SIGNET JEWELERS LTD
Form 10-Q
May 23, 2013
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**for the quarterly period ended May 4, 2013 or**

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**for the transition period from to**

**Commission File Number 1-32349**

# Signet Jewelers Limited

**(Exact name of Registrant as specified in its charter)**

| | |
|---|---|
| **Bermuda**<br>**(State or other jurisdiction of**<br>**incorporation)** | **Not Applicable**<br>**(I.R.S. Employer**<br>**Identification No.)** |

**Clarendon House**

**2 Church Street**

**Hamilton HM11**

**Bermuda**

**(441) 296 5872**

**(Address and telephone number of principal executive offices)**

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 such shorter period that the Registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| 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 Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of Common Stock, as of the latest practicable date.

Common Stock, $0.18 par value, 80,878,264 shares as of May 17, 2013

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## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

### SIGNET JEWELERS LIMITED

### CONDENSED CONSOLIDATED INCOME STATEMENTS

**(Unaudited)**

| *(in millions, except per share amounts)* | 13 weeks ended May 4, 2013 | 13 weeks ended April 28, 2012 | Notes |
|---|---|---|---|
| Sales | **$ 993.6** | $ 900.0 | 2 |
| Cost of sales | **(610.8)** | (546.3) | |
| Gross margin | **382.8** | 353.7 | |
| Selling, general and administrative expenses | **(287.0)** | (264.5) | |
| Other operating income, net | **47.0** | 40.2 | |
| Operating income | **142.8** | 129.4 | 2 |
| Interest expense, net | **(0.9)** | (0.9) | |
| Income before income taxes | **141.9** | 128.5 | |
| Income taxes | **(50.1)** | (46.0) | |
| Net income | **$ 91.8** | $ 82.5 | |
| Earnings per share: basic | **$ 1.14** | $ 0.96 | 5 |
| diluted | **$ 1.13** | $ 0.96 | 5 |
| Weighted average common shares outstanding: basic | **80.8** | 85.5 | 5 |
| diluted | **81.3** | 86.3 | 5 |
| Dividends declared per share | **$ 0.15** | $ 0.12 | 6 |

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

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**SIGNET JEWELERS LIMITED**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Unaudited)**

| *(in millions)* | **13 weeks ended May 4, 2013** | **13 weeks ended April 28, 2012** |
|---|---|---|
| Net income | **$ 91.8** | $ 82.5 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | **(1.8)** | 9.6 |
| Derivative instruments qualifying as cash flow hedges: | | |
| Unrealized loss, net of tax of $6.1 (April 28, 2012: $4.5) | **(11.4)** | (8.4) |
| Reclassification adjustment for gains to net income, net of tax of $0.4 (April 28, 2012: $3.1) | **(0.6)** | (5.5) |
| Pension plan: | | |
| Reclassification adjustment to net income for amortization of actuarial loss, net of tax of $0.1 (April 28, 2012: $0.0) | **0.5** | 0.8 |
| Reclassification adjustment to net income for amortization of net prior service credit, net of tax of $0.0 (April 28, 2012: $0.0) | **(0.4)** | (0.4) |
| Total other comprehensive loss | **(13.7)** | (3.9) |
| Total comprehensive income | **$ 78.1** | $ 78.6 |

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

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**SIGNET JEWELERS LIMITED**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(Unaudited)**

| *(in millions)* | **May 4, 2013** | **February 2, 2013** | **April 28, 2012** | **Notes** |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | **$ 263.7** | $ 301.0 | $ 399.0 | |
| Accounts receivable, net | **1,157.5** | 1,205.3 | 1,025.1 | 8 |
| Other receivables | **40.2** | 42.1 | 43.9 | |
| Other current assets | **82.1** | 85.9 | 74.0 | 9 |
| Deferred tax assets | **2.3** | 1.6 | 2.0 | |
| Inventories | **1,426.4** | 1,397.0 | 1,335.0 | |
| Total current assets | **2,972.2** | 3,032.9 | 2,879.0 | |
| Non-current assets: | | | | |
| Property and equipment, net of accumulated depreciation of $737.5, $724.1, and $707.1, respectively | **429.9** | 430.4 | 381.7 | |
| Other assets | **107.2** | 99.9 | 72.2 | 9 |
| Deferred tax assets | **124.9** | 104.1 | 116.5 | |
| Retirement benefit asset | **50.3** | 48.5 | 35.8 | |
| Total assets | **$ 3,684.5** | $ 3,715.8 | $ 3,485.2 | 2 |
| **Liabilities and Shareholders equity** | | | | |
| Current liabilities: | | | | |
| Loans and overdrafts | **$ 5.7** | $ | $ | |
| Accounts payable | **176.8** | 155.9 | 156.0 | |
| Accrued expenses and other current liabilities | **269.4** | 326.4 | 252.3 | 10 |
| Deferred revenue | **157.6** | 159.7 | 150.5 | 9 |
| Deferred tax liabilities | **145.6** | 129.6 | 133.8 | |
| Income taxes payable | **54.7** | 97.1 | 51.4 | |
| Total current liabilities | **809.8** | 868.7 | 744.0 | |
| Non-current liabilities: | | | | |
| Deferred tax liabilities | **1.0** | | | |
| Other liabilities | **113.3** | 111.3 | 103.1 | 10 |
| Deferred revenue | **415.9** | 405.9 | 380.4 | 9 |
| Total liabilities | **1,340.0** | 1,385.9 | 1,227.5 | |
| Commitments and contingencies | | | | 13 |
| Shareholders equity: | | | | |
| Common shares of $0.18 par value: authorized 500 shares, 80.9 shares outstanding (February 2, 2013: 81.4 shares outstanding; April 28, 2012: 85.4 shares outstanding) | **15.7** | 15.7 | 15.7 | |
| Additional paid-in capital | **242.0** | 246.3 | 228.3 | |
| Other reserves | **235.2** | 235.2 | 235.2 | |
| Treasury shares at cost: 6.3 shares (February 2, 2013: 5.8 shares; April 28, 2012: 1.8 shares) | **(297.7)** | (260.0) | (88.6) | |

| | | | |
|---|---|---|---|
| Retained earnings | **2,338.7** | 2,268.4 | 2,030.2 |
| Accumulated other comprehensive loss | **(189.4)** | (175.7) | (163.1) |
| Total shareholders equity | **2,344.5** | 2,329.9 | 2,257.7 |
| Total liabilities and shareholders equity | **$ 3,684.5** | $ 3,715.8 | $ 3,485.2 |

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

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**SIGNET JEWELERS LIMITED**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| *(in millions)* | 13 weeks ended May 4, 2013 | 13 weeks ended April 28, 2012 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | **$ 91.8** | $ 82.5 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization of property and equipment | **25.6** | 23.1 |
| Pension expense | **(0.1)** | 0.8 |
| Share-based compensation | **3.0** | 4.1 |
| Deferred taxation | **1.9** | (3.5) |
| Facility amendment fee amortization and charges | **0.1** | 0.1 |
| Other non-cash movements | **(0.2)** | |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts receivable | **47.6** | 63.5 |
| Increase in other receivables and other assets | **(5.5)** | (0.1) |
| Decrease in other current assets | **4.5** | 4.3 |
| Increase in inventories | **(54.7)** | (25.6) |
| Increase (decrease) in accounts payable | **18.3** | (27.7) |
| Decrease in accrued expenses and other liabilities | **(51.3)** | (62.0) |
| Increase in deferred revenue | **8.0** | 2.7 |
| Decrease in income taxes payable | **(42.4)** | (25.6) |
| Pension plan contributions | **(1.8)** | (3.4) |
| Effect of exchange rate changes on currency swaps | **0.3** | 0.8 |
| Net cash provided by operating activities | **45.1** | 34.0 |
| **Investing activities** | | |
| Purchase of property and equipment | **(23.2)** | (18.6) |
| Net cash used in investing activities | **(23.2)** | (18.6) |
| **Financing activities** | | |
| Dividends paid | **(9.8)** | (8.7) |
| Proceeds from issuance of common shares | **5.0** | 5.1 |
| Repurchase of common shares | **(50.1)** | (90.7) |
| Net settlement of equity based awards | **(9.1)** | (8.3) |
| Proceeds from short-term borrowings | **5.7** | |
| Net cash used in financing activities | **(58.3)** | (102.6) |
| Effect of exchange rate changes on cash and cash equivalents | **(0.9)** | (0.6) |
| Cash and cash equivalents at beginning of period | **301.0** | 486.8 |
| Decrease in cash and cash equivalents | **(36.4)** | (87.2) |
| Cash and cash equivalents at end of period | **$ 263.7** | $ 399.0 |

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

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**SIGNET JEWELERS LIMITED**

**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY**

**(Unaudited)**

| *(in millions)* | Common shares at par value | Additional paid-in capital | Other reserves | Treasury shares | Retained earnings | Accumulated other comprehensive loss | Total shareholders equity |
|---|---|---|---|---|---|---|---|
| **Balance at February 2, 2013** | **$ 15.7** | **$ 246.3** | **$ 235.2** | **$ (260.0)** | **$ 2,268.4** | **$ (175.7)** | **$ 2,329.9** |
| Net income | | | | | 91.8 | | 91.8 |
| Other comprehensive (loss) income | | | | | | (13.7) | (13.7) |
| Dividends | | | | | (12.1) | | (12.1) |
| Repurchase of common shares | | | | (50.1) | | | (50.1) |
| Net settlement of equity based awards | | (7.3) | | 6.4 | (8.2) | | (9.1) |
| Share options exercised | | | | 6.0 | (1.2) | | 4.8 |
| Share-based compensation expense | | 3.0 | | | | | 3.0 |
| **Balance at May 4, 2013** | **$ 15.7** | **$ 242.0** | **$ 235.2** | **$ (297.7)** | **$ 2,338.7** | **$ (189.4)** | **$ 2,344.5** |

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

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**SIGNET JEWELERS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Principal accounting policies and basis of preparation**

***Basis of preparation***

Signet Jewelers Limited ( Signet or the Company ), including its subsidiaries, is a leading retailer of jewelry, watches and associated services. Signet manages its business as two geographical segments, the United States of America (the US ) and the United Kingdom (the UK ). The US division operates retail stores under brands including Kay Jewelers, Jared The Galleria Of Jewelry, Ultra and various regional brands. Ultra was acquired by Signet in October 2012. The UK division s retail stores operate under brands including H.Samuel and Ernest Jones.

These condensed consolidated financial statements included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ( US GAAP ) have been condensed or omitted from this report, as is permitted by such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes included in Signet s Annual Report on Form 10-K for the year ended February 2, 2013.

***Use of estimates***

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

***Fiscal year***

The Company s fiscal year ends on the Saturday nearest to January 31st. Fiscal 2014 is the 52 week year ending February 1, 2014 and Fiscal 2013 is the 53 week year ended February 2, 2013. Within these financial statements, the first quarter of the fiscal years 2014 and 2013 refers to the 13 weeks ended May 4, 2013 and April 28, 2012, respectively.

***Seasonality***

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

***Revenue recognition***

*Extended service plans and lifetime warranty agreements*

The US division sells extended service plans where it is obliged, subject to certain conditions, to perform repair work over the lifetime of the product. Revenue from the sale of extended service plans is deferred over 14 years. Revenue is recognized in relation to the costs expected to be incurred in performing these services, with approximately 45% of revenue recognized within the first two years (February 2, 2013 and April 28, 2012: 46% and 46%, respectively). The deferral period is determined from patterns of claims costs, including estimates of future claims costs expected to be incurred. Management reviews the trends in claims to assess whether changes are required to the revenue and cost recognition rates used. All direct costs associated with the sale of these plans are deferred and amortized in proportion to the revenue recognized and disclosed as either other current assets or other assets.

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**SIGNET JEWELERS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

***New accounting pronouncements adopted during the period***

*Reclassification out of Accumulated Other Comprehensive Income*

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

***Reclassification***

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

**2. Segment information**

Signet s sales are derived from the retailing of jewelry, watches, other products and services. Signet is managed as two geographical operating segments, being the US and UK divisions. These segments represent channels of distribution that offer similar merchandise and services and have similar marketing and distribution strategies. Both divisions are managed by executive committees, which report through a divisional Chief Executive to Signet s Chief Executive Officer, who in turn reports to the Board. Each divisional executive committee is responsible for operating decisions within parameters set by the Board. The performance of each segment is regularly evaluated based on sales and operating income. The operating segments do not include certain corporate administrative costs. There are no material transactions between the operating segments.

| | **13 weeks ended** | |
|---|---|---|
| *(in millions)* | **May 4, 2013** | **April 28, 2012** |
| Sales: | | |
| US | **$ 858.6** | $ 751.5 |
| UK | **135.0** | 148.5 |
| Total sales | **$ 993.6** | $ 900.0 |
| Operating income (loss): | | |
| US | **$ 152.8** | $ 137.7 |
| UK | **(4.1)** | (3.0) |
| Unallocated[1] | **(5.9)** | (5.3) |
| Total operating income | **$ 142.8** | $ 129.4 |

| *(in millions)* | **May 4, 2013** | **February 2, 2013** | **April 28, 2012** |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Total assets: | | | |
| US | **$ 3,062.2** | 3,018.8 | $ 2,684.1 |
| UK | **431.9** | 446.7 | 458.0 |
| Unallocated[(1)] | **190.4** | 250.3 | 343.1 |
| Total assets | **$ 3,684.5** | 3,715.8 | $ 3,485.2 |

(1) Unallocated principally relates to corporate administrative costs, assets, and liabilities.

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**SIGNET JEWELERS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**3. Foreign currency translation**

Assets and liabilities denominated in the UK pound sterling are translated into the US dollar at the exchange rate prevailing at the balance sheet date. Equity accounts denominated in the UK pound sterling are translated into US dollars at historical exchange rates. Revenues and expenses denominated in the UK pound sterling are translated into the US dollar at the monthly average exchange rate for the period and calculated each month from the weekly exchange rates weighted by sales of the UK division. Gains and losses resulting from foreign currency transactions are included within the consolidated income statement, whereas translation adjustments and gains and losses related to intercompany loans of a long-term investment nature are reported as an element of other comprehensive income (loss).

**4. Income taxes**

Signet has business activity in all states within the US and files income tax returns for the US federal jurisdiction and all applicable states. Signet also files income tax returns in the UK and certain other foreign jurisdictions. Signet is subject to US federal and state examinations by tax authorities for tax years ending after November 1, 2008 and is subject to examination by the UK tax authority for tax years ending after January 31, 2010.

As of February 2, 2013, Signet had approximately $4.5 million of unrecognized tax benefits in respect of uncertain tax positions, all of which would favorably affect the effective income tax rate if resolved in Signet s favor. These unrecognized tax benefits relate to financing arrangements and intra-group charges which are subject to different and changing interpretations of tax law. There has been no material change in the amount of unrecognized tax benefits in respect of uncertain tax positions during the 13 weeks ended May 4, 2013.

Signet recognizes accrued interest and, where appropriate, penalties related to unrecognized tax benefits within income tax expense. As of February 2, 2013, Signet had accrued interest of $0.2 million and there has been no material change in the amount of accrued interest as of May 4, 2013.

Over the next twelve months management believes that it is reasonably possible that there could be a reduction of substantially all of the unrecognized tax benefits as of February 2, 2013, due to settlement of the uncertain tax positions with the tax authorities.

**SIGNET JEWELERS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**5. Earnings per share**

***Earnings per share***

| *(in millions, except per share amount)* | **13 weeks ended May 4, 2013** | **13 weeks ended April 28, 2012** |
|---|---|---|
| Net income | **$ 91.8** | $ 82.5 |
| Basic weighted average number of shares outstanding | **80.8** | 85.5 |
| Dilutive effect of share options | **0.5** | 0.8 |
| Diluted weighted average number of shares outstanding | **81.3** | 86.3 |
| Earnings per share basic | **$ 1.14** | $ 0.96 |
| Earnings per share diluted | **$ 1.13** | $ 0.96 |

The basic weighted average number of shares excludes non-vested time-based restricted shares, shares held by the Employee Stock Ownership Trust and treasury shares. Such shares are not considered outstanding and do not qualify for dividends, except for time-based restricted shares for which dividends are earned and payable by the Company subject to full vesting. The effect of excluding these shares is to reduce the average number of shares in the 13 week period ended May 4, 2013 by 6,365,336 shares (13 week period ended April 28, 2012: 1,686,503 shares). The calculation of fully diluted earnings per share for the 13 week period ended May 4, 2013 excludes 105,771 non-vested time-based restricted shares (13 week period ended April 28, 2012: 160,135 shares) on the basis that their effect on earnings per share was anti-dilutive.

**6. Shareholders equity**

***Share repurchase***

Signet s Board of Directors authorized a two year program to repurchase up to $350 million of Signet s common shares (the Repurchase Program ). The Repurchase Program, which began in January 2012 was completed at May 4, 2013. All repurchases were funded through Signet s existing cash reserves. Repurchased shares are being held as treasury shares and may be used by Signet for general corporate purposes.

The Company repurchased 749,245 shares and 1,956,147 shares at an average price of $66.92 and $46.83 in the 13 weeks ended May 4, 2013 and the 13 weeks ended April 28, 2012, respectively, under the authorized Repurchase Program.

***Dividend***

For the first quarter of Fiscal 2014, a cash dividend of $0.15 per share on Signet s Common Shares was approved on March 27, 2013 for payment on May 29, 2013 to shareholders of record on May 3, 2013. As a result, $12.1 million has been recorded in accrued expenses and other current liabilities reflecting this dividend, which is not presented in the condensed consolidated statement of cash flows as it is a non-cash transaction as of May 4, 2013.

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**SIGNET JEWELERS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**7. Reclassification out of accumulated OCI**

| Reclassification activity by individual accumulated OCI component: | Amounts reclassified from accumulated OCI 13 weeks ended May 4, 2013 | Income statement caption |
|---|---|---|
| *(in millions)* | | |
| (Gains) losses on cash flow hedges: | | |
| Foreign currency contracts | $ (0.2) | Cost of sales (see Note 11) |
| Commodity contracts | (0.8) | Cost of sales (see Note 11) |
| Total before income tax | (1.0) | |
| | 0.4 | Income taxes |
| Net of tax | (0.6) | |
| Defined benefit pension plan items: | | |
| Amortization of unrecognized net prior service credit | (0.4) | Selling, general and administrative expenses (1) |
| Amortization of unrecognized actuarial loss | 0.6 | Selling, general and administrative expenses (1) |
| Total before income tax | 0.2 | |
| | (0.1) | Income taxes |
| Net of tax | 0.1 | |
| Total reclassifications | $ (0.5) | |

(1) These items are included in the computation of net periodic pension benefit (cost). See Note 12 for additional information.

**8. Accounts receivable, net**

Signet s accounts receivable primarily consist of US customer in-house financing receivables. The accounts receivable portfolio consists of a population that is of similar characteristics and is evaluated collectively for impairment. The allowance is an estimate of the losses as of the balance sheet date, and is calculated using a proprietary model that analyzes factors such as delinquency rates and recovery rates. A 100% allowance is made for any amount that is more than 90 days aged on a recency basis and any amount associated with an account the owner of which has filed for bankruptcy, as well as an allowance for those amounts 90 days aged and under based on historical loss information and payment performance. The calculation is reviewed by management to assess whether, based on economic events, additional analyses are required to appropriately estimate losses inherent in the portfolio.

| *(in millions)* | **May 4, 2013** | **February 2, 2013** | **April 28, 2012** |
|---|---|---|---|
| Accounts receivable by portfolio segment, net: | | | |
| US customer in-house finance receivables | **$ 1,145.9** | $ 1,192.9 | $ 1,016.3 |
| Other accounts receivable | **11.6** | 12.4 | 8.8 |
| Total accounts receivable, net | **$ 1,157.5** | $ 1,205.3 | $ 1,025.1 |

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**SIGNET JEWELERS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

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

Other accounts receivable is comprised primarily of gross accounts receivable relating to the insurance loss replacement business in the UK division of $10.6 million (February 2, 2013 and April 28, 2012: $13.0 million and $9.5 million, respectively) with a corresponding valuation allowance of $0.4 million (February 2, 2013 and April 28, 2012: $0.6 million and $0.7 million, respectively).

***Allowance for Credit Losses on US Customer In-House Finance Receivables:***

| *(in millions)* | **13 weeks ended May 4, 2013** | **53 weeks ended February 2, 2013** | **13 weeks ended April 28, 2012** |
|---|---|---|---|
| Allowance on US portfolio, beginning of period | **$ (87.7)** | $ (78.1) | $ (78.1) |
| Charge-offs | **29.4** | 112.8 | 25.7 |
| Recoveries | **7.4** | 21.8 | 6.0 |
| Provision | **(28.7)** | (144.2) | (24.4) |
| Allowance on US portfolio, end of period | **$ (79.6)** | $ (87.7) | $ (70.8) |
| Ending receivable balance evaluated for impairment | **1,225.5** | 1,280.6 | 1,087.1 |
| US customer in-house finance receivables, net | **$ 1,145.9** | $ 1,192.9 | $ 1,016.3 |

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

***Credit Quality Indicator and Age Analysis of Past Due US Customer In-House Finance Receivables:***

| | **May 4, 2013** | | **February 2, 2013** | | **April 28, 2012** | |
|---|---|---|---|---|---|---|
| *(in millions)* | **Gross** | **Valuation allowance** | **Gross** | **Valuation allowance** | **Gross** | **Valuation allowance** |
| Performing: | | | | | | |
| Current, aged 0-30 days | **$ 999.1** | **$ (30.5)** | $ 1,030.3 | $ (33.8) | $ 886.5 | $ (27.5) |
| Past due, aged 31-90 days | **183.9** | **(6.6)** | 203.9 | (7.5) | 163.4 | (6.1) |
| Non Performing: | | | | | | |
| Past due, aged more than 90 days | **42.5** | **(42.5)** | 46.4 | (46.4) | 37.2 | (37.2) |
| | **$ 1,225.5** | **$ (79.6)** | $ 1,280.6 | $ (87.7) | $ 1,087.1 | $ (70.8) |

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**SIGNET JEWELERS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**9. Deferred revenue**

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

| *(in millions)* | **May 4, 2013** | **February 2, 2013** | **April 28, 2012** |
|---|---|---|---|
| ESP deferred revenue | **$ 563.4** | $ 549.7 | $ 520.7 |
| Voucher promotions and other | **10.1** | 15.9 | 10.2 |
| Total deferred revenue | **$ 573.5** | $ 565.6 | $ 530.9 |
| Disclosed as: | | | |
| Current liabilities | **$ 157.6** | $ 159.7 | $ 150.5 |
| Non-current liabilities | **415.9** | 405.9 | 380.4 |
| Total deferred revenue | **$ 573.5** | $ 565.6 | $ 530.9 |

In addition, other current assets include deferred direct costs in relation to the sale of ESP of $20.8 million as of May 4, 2013 (February 2, 2013 and April 28, 2012: $20.9 million and $21.0 million, respectively). Other assets include the long-term portion of these deferred direct costs of $58.6 million as of May 4, 2013 (February 2, 2013 and April 28, 2012: $56.9 million and $53.3 million, respectively).

| | **13 weeks ended** | |
|---|---|---|
| *(in millions)* | **May 4, 2013** | **April 28, 2012** |
| ESP deferred revenue, beginning of period | **$ 549.7** | $ 511.7 |
| Plans sold | **55.3** | 49.8 |
| Revenue recognized | **(41.6)** | (40.8) |
| ESP deferred revenue, end of period | **$ 563.4** | $ 520.7 |

**10. Warranty reserve**

Warranty reserve for diamond and gemstone guarantee, included in accrued expenses and other current liabilities, and other non-current liabilities, is as follows:

| *(in millions)* | **13 weeks ended May 4, 2013** | **53 weeks ended February 2, 2013** | **13 weeks ended April 28, 2012** |
|---|---|---|---|
| Warranty reserve, beginning of period | **$ 18.5** | $ 15.1 | $ 15.1 |
| Warranty expense | **1.6** | 8.6 | 1.5 |

| | | | |
|---|---|---|---|
| Utilized | **(1.5)** | (5.2) | (1.5) |
| Warranty reserve, end of period | **$ 18.6** | $ 18.5 | $ 15.1 |
| Disclosed as: | | | |
| Current liabilities | **$ 6.8** | $ 6.9 | $ 5.8 |
| Non-current liabilities | **11.8** | 11.6 | 9.3 |
| Total warranty reserve | **$ 18.6** | $ 18.5 | $ 15.1 |

**11. Financial instruments and fair value**

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

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**SIGNET JEWELERS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

***Market risk***

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

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

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

***Liquidity risk***

Signet s objective is to ensure that it has access to, or the ability to generate sufficient cash from either internal or external sources in a timely and cost-effective manner to meet its commitments as they become due and payable. Signet manages liquidity risks as part of its overall risk management policy. Management produces forecasting and budgeting information that is reviewed and monitored by the Board. Cash generated from operations and external financing are the main sources of funding supplementing Signet s resources in meeting liquidity requirements.

The main external source of funding is a $400 million senior unsecured multi-currency five year revolving credit facility expiring May 2016, under which there were no borrowings as of May 4, 2013, February 2, 2013 or April 28, 2012.

***Interest rate risk***

Signet may enter into various interest rate protection agreements in order to limit the impact of movements in interest rates on its cash or borrowings. There were no interest rate protection agreements outstanding at May 4, 2013, February 2, 2013 or April 28, 2012.

***Credit risk and concentrations of credit risk***

Credit risk represents the loss that would be recognized at the reporting date if counterparties failed to perform as contracted. Signet does not anticipate non-performance by counterparties of its financial instruments, except for customer in-house financing receivables as disclosed in Note 8. Signet does not require collateral or other security to support cash investments or financial instruments with credit risk; however, it is Signet s policy to only hold cash and cash equivalent investments and to transact financial instruments with financial institutions with a certain minimum credit rating. Management does not believe Signet is exposed to any significant concentrations of credit risk that arise from cash and cash equivalent investments, derivatives or accounts receivable.

***Derivatives***

Signet enters into forward foreign currency exchange contracts and foreign currency option contracts, principally in US dollars, in order to limit the impact of movements in foreign exchange rates on its forecast foreign currency purchases. The total notional amount of these foreign currency contracts outstanding as of May 4, 2013 was $43.7 million (February 2, 2013 and April 28, 2012: $50.8 million and $57.6 million, respectively). These contracts have been designated as cash flow hedges and will be settled over the next 14 months (February 2, 2013 and

April 28, 2012: 12 months and 13 months, respectively).

Signet enters into forward purchase contracts, option purchase contracts and net-zero collar arrangements for commodities in order to reduce its exposure to significant movements in the price of the underlying precious metal raw material. The total notional amount of commodity contracts outstanding as of May 4, 2013 was $69.2 million (February 2, 2013 and April 28, 2012: $187.6 million and $193.9 million, respectively). These contracts have been designated as cash flow hedges and will be settled over the next 9 months (February 2, 2013 and April 28, 2012: 11 months and 13 months, respectively).

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

For derivatives that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income or loss ( OCI ) and reclassified into earnings in the same period in which the hedged item affects net income or loss. Gains and losses on derivatives that do not qualify for hedge accounting, together with any hedge ineffectiveness, are recognized immediately in other operating income, net.

Foreign currency contracts not designated as cash flow hedges are used to hedge currency flows through Signet s bank accounts to mitigate Signet s exposure to foreign currency exchange risk in its cash and borrowings.

The bank counterparties to the derivative contracts expose Signet to credit-related losses in the event of their non-performance. However, to mitigate that risk, Signet only contracts with counterparties that meet certain minimum requirements under its counterparty risk assessment process. As of May 4, 2013, Signet believes that this credit risk did not materially change the fair value of the foreign currency or commodity contracts.

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

| | | Derivative assets | | |
|---|---|---|---|---|
| | | | Fair value | |
| *(in millions)* | **Balance sheet location** | **May 4, 2013** | **February 2, 2013** | **April 28, 2012** |
| Derivatives designated as hedging instruments: | | | | |
| Foreign currency contracts | Other current assets | **$ 1.1** | $ 1.0 | $ 0.6 |
| Foreign currency contracts | Other assets | | | |
| Commodity contracts | Other current assets | **3.0** | 2.8 | 3.4 |
| Commodity contracts | Other assets | | | |
| Total derivative assets | | **$ 4.1** | $ 3.8 | $ 4.0 |

| | | Derivative liabilities | | |
|---|---|---|---|---|
| | | | Fair value | |
| *(in millions)* | **Balance sheet location** | **May 4, 2013** | **February 2, 2013** | **April 28, 2012** |
| Derivatives designated as hedging instruments: | | | | |
| Foreign currency contracts | Other current liabilities | **$ (0.1)** | | $ (0.4) |
| Foreign currency contracts | Other liabilities | | | |
| Commodity contracts | Other current liabilities | **(0.2)** | (4.6) | (4.1) |
| Commodity contracts | Other liabilities | | | |
| | | **$ (0.3)** | (4.6) | $ (4.5) |
| Derivatives not designated as hedging instruments: | | | | |
| Foreign currency contracts | Other current liabilities | **$ (0.2)** | | $ |
| | | **(0.2)** | | |

| | | | |
|---|---|---|---|
| Total derivative liabilities | **$ (0.5)** | (4.6) | $ (4.5) |

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following tables summarize the effect of derivative instruments on the condensed consolidated income statements:

| (in millions) | Amount of gain (loss) recognized in OCI on derivatives (Effective portion) 13 weeks ended May 4, 2013 | April 28, 2012 | Location of gain (loss) reclassified from accumulated OCI into income (Effective portion) | Amount of gain (loss) reclassified from accumulated OCI into income (Effective portion) 13 weeks ended May 4, 2013 | April 28, 2012 |
|---|---|---|---|---|---|
| Derivatives in cash flow hedging relationships: | | | | | |
| Foreign currency contracts | **$ 0.5** | $ (0.8) | Cost of sales | **$ 0.2** | $ 0.1 |
| Commodity contracts | **(18.0)** | (12.1) | Cost of sales | **0.8** | 8.5 |
| Total | **$ (17.5)** | $ (12.9) | | **$ 1.0** | $ 8.6 |

| (in millions) | Location of gain (loss) recognized in income on derivatives | Amount of gain (loss) recognized in income on derivatives 13 weeks ended May 4, 2013 | April 28, 2012 |
|---|---|---|---|
| Derivatives not designated as hedging instruments: | | | |
| Foreign currency contracts | Other operating income, net | **$ (0.2)** | $ |
| Total | | **$ (0.2)** | $ |

The $18.0 million loss recognized in OCI on derivative instruments designated in cash flow hedging relationships during the 13 weeks ended May 4, 2013 includes $19.6 million of losses related to the change in fair value of forward purchase contracts the Company terminated prior to contract maturity. As of May 4, 2013, losses totaling $19.3 million have been recorded in accumulated OCI for commodity derivative contracts designated in cash flow hedging relationships, including $22.0 million related to the forward purchase contracts terminated during the first quarter of Fiscal 2014. Net losses are recognized in the income statement in the same period and on the same line in which the underlying forecasted transaction affects net income or loss.

***Fair value***

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

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

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

Level 3 unobservable inputs that are not corroborated by market data

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**(Unaudited)**