to the customers of the Sterling Jewelers division. Its level is dependent on the rate of interest charged, the credit program selected by the customer and the level of outstanding balances. The level of outstanding balances is primarily dependent on the sales of the Sterling Jewelers division, the proportion of sales that use the in-house customer finance, as well as program mix and the monthly collection rate.

Operating Income

To maintain current levels of operating income, Signet needs to achieve same store sales growth sufficient to offset any adverse movement in gross margin, any increase in operating costs, and any adverse changes in other operating income. Same store sales growth above the level required to offset the factors outlined above allows the business to achieve leverage of its cost base and improve operating income. Slower sales growth or a sales decline would normally result in reduced operating income. When foreseen, Signet may be able to reduce costs to help offset the impact of slow or negative sales growth. A key factor in driving operating income is the level of average sales per store, with higher productivity allowing leverage of expenses. The acquisition of Zale diluted operating margin for Signet. But through the execution of synergies, Signet operating margins have grown over the past two years.

Results of Operations

	Fiscal 2017		Fiscal 2016		Fiscal 2015[1]	
(in millions)	$	% of sales	$	% of sales	$	% of sales
Sales	$6,408.4	100.0 %	$6,550.2	100.0 %	$5,736.3	100.0 %
Cost of sales	(4,047.6)	(63.2)	(4,109.8)	(62.7)	(3,662.1)	(63.8)
Gross margin	2,360.8	36.8	2,440.4	37.3	2,074.2	36.2
Selling, general and administrative expenses	(1,880.2)	(29.3)	(1,987.6)	(30.4)	(1,712.9)	(29.9)
Other operating income, net	282.6	4.4	250.9	3.8	215.3	3.7
Operating income	763.2	11.9	703.7	10.7	576.6	10.0
Interest expense, net	(49.4)	(0.8)	(45.9)	(0.7)	(36.0)	(0.6)
Income before income taxes	713.8	11.1	657.8	10.0	540.6	9.4
Income taxes	(170.6)	(2.6)	(189.9)	(2.9)	(159.3)	(2.8)
Net income	$543.2	8.5 %	$467.9	7.1 %	$381.3	6.6 %

(1) Fiscal 2015 results include Zale Corporation’s performance since the date of acquisition. See Note 3 of Item 8 for additional information.

COMPARISON OF FISCAL 2017 TO FISCAL 2016

- Same store sales: down 1.9%.
- Operating income: up 8.5% to $763.2 million. Adjusted[1] operating income: flat to prior year at $808.4 million.
- Operating margin: increased to 11.9%, up 120 basis points. Adjusted[1] operating margin: up 30 basis points to 12.6%.
- Diluted earnings per share: up 20.6% to $7.08. Adjusted[1] diluted earnings per share: up 8.6% to $7.45.

(1) Non-GAAP measure, see Item 6. The Company uses adjusted metrics, which adjust for purchase accounting and costs incurred principally in relation to the Zale Acquisition including transaction and integration expenses.

In Fiscal 2017, Signet’s same store sales decreased by 1.9%, compared to an increase of 4.1% in Fiscal 2016. Total sales were $6,408.4 million compared to $6,550.2 million in Fiscal 2016, down $141.8 million or 2.2% compared to an increase of 14.2% in Fiscal 2016. Merchandise categories and collections were broadly lower most notably in the mall selling channel, while select merchandise and selling channels performed relatively well, such as diamond fashion jewelry, bracelets, earrings, and the off-mall and kiosk selling channels. eCommerce sales were $363.1 million and 5.7% of sales compared to $359.6 million and 5.5% of sales in Fiscal 2016. The breakdown of Signet’s sales performance is set out in the table below.

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Fiscal 2017	Change from previous year Same store sales[1]	Non-same store sales, net[2]	Total sales at constant exchange rate[3]	Exchange translation impact[3]	Total sales as reported	Total sales (in millions)
Sterling Jewelers division	(2.6)%	1.1 %	(1.5)%	— %	(1.5)%	$ 3,930.4
Zale Jewelry	(2.4)%	1.4 %	(1.0)%	(0.2)%	(1.2)%	$ 1,549.7
Piercing Pagoda	6.6 %	1.6 %	8.2 %	— %	8.2 %	$ 263.1
Zale division	(1.2)%	1.4 %	0.2 %	(0.1)%	0.1 %	$ 1,812.8
UK Jewelry division	0.1 %	0.8 %	0.9 %	(13.2)%	(12.3)%	$ 647.1
Other[4]					44.8 %	$ 18.1
Signet	(1.9)%	1.2 %	(0.7)%	(1.5)%	(2.2)%	$ 6,408.4
Adjusted Signet[3]						$ 6,421.7

(1) Based on stores open for at least 12 months. eCommerce sales are included in the calculation of same store sales for the period and comparative figures from the anniversary of the launch of the relevant website.

(2) Includes all sales from stores not open for 12 months.

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

(4) Includes sales from Signet's diamond sourcing initiative.

Sterling Jewelers sales

In Fiscal 2017, Sterling Jewelers total sales were $3,930.4 million, down 1.5%, compared to $3,988.7 million in Fiscal 2016, and same store sales decreased 2.6% compared to an increase of 3.7% in Fiscal 2016. Sales performance was led by fashion jewelry such as Ever Us and non-branded earrings and bracelets. Bridal performance was led by Vera Wang Love, Neil Lane, the newly introduced Chosen assortment, and non-branded rings. The average merchandise transaction value ("ATV") increased driven by mix with particular strength in higher-value diamond jewelry, coupled with declines in select lower average selling price point collections such as Charmed Memories and watches. The number of merchandise transactions decreased due to the same dynamic. Mix of merchandise increased toward higher-value, less-transactional collections (e.g. Ever Us) in lieu of higher-transactional, lower-value collections (e.g. Charmed Memories).

Fiscal 2017	Changes from previous year Same store sales[1]	Non-same store sales, net[2]	Total sales as reported	Total sales (in millions)
Kay	(1.4)%	1.8 %	0.4 %	$ 2,539.7
Jared[3]	(4.1)%	2.1 %	(2.0)%	$ 1,227.5
Regional brands	(9.6)%	(11.0)%	(20.6)%	$ 163.2
Sterling Jewelers division	(2.6)%	1.1 %	(1.5)%	$ 3,930.4

(1) Based on stores open for at least 12 months. eCommerce sales are included in the calculation of same store sales for the period and comparative figures from the anniversary of the launch of the relevant website.

(2) Includes all sales from stores not open for 12 months.

(3) Includes smaller concept Jared stores such as Jared Vault and Jared Jewelry Boutique.

	Average Merchandise Transaction Value[1][2]				Merchandise Transactions	
	Average Value		Change from previous year		Change from previous year	
Fiscal Year	Fiscal 2017	Fiscal 2016	Fiscal 2017	Fiscal 2016	Fiscal 2017	Fiscal 2016
Kay	$458	$430	6.5 %	7.0 %	(8.4)%	(2.4)%
Jared	$556	$558	(0.4)%	— %	(5.1)%	(0.4)%

Regional brands	$454	$426	6.6	%	4.4	%	(15.9	)%	(6.0	)%
Sterling Jewelers division	$485	$464	4.5	%	4.8	%	(7.9	)%	(2.1	)%

(1) Average merchandise transaction value is defined as net merchandise sales on a same store basis divided by the total number of customer transactions.

(2) Net merchandise sales include all merchandise product sales, net of discounts and returns. In addition, excluded from net merchandise sales are sales tax in the US, repairs, warranty, insurance, employee and other miscellaneous sales.

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Zale division sales

The Zale division's Fiscal 2017 sales were $1,812.8 million compared to $1,811.4 million in Fiscal 2016. Zale Jewelry contributed $1,549.7 million and Piercing Pagoda contributed $263.1 million of revenues, compared to $1,568.2 million and $243.2 million, respectively, in the prior year. Total Zale division sales included purchase accounting adjustments of $13.3 million and $27.2 million in Fiscal 2017 and Fiscal 2016, respectively, related to a reduction of deferred revenue associated with extended warranty sales. Same store sales decreased 1.2% compared to an increase of 4.8% in Fiscal 2016. Zale sales growth was led by diamond fashion jewelry such as Ever Us and Endless Brilliance. This was offset by a decline in select bridal collections, solitaires, and loose diamond sales. Zale division ATV increased 5.3%, while the number of transactions decreased 5.8%. Zale had greater sales productivity in higher-value, lower-transactional collections (e.g. Vera Wang Fashion, Ever Us). Piercing Pagoda ATV increased 13.7%, while the number of transactions decreased 6.2% due to merchandise mix toward higher priced gold and diamond assortments.

	Change from previous year					
Fiscal 2017	Same store sales[1][2]	Non-same store sales, net	Total sales at constant exchange rate	Exchange translation impact	Total sales as reported	Total sales (in millions)
Zales	(1.4)%	2.7%	1.3%	—%	1.3%	$ 1,257.4
Gordon's	(12.2)%	(14.3)%	(26.5)%	—%	(26.5)%	$ 57.7
Zale US Jewelry	(2.0)%	1.7%	(0.3)%	—%	(0.3)%	$ 1,315.1
Peoples	(4.6)%	1.1%	(3.5)%	(1.1)%	(4.6)%	$ 204.9
Mappins	(4.2)%	(6.9)%	(11.1)%	(1.3)%	(12.4)%	$ 29.7
Zale Canada Jewelry	(4.5)%	—%	(4.5)%	(1.2)%	(5.7)%	$ 234.6
Total Zale Jewelry	(2.4)%	1.4%	(1.0)%	(0.2)%	(1.2)%	$ 1,549.7
Piercing Pagoda	6.6%	1.6%	8.2%	—%	8.2%	$ 263.1
Zale division	(1.2)%	1.4%	0.2%	(0.1)%	0.1%	$ 1,812.8

(1) Based on stores open for at least 12 months. Same store sales include merchandise and repair sales and excludes warranty and insurance revenues. eCommerce sales are included in the calculation of same store sales for the period and comparative figures from the anniversary of the launch of the relevant website.

	Average Merchandise Transaction Value[1][2]			Merchandise Transactions
	Average Value		Change from previous year	Change from previous year
Fiscal Year[4]	Fiscal 2017	Fiscal 2016	Fiscal 2017	Fiscal 2017
Zales	$460	$451	2.0%	(3.2)%
Gordon's	$435	$430	1.2%	(13.1)%
Peoples[3]	$401	$376	6.6%	(10.9)%
Mappins[3]	$347	$332	4.5%	(8.4)%
Total Zale Jewelry	$424	$410	3.4%	(5.3)%
Piercing Pagoda	$58	$51	13.7%	(6.2)%
Zale division	$217	$206	5.3%	(5.8)%

(1) Average merchandise transaction value is defined as net merchandise sales on a same store basis divided by the total number of customer transactions.

(2) Net merchandise sales include all merchandise product sales net of discounts and returns. In addition, excluded from net merchandise sales are repairs, warranty, insurance, employee and other miscellaneous sales.

(3) Amounts for Zale Canada Jewelry stores are denominated in Canadian dollars.

(4) Change from prior year for average merchandise transaction value and merchandise transactions only includes Fiscal 2017 as Signet did not own Zale division for the entire comparable period in Fiscal 2016 due to timing of Zale acquisition in May 2014.

UK Jewelry sales

In Fiscal 2017, the UK Jewelry division's total sales were $647.1 million, down 12.3%, compared to $737.6 million in Fiscal 2016 and up 0.9% at constant exchange rates (non-GAAP measure, see Item 6). Same store sales increased by 0.1% compared to an increase of 4.9% in Fiscal 2016. ATV increased 6.0%, led by bridal jewelry, prestige watches, and select fashion diamond jewelry, offset by a 6.3% decrease in the number of transactions.

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Fiscal 2017	Change from previous year Same store sales[1]	Non-same store sales, net[2]	Total sales at constant exchange rate[3]	Exchange translation impact[3]	Total sales as reported	Total sales (in millions)
H.Samuel	(1.3)%	0.4 %	(0.9)%	(13.0)%	(13.9)%	$ 323.5
Ernest Jones	1.6 %	1.2 %	2.8 %	(13.4)%	(10.6)%	$ 323.6
UK Jewelry division	0.1 %	0.8 %	0.9 %	(13.2)%	(12.3)%	$ 647.1

(1) Based on stores open for at least 12 months. eCommerce sales are included in the calculation of same store sales for the period and comparative figures from the anniversary of the launch of the relevant website.

(2) Includes all sales from stores not open for 12 months.

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

	Average Merchandise Transaction Value[1][2]				Merchandise Transactions	
	Average Value		Change from previous year		Change from previous year	
Fiscal Year	Fiscal 2017	Fiscal 2016	Fiscal 2017	Fiscal 2016	Fiscal 2017	Fiscal 2016
H.Samuel	£77	£75	2.7 %	1.4 %	(4.9)%	1.9 %
Ernest Jones	£309	£271	14.0 %	6.3 %	(11.3)%	1.4 %
UK Jewelry division	£124	£117	6.0 %	2.7 %	(6.3)%	1.8 %

(1) Average merchandise transaction value is defined as net merchandise sales on a same store basis divided by the total number of customer transactions.

(2) Net merchandise sales include all merchandise product sales, including value added tax (“VAT”), net of discounts and returns. In addition, excluded from net merchandise sales are repairs, warranty, insurance, employee and other miscellaneous sales.

Fourth Quarter Sales

In the fourth quarter, Signet’s total sales were $2,269.9 million, down $122.7 million or 5.1%, compared to an increase of 5.1% in the prior year fourth quarter. Same store sales were down 4.5% compared to an increase of 4.9% in the prior year fourth quarter. Merchandise categories and collections were broadly lower most notably in the mall and e-commerce selling channels. Select merchandise and selling channels performed relatively well such as diamond fashion jewelry, bracelets, earrings, and the off-mall and kiosk selling channels. E-commerce sales in the fourth quarter were $161.8 million or 7.1% of total sales, compared to $166.3 million or 7.0% of total sales in the prior year fourth quarter. The breakdown of the sales performance is set out in the table below.

Fourth quarter of Fiscal 2017	Change from previous year Same store sales[1]	Non-same store sales, net[2]	Total sales at constant exchange rate[3]	Exchange translation impact[3]	Total sales as reported	Total sales (in millions)
Sterling Jewelers division	(4.9)%	1.2 %	(3.7)%	— %	(3.7)%	$ 1,398.1
Zale Jewelry	(5.2)%	1.0 %	(4.2)%	0.4 %	(3.8)%	$ 554.9
Piercing Pagoda	5.7 %	1.5 %	7.2 %	— %	7.2 %	$ 83.7
Zale division	(3.9)%	1.1 %	(2.8)%	0.3 %	(2.5)%	$ 638.6
UK Jewelry division	(3.8)%	0.5 %	(3.3)%	(16.2)%	(19.5)%	$ 227.6
Other[4]					133.3 %	$ 5.6
Signet	(4.5)%	1.2 %	(3.3)%	(1.8)%	(5.1)%	$ 2,269.9
Adjusted Signet[3]						$ 2,272.5

(1) Based on stores open for at least 12 months. eCommerce sales are included in the calculation of same store sales for the period and comparative figures from the anniversary of the launch of the relevant website.

(2) Includes all sales from stores not open for 12 months.
(3) Non-GAAP measure, see Item 6.
(4) Includes sales from Signet's diamond sourcing initiative.

Sterling Jewelers sales

In the fourth quarter, the Sterling Jewelers division's total sales were $1,398.1 million compared to $1,452.5 million in the prior year fourth quarter, a decline of 3.7%. Same store sales decreased 4.9%, compared to an increase of 5.0% in the prior year fourth quarter. Sales performance in the fourth quarter was driven by broad-based declines across merchandise categories and under performance in the mall and e-commerce channels. This was partially offset by higher sales of diamond fashion jewelry and Vera Wang Love bridal. Sterling Jewelers' ATV increased 7.0% and the number of transactions decreased 11.4%. ATV increased driven by mix with particular strength in higher-value diamond jewelry, coupled with declines in select lower average selling price point collections such as Charmed Memories and watches. The number of merchandise transactions decreased due to the same dynamic.

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Fourth quarter of Fiscal 2017	Change from previous year Same store sales[(1)]	Non-same store sales, net[(2)]	Total sales as reported	Total sales (in millions)
Kay	(5.0)%	2.3 %	(2.7)%	$ 915.2
Jared[(3)]	(3.2)%	1.2 %	(2.0)%	$ 430.6
Regional brands	(16.4)%	(11.2)%	(27.6)%	$ 52.3
Sterling Jewelers division	(4.9)%	1.2 %	(3.7)%	$ 1,398.1

(1) Based on stores open for at least 12 months. eCommerce sales are included in the calculation of same store sales for the period and comparative figures from the anniversary of the launch of the relevant website.
(2) Includes all sales from stores not open or owned for 12 months.
(3) Includes smaller concept Jared stores such as Jared Vault and Jared Jewelry Boutique.

Fourth quarter	Average Merchandise Transaction Value[(1)(2)] Average Value Fiscal 2017	Fiscal 2016	Change from previous year Fiscal 2017	Fiscal 2016	Merchandise Transactions Change from previous year Fiscal 2017	Fiscal 2016
Kay	$429	$403	6.5%	10.1 %	(10.8)%	(3.8)%
Jared	$530	$492	7.7%	(3.4)%	(10.8)%	3.5 %
Regional brands	$431	$393	9.7%	7.1 %	(23.3)%	(8.9)%
Sterling Jewelers division	$457	$427	7.0%	6.0 %	(11.4)%	(2.3)%

(1) Average merchandise transaction value is defined as net merchandise sales on a same store basis divided by the total number of customer transactions.
(2) Net merchandise sales include all merchandise product sales, net of discounts and returns. In addition, excluded from net merchandise sales are sales tax in the US, repairs, warranty, insurance, employee and other miscellaneous sales.

Zale sales

In the fourth quarter, the Zale division's total sales were $638.6 million compared to $655.1 million in the prior year fourth quarter, down 2.5%. Same store sales decreased 3.9%, compared to an increase of 4.7% in the prior year fourth quarter. Total Zale division sales included purchase accounting adjustments of $2.6 million and $5.2 million related to a reduction of deferred revenue associated with extended warranty sales in the fourth quarter of Fiscal 2017 and Fiscal 2016, respectively.

Zale Jewelry contributed $554.9 million of sales, a decrease of 3.8% from the prior year fourth quarter sales. Same store sales declined by 5.2% compared to an increase of 4.4% in prior year fourth quarter. Zale Jewelry ATV increased 2.4%, while the number of transactions decreased 7.4%. Increases in higher-price point diamond fashion jewelry and bracelets were more than offset by declines across all other merchandise categories.

Piercing Pagoda contributed $83.7 million of sales, an increase of 7.2% over prior year fourth quarter sales. Piercing Pagoda same store sales increased 5.7% compared to an increase of 6.4% in prior year fourth quarter. Piercing Pagoda ATV increased 12.7% principally driven by strong sales of gold, religious and children's jewelry, while the number of transactions decreased 5.6% primarily as a result of lower piercings.

Fourth quarter of Fiscal 2017	Change from previous year Same store sales[(1)]	Non-same store sales, net[(2)]	Total sales at constant exchange rate[(3)]	Exchange translation impact[(3)]	Total sales as reported	Total sales (in millions)
Zales	(4.5)%	2.6 %	(1.9)%	— %	(1.9)%	$ 452.5
Gordon's	(13.3)%	(17.7)%	(31.0)%	— %	(31.0)%	$ 18.7

Zale US Jewelry	(4.9)%	1.4 %	(3.5)%	— %	(3.5)%	$ 471.2
Peoples	(7.6)%	0.5 %	(7.1)%	2.2 %	(4.9)%	$ 73.2
Mappins	(3.9)%	(8.6)%	(12.5)%	2.2 %	(10.3)%	$ 10.5
Zale Canada Jewelry	(7.2)%	(0.6)%	(7.8)%	2.2 %	(5.6)%	$ 83.7
Total Zale Jewelry	(5.2)%	1.0 %	(4.2)%	0.4 %	(3.8)%	$ 554.9
Piercing Pagoda	5.7 %	1.5 %	7.2 %	— %	7.2 %	$ 83.7
Zale division[4]	(3.9)%	1.1 %	(2.8)%	0.3 %	(2.5)%	$ 638.6

(1) Based on stores open for at least 12 months. Same store sales include merchandise and repair sales and excludes warranty and insurance revenues. eCommerce sales are included in the calculation of same store sales for the period and comparative figures from the anniversary of the launch of the relevant website.

(2) Includes all sales from stores not open for 12 months.

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

(4) The Zale division same store sales includes merchandise and repair sales and excludes warranty and insurance revenues.

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Fourth quarter	Average Merchandise Transaction Value[1][2]				Merchandise Transactions	
	Average Value		Change from previous year		Change from previous year	
	Fiscal 2017	Fiscal 2016	Fiscal 2017	Fiscal 2016	Fiscal 2017	Fiscal 2016
Zales	$421	$418	0.7 %	6.1 %	(5.1)%	(0.1)%
Gordon's	$405	$399	1.5 %	(0.3)%	(14.5)%	(7.9)%
Peoples[3]	$367	$346	6.1 %	6.5 %	(13.4)%	(6.7)%
Mappins[3]	$328	$297	10.4%	(1.4)%	(12.9)%	(7.3)%
Total Zale Jewelry	$387	$378	2.4 %	6.2 %	(7.4)%	(2.1)%
Piercing Pagoda	$62	$55	12.7%	10.0 %	(5.6)%	(2.7)%
Zale division	$227	$221	2.7 %	6.8 %	(6.5)%	(2.4)%

(1) Average merchandise transaction value is defined as net merchandise sales on a same store basis divided by the total number of customer transactions.

(2) Net merchandise sales include all merchandise product sales net of discounts and returns. In addition, excluded from net merchandise sales are repairs, warranty, insurance, employee and other miscellaneous sales.

(3) Amounts for Zale Canada Jewelry stores are denominated in Canadian dollars.

UK Jewelry sales

In the fourth quarter, the UK Jewelry division's total sales were down by 19.5% to $227.6 million compared to $282.6 million in the prior year fourth quarter and down 3.3% at constant exchange rates (non-GAAP measure, see Item 6). Same store sales decreased 3.8% compared to an increase of 4.7% in the prior year fourth quarter. Average merchandise transaction value increased 8.0% and the number of transactions decreased 11.8%. The results were driven principally by weaker sales of highly-transactional merchandise such as fashion jewelry, fashion watches and gifts, offset by stronger sales of prestige watches and bridal jewelry.

Fourth quarter of Fiscal 2017	Change from previous year					
	Same store sales[1]	Non-same store sales, net[2]	Total sales at constant exchange rate[3]	Exchange translation impact[3]	Total sales as reported	Total sales (in millions)
H.Samuel	(5.3)%	0.4 %	(4.9)%	(15.9)%	(20.8)%	$ 119.7
Ernest Jones[4]	(2.1)%	0.6 %	(1.5)%	(16.4)%	(17.9)%	$ 107.9
UK Jewelry division	(3.8)%	0.5 %	(3.3)%	(16.2)%	(19.5)%	$ 227.6

(1) Based on stores open for at least 12 months. eCommerce sales are included in the calculation of same store sales for the period and comparative figures from the anniversary of the launch of the relevant website.

(2) Includes all sales from stores not open for 12 months.

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

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

Fourth quarter	Average Merchandise Transaction Value[1][2]				Merchandise Transactions	
	Average Value		Change from previous year		Change from previous year	
	Fiscal 2017	Fiscal 2016	Fiscal 2017	Fiscal 2016	Fiscal 2017	Fiscal 2016
H.Samuel	£78	£75	4.0 %	1.4 %	(10.3)%	2.0 %
Ernest Jones[3]	£299	£253	18.2%	9.1 %	(17.5)%	(2.1)%
UK Jewelry division	£121	£112	8.0 %	3.7 %	(11.8)%	1.1 %

(1) Average merchandise transaction value is defined as net merchandise sales on a same store basis divided by the total number of customer transactions.

(2) Net merchandise sales include all merchandise product sales, including value added tax ("VAT"), net of discounts and returns. In addition, excluded from net merchandise sales are repairs, warranty, insurance, employee and other miscellaneous sales.

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

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Cost of Sales and Gross Margin

In Fiscal 2017, gross margin was $2,360.8 million or 36.8% of sales compared to $2,440.4 million or 37.3% of sales in Fiscal 2016. The decrease in gross margin dollars was attributable to lower sales and higher bad debt expense offset in part by decreased effect of purchase accounting adjustments of $11.3 million compared to $35.6 million. Adjusted gross margin was $2,372.1 million or 36.9% of adjusted sales compared to $2,476.0 million or 37.6% in the prior year (non-GAAP measure, see Item 6). The decrease in the adjusted gross margin rate from prior year of 70 basis points was principally due to lower sales, higher bad debt expense and de-leverage on store occupancy costs.

- The Sterling Jewelers division gross margin dollars decreased $64.0 million compared to Fiscal 2016, reflecting decreased sales and a decline in the gross margin rate of 100 basis points due to higher bad debt expense and de-leverage on store occupancy costs. Gross merchandise margin rate was flat to prior year.
- In the Zale division, gross margin dollars increased $24.0 million compared to Fiscal 2016, primarily attributable to the decreased effect of purchase accounting adjustments which totaled $11.3 million in Fiscal 2017 and $35.6 million in the prior year. The adjusted gross margin dollars were virtually flat to prior year and the rate increased 30 basis points reflecting higher merchandise margins of 100 basis points, offset in part by de-leverage on store occupancy costs.
- In the UK Jewelry division, gross margin dollars decreased $39.5 million compared to Fiscal 2016, reflecting gross margin rate decrease of 170 basis points. The decreases in dollars and rate were driven principally by lower sales, de-leverage on store occupancy, a 90 basis point decline in the gross merchandise margin rate, including the unfavorable effect of foreign exchange.

In the fourth quarter, the consolidated gross margin was $945.5 million or 41.7% of sales compared to $1,016.0 million or 42.5% of sales in the prior year fourth quarter. Adjusted gross margin was $947.2 million or 41.7% of adjusted sales compared to $1,020.7 million or 42.6% in the prior year fourth quarter (non-GAAP measure, see Item 6). The declines in both the consolidated gross margin and adjusted gross margin were driven principally by lower sales leading to de-leverage on fixed costs as well as incremental promotional activity resulting in a flat merchandise margin rate to last year.

The declines in both gross margin and adjusted gross margin were driven principally by lower sales leading to deleverage on fixed costs as well as more promotional activity.

- Gross margin dollars in the Sterling Jewelers division decreased $41.2 million compared to prior year fourth quarter, while the gross margin rate decreased 120 basis points due primarily to lower sales which de-leveraged fixed costs, such as store occupancy. In addition, higher bad debt expense and incremental promotional activity unfavorably impacted the gross margin rate.
- In the Zale division, gross margin dollars decreased $2.3 million compared to prior year fourth quarter. Included in gross margin were purchase accounting adjustments totaling $1.6 million compared to $4.7 million in prior year fourth quarter. Adjusted gross margin dollars in the Zale division decreased $5.3 million compared to the prior year fourth quarter. The adjusted gross margin rate increased 40 basis points with higher merchandise margins of 120 basis points more than offsetting de-leverage of fixed costs on lower sales.
- In the UK Jewelry division, gross margin dollars decreased $26.6 million compared to Fiscal 2016, while the gross margin rate decreased 220 basis points driven principally by de-leverage on lower sales and lower merchandise margins due to increased promotional activity.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for Fiscal 2017 were $1,880.2 million or 29.3% of sales compared to $1,987.6 million or 30.4% of sales in Fiscal 2016, down $107.4 million. The decrease was attributable to lower variable compensation costs due to lower sales and a reduction in integration costs primarily as a result of the $34.2 million appraisal settlement in the prior year. Included in SGA were unfavorable purchase accounting adjustments of $5.5 million and integration costs of $28.4 million in Fiscal 2017 compared to favorable purchase accounting adjustments of $9.2 million and transaction and integration costs of $78.9 million in Fiscal 2016. Adjusted SGA was $1,846.3 million or 28.7% of adjusted sales compared to 29.1% in the prior year (non-GAAP measure, see Item 6). The decrease in dollars and rate was driven primarily by lower variable compensation due to lower sales, lower advertising expense, merchant fee savings in Zale credit programs and favorable foreign exchange translation, offset

in part by higher information technology (“IT”) expense associated with Signet’s IT modernization roadmap.
In the fourth quarter, SGA expense was $615.3 million or 27.1% of sales compared to $686.6 million or 28.7% of sales in the prior year fourth quarter. The decrease was attributable to lower variable compensation costs due to lower sales and a reduction in integration costs including consulting costs incurred in connection with the Zale integration, severance related to organizational changes and expenses associated with the settlement of miscellaneous legal matters pending as of the date of the Zale acquisition. Included in SGA were unfavorable purchase accounting adjustments of $1.6 million and integration costs of $9.9 million compared to unfavorable purchase accounting adjustments of $1.5 million and integration costs of $19.1 million in the prior year fourth quarter. Adjusted SGA was $603.8 million or 26.6% of adjusted sales compared to 27.8% in the prior year (non-GAAP measure, see Item 6). The 120 basis point decrease in SGA rate was driven primarily by lower variable compensation including short-term and long-term incentive compensation, impact of synergies, lower advertising expense, merchant fee savings in Zale credit programs and foreign exchange translation. Offsetting these items was higher IT expense associated with Signet’s IT modernization roadmap.

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Other Operating Income, Net

In Fiscal 2017, other operating income, net was $282.6 million or 4.4% of sales compared to $250.9 million or 3.8% of sales in Fiscal 2016. In the fourth quarter, other operating income, net was $69.0 million or 3.0% of sales compared to $63.7 million or 2.6% of sales in the prior year fourth quarter. The year-over-year increase was primarily attributable to higher interest income earned from higher outstanding receivable balances.

Operating Income

In Fiscal 2017, operating income was $763.2 million or 11.9% of sales compared to $703.7 million or 10.7% of sales in Fiscal 2016. Included in operating income were purchase accounting adjustments of $16.8 million and transaction and integration costs of $28.4 million. Adjusted operating income was $808.4 million or 12.6% of adjusted sales compared to 12.3% in the prior year (non-GAAP measure, see Item 6).

	Fiscal 2017		Fiscal 2016	
(in millions)	$	% of sales	$	% of sales
Sterling Jewelers division	$715.8	18.2%	$718.6	18.0%
Zale division[(1)]	73.4	4.0 %	52.1	2.9 %
UK Jewelry division	45.6	7.0 %	61.5	8.3 %
Other[(2)]	(71.6)	nm	(128.5)	nm
Operating income	$763.2	11.9%	$703.7	10.7%

(1) Zale division includes net operating loss impact of $16.8 million for purchase accounting adjustments. Excluding the impact from accounting adjustments, Zale division’s operating income was $90.2 million or 5.0% of sales. The Zale division operating income included $62.2 million from Zale Jewelry or 4.0% of sales and $11.2 million from Piercing Pagoda or 4.3% of sales. In the prior year, Zale division includes net operating loss impact of $26.4 million for purchase accounting adjustments. Excluding the impact from accounting adjustments, Zale division’s operating income was $78.5 million or 4.3% of sales. The Zale division operating income included $44.3 million from Zale Jewelry or 2.8% of sales and $7.8 million from Piercing Pagoda or 3.2% of sales.

(2) Other includes $28.4 million and $78.9 million of transaction and integration expenses in Fiscal 2017 and Fiscal 2016, respectively. Transaction and integration costs include legal settlement of $34.2 million over appraisal rights, and expenses associated with legal, tax, accounting, information technology implementation, consulting and severance.

nm Not meaningful.

In the fourth quarter, operating income was $399.2 million or 17.6% of sales compared to $393.1 million or 16.4% of sales in prior year fourth quarter. Included in operating income were purchase accounting adjustments of $3.3 million and transaction and integration costs of $9.9 million. Adjusted operating income was $412.4 million or 18.1% of adjusted sales compared to 17.4% in the prior year (non-GAAP measure, see Item 6).

	Fourth Quarter Fiscal 2017		Fourth Quarter Fiscal 2016	
(in millions)	$	% of sales	$	% of sales
Sterling Jewelers division	$298.0	21.3%	$305.4	21.0%
Zale division[(1)]	71.7	11.2%	63.0	9.6 %
UK Jewelry division	42.6	18.7%	57.8	20.5%
Other[(2)]	(13.1)	nm	(33.1)	nm
Operating income	$399.2	17.6%	$393.1	16.4%

(1) Zale division includes net operating loss impact of $3.3 million for purchase accounting adjustments. Excluding the impact from accounting adjustments, Zale division’s operating income was $75.0 million or 11.7% of sales. The Zale division operating income included $62.7 million from Zale Jewelry or 11.3% of sales and $9.0 million from Piercing Pagoda or 10.8% of sales. In the prior year fourth quarter, Zale division includes net operating loss impact of $6.2 million for purchase accounting adjustments. Excluding the impact from accounting adjustments, Zale

division's operating income was $69.2 million or 10.6% of sales. The Zale division operating income included $54.2 million from Zale Jewelry or 9.4% of sales and $8.8 million from Piercing Pagoda or 11.3% of sales.

(2) Other includes $9.9 million and $19.1 million of transaction and integration expenses in Fiscal 2017 and Fiscal 2016, respectively. Transaction and integration costs include expenses associated with legal, tax, information technology implementation, consulting and severance.

nm Not meaningful.

Interest Expense, Net

In Fiscal 2017, net interest expense was $49.4 million compared to $45.9 million in Fiscal 2016. The weighted average interest rate for the Company's debt outstanding was 2.8% compared to 2.6% in the prior year.

In the fourth quarter, net interest expense was $13.0 million compared to $12.1 million in the prior year fourth quarter. The weighted average interest rate for the Company's debt outstanding was 2.9% compared to 2.7% in the prior year fourth quarter.

Income Before Income Taxes

In Fiscal 2017, income before income taxes increased $56.0 million to $713.8 million or 11.1% of sales compared to $657.8 million or 10.0% of sales in Fiscal 2016.

In the fourth quarter, income before income taxes increased $5.2 million to $386.2 million or 17.0% of sales compared to $381.0 million or 15.9% of sales in the prior year fourth quarter.

Income Taxes

Income tax expense for Fiscal 2017 was $170.6 million compared to $189.9 million in Fiscal 2016, with an effective tax rate of 23.9% for Fiscal 2017 compared to 28.9% in Fiscal 2016. In the fourth quarter, income tax expense was $88.7 million compared to $109.1 million in the prior year fourth quarter. The lower effective tax rate in Fiscal 2017 was driven principally by income mix by jurisdiction and effect of global reinsurance and financing arrangements, including certain intra-entity debt agreements which mature on various dates between fiscal year 2022 and 2027.

Net Income

Net income for Fiscal 2017 was up 16.1% to $543.2 million or 8.5% of sales compared to $467.9 million or 7.1% of sales in Fiscal 2016.

For the fourth quarter, net income was up 9.4% to $297.5 million or 13.1% of sales compared to $271.9 million or 11.4% of sales in the prior year fourth quarter.

Earnings per Share

For Fiscal 2017, diluted earnings per share were $7.08 compared to $5.87 in Fiscal 2016, an increase of 20.6%. Adjusted diluted earnings per share were $7.45 compared to $6.86 in the prior year (non-GAAP measure, see Item 6). The weighted average diluted number of common shares outstanding was 76.7 million compared to 79.7 million in Fiscal 2016. Signet repurchased 11.2 million shares in Fiscal 2017 compared to 1.0 million shares in Fiscal 2016.

For the fourth quarter, diluted earnings per share were $3.92 compared to $3.42 in the prior year fourth quarter, up 14.6%. Adjusted diluted earnings per share were $4.03 compared to $3.63 in the prior year fourth quarter (non-GAAP measure, see Item 6). The weighted average diluted number of common shares outstanding was 75.8 million compared to 79.4 million in the prior year fourth quarter.

The Company issued preferred shares on October 5, 2016, which include a cumulative dividend right and may be converted into common shares. The Company’s computation of diluted earnings per share includes the effect of potential common shares for outstanding awards issued under the Company’s share-based compensation plans and preferred shares upon conversion, if dilutive. In computing diluted EPS, the Company also adjusts the numerator used in the basic EPS computation, subject to anti-dilution requirements, to add back the dividends (declared or cumulative undeclared) applicable to the preferred shares. For the fourth quarter and year to date periods, the preferred shares were more dilutive if conversion was assumed. See Item 8 for additional information related to the preferred shares (Note 5) or the calculation of earnings per share (Note 7).

Dividends per Common Share

In Fiscal 2017, dividends of $1.04 were declared by the Board of Directors compared to $0.88 in Fiscal 2016.

COMPARISON OF FISCAL 2016 TO FISCAL 2015

- Same store sales: up 4.1%.
- Operating income: up 22.0% to $703.7 million. Adjusted[1] operating income: up 18.6% to $809.0 million.
- Operating margin: increased to 10.7%, up 70 basis points. Adjusted[1] operating margin: up 50 basis points to 12.3%.
- Diluted earnings per share: up 23.6% to $5.87. Adjusted[1] diluted earnings per share: up 21.8% to $6.86.

(1) Non-GAAP measure, see Item 6. The Company uses adjusted metrics, which adjust for purchase accounting and costs incurred principally in relation to the Zale Acquisition including transaction and integration expenses.

In Fiscal 2016, Signet’s same store sales increased by 4.1%, compared to an increase of 4.1% in Fiscal 2015. Total sales were $6,550.2 million compared to $5,736.3 million in Fiscal 2015, up $813.9 million or 14.2% compared to an increase of 36.3% in Fiscal 2015. Bridal sales were nearly half of total merchandise sales, down 10 basis points versus prior year due to strong sales of fashion jewelry collections such as Ever Us. eCommerce sales were $359.6 million and 5.5% of sales compared to $283.6 million and 4.9% of sales in Fiscal 2015. The breakdown of Signet’s sales performance is set out in the table below.

Fiscal 2016	Change from previous year Same store sales[1]	Non-same store sales, net[2]	Total sales at constant exchange rate[3]	Exchange translation impact[3]	Total sales as reported	Total sales (in millions)
Sterling Jewelers division	3.7%	2.2 %	5.9 %	— %	5.9 %	$ 3,988.7
Zale Jewelry	4.3%					$ 1,568.2
Piercing Pagoda	7.5%					$ 243.2
Zale division[4]	4.8%					$ 1,811.4
UK Jewelry division	4.9%	1.0 %	5.9 %	(6.7)%	(0.8)%	$ 737.6
Other[5]	—	nm	nm	— %	nm	$ 12.5
Signet	4.1%	11.7 %	15.8 %	(1.6)%	14.2 %	$ 6,550.2
Adjusted Signet[3]						$ 6,577.4

(1) Based on stores open for at least 12 months. eCommerce sales are included in the calculation of same store sales for the period and comparative figures from the anniversary of the launch of the relevant website.
(2) Includes all sales from stores not open for 12 months.
(3) Non-GAAP measure, see Item 6.
(4) Zale division results in the prior year reflect the 247 days of performance subsequent to the acquisition of Zale Corporation as of May 29, 2014.
(5) Includes sales from Signet's diamond sourcing initiative.
nm Not meaningful.

Sterling Jewelers sales

In Fiscal 2016, Sterling Jewelers total sales were up 5.9% to $3,988.7 million compared to $3,765.0 million in Fiscal 2015, and same store sales increased 3.7% compared to an increase of 4.8% in Fiscal 2015. Sales increases were broad based and driven by a combination of factors primarily in Kay Jewelers stores. Growth was led by fashion jewelry such as Ever Us, Diamonds in Rhythm, and non-branded earrings and bracelets. Bridal also grew led by Neil Lane, Vera Wang Love, and non-branded rings. Branded, differentiated, and exclusive ("branded") merchandise in Sterling Jewelers increased 30 basis points to 32.6% of Sterling Jeweler's merchandise sales. The average merchandise transaction value increased driven by improved mix with particular strength in diamond jewelry coupled with declines in select lower average selling price point collections such as Charmed Memories. The number of merchandise transactions decreased due to the same dynamic. Mix of merchandise increased for higher-value, less-transactional collections (e.g. Ever Us) in lieu of higher-transactional, lower-value collections (e.g. Charmed Memories). This trend of higher average merchandise transaction value and lower transactions existed for Kay as well as for Sterling Jewelers overall. In Jared, the average merchandise transaction value was flat to prior year and the number of merchandise transactions decreased due to merchandise mix.

Fiscal 2016	Changes from previous year Same store sales[1]	Non-same store sales, net[2]	Total sales as reported	Total sales (in millions)
Kay	5.7 %	2.1 %	7.8 %	$ 2,530.3
Jared[3]	0.6 %	4.4 %	5.0 %	