Card Factory

Annual Report & Accounts

2017

Company Overview

Welcome to

Card Factory

The UK's leading specialist retailer of greeting cards, dressings and gifts

Card Factory focuses on the value and mid-market segments of the UK's large and resilient greeting cards market, and also offers a wide range of other quality products, including small gifts and gift dressings, at affordable prices.

The Group principally operates through its nationwide chain of over 850 Card Factory stores, as well as through its online offerings: www.gettingpersonal.co.uk and www.cardfactory.co.uk.

Card Factory commenced operations in 1997 with just one store and has expanded its store estate primarily through organic growth into a market-leading value retailer with a nationwide presence.

The Group's stores are in a wide range of locations including on high streets in small towns through to major cities, shopping centre developments, out-of-town retail parks and factory outlet centres.

Since 2005, Card Factory has developed a vertically integrated business model with an in-house design team, an in-house printing facility and central warehousing capacity of over 360,000 sq. ft. This model differentiates the Group from its competitors by significantly reducing costs and adding value to customers in terms of both price and quality.

The Group's clear strategy is focused on four pillars of growth:

Four pillars of growth

Like-for-like sales growth	New store roll out
Business efficiencies	Online development

Consistently strong cash generation and shareholder returns

GROUP REVENUE

£398.2m Increase of +4.3%

NET NEW STORE OPENINGS

51 Total store estate 865

LIKE-FOR-LIKE STORE SALES[1]

+0.4% Positive LFLs every year since formation

ONLINE REVENUE

£19.3m FY16: £19.2m

UNDERLYING EBITDA[2]

£98.5m Increase of +3.8%

UNDERLYING EBITDA MARGIN

24.7% FY16: 24.9%

UNDERLYING PROFIT BEFORE TAX

£85.1m FY16: £82.0m

STATUTORY PROFIT BEFORE TAX[3]

£82.8m FY16: £83.7m

LEVERAGE[4]

1.38x FY16: 1.30x

TOTAL ORDINARY DIVIDEND[5]

9.1p Increase of 7.1%

SPECIAL DIVIDEND

15.0p FY16: 15.0p

Notes
1. See page 8 for definition of like-for-like sales.
2. As defined in note 5 to the financial statements on page 97.
3. See note 3 to the financial statements on page 96 for details of non-underlying items.
4. Leverage is calculated as the ratio of net debt to underlying EBITDA for the previous 12 months.
5. Including recommended final dividend of 6.3p, subject to AGM approval.

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Market Overview

Introduction

The revenue generated from the physical store network represents c95% of Group revenue and can be analysed into three principal areas:

Single cards

Single cards comprise individual cards for everyday occasions (eg birthdays, anniversaries, weddings, thank you, get well soon, good luck, congratulations, sympathy and new baby cards) and seasonal occasions (eg Christmas, Mother’s Day, Father’s Day, Valentine’s Day, Easter, thank you teacher, graduation and exam congratulations). Within the singles segment of the market, approximately 2.0% by volume relates to personalised physical cards sold online, with an element of personalisation as part of the purchase (eg to add the recipient’s name or a photograph).

Non-card items

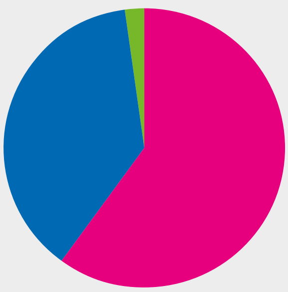
‘Non-card’ refers to a wide variety of adjacent product categories that customers have a high propensity to purchase on the same occasions as greeting cards, including:

- gift dressings (eg gift wrap, gift bags, gift boxes, gift tags, bows and ribbons);
- small gifts (eg soft toys, ceramics, glassware, candles, picture frames, homewares);
- party products (eg balloons, banners, badges and candles); and
- other non-card products (eg calendars, diaries, stamps).

Christmas boxed cards

Christmas boxed cards are boxes of multiple cards purchased at Christmas, typically sent to a wider group of relatives, friends and colleagues and are often associated with a charity.

Share of FY17 revenue



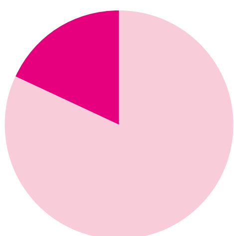
Single cards
55.3%

Non-card
42.3%

Christmas boxed cards
2.4%

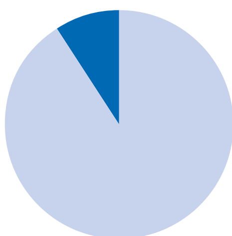
Estimated Card Factory market share by value

Single cards
17.9%



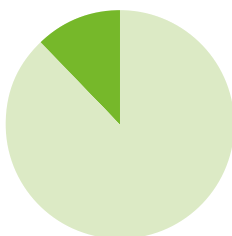
£1.4 billion UK market value

Non-card items
less than 10%



£2 billion UK market value

Christmas boxed cards
12.0%



£0.1 billion UK market value

Note: Card Factory value share excludes online and is based on OC&C estimate of market size in 2015.

Market trends

There is an ingrained culture of sending greeting cards in the UK, with estimates suggesting an average of approximately 30 cards sent per adult each year, of which on average approximately 20 are single greeting cards.

Card purchasing is occasion-driven, focused around key events (eg birthdays, anniversaries and seasons such as Christmas). A person's age, gender and stage of life are major drivers of their propensity to purchase greeting cards, with purchasing levels significantly higher in older consumers and those with families. The evidence suggests that card purchasing behaviour is broadly stable within generations which, with both a growing and ageing UK population, is expected to help support future card purchasing levels in the UK.

Market growth rates

The overall card market has proved to be robust and resilient throughout the past decade with steady consistent annual growth in value.

Volumes in the larger, core singles market have been broadly flat during this period, with only a very slight shift to personalised single cards purchased online notwithstanding very significant television advertising spend by the major players in this established market niche.

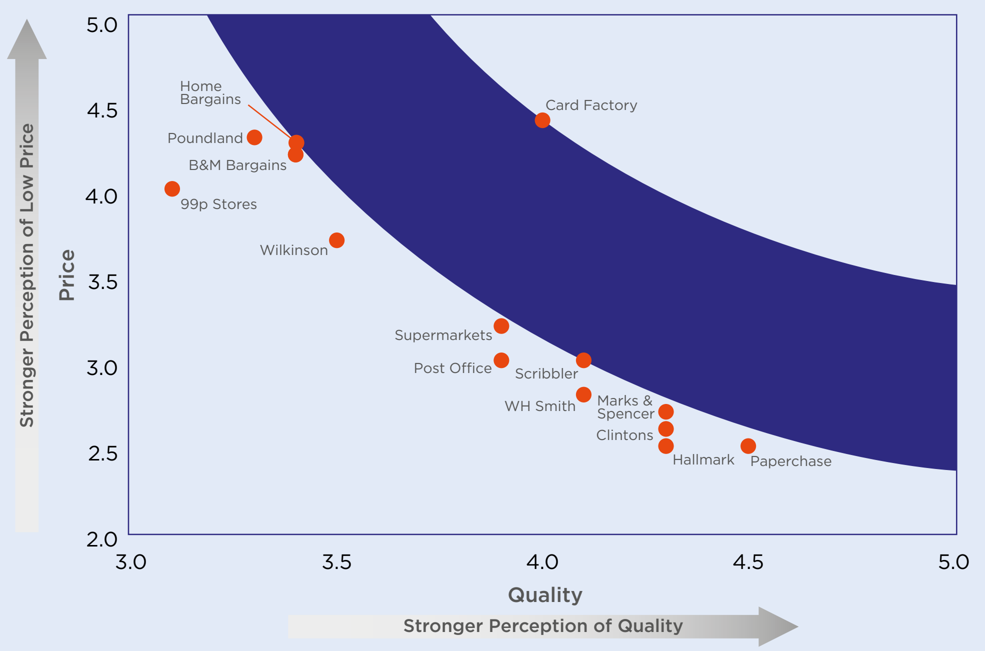
The small Christmas boxed cards segment of the market has declined over recent years and this is thought to be due, in part, to significant increases in stamp prices over the period and lower levels of emotional attachment to Christmas boxed cards than to other greeting cards.

Competitive environment

The greeting cards market is highly fragmented, with a wide range of retailers selling greeting cards, including:

- Specialist chains: Represent a destination location for greeting cards (eg Card Factory, Clintons, Hallmark, Paperchase, Scribbler and Cards Galore);
- Grocers: Primarily capture convenience and distressed purchases (eg ASDA, Tesco and Sainsbury's); and
- Others: Including generalists (eg WH Smith and M&S), stationers, discount chains (eg Poundland, Home Bargains and Wilkinsons), the Post Office and hundreds of small independent retailers.

Consumer Perception



Source: OC&C Online Consumer Survey (March 2017)

OC&C Retail Proposition Index

December 2016

WINNER
VALUE FOR MONEY

1	**Card Factory**
2	Aldi
3	Farm Foods
4	Lidl
5	eBay
6	Poundland
7	99p stores
8	Amazon
9	Iceland
10	Home Bargains

WINNER
LOW PRICES

1	**Card Factory**
2	99p Stores
3	Poundland
4	Primark
5	Poundworld
6	Aldi
7	Farm Foods
8	Lidl
9	Home Bargains
10	B&M Bargains

Business Model

Card Factory operates a unique vertically integrated business model which comprises design, sourcing, printing, warehousing, distribution, a large physical store network and an online presence.

The Group has developed and strengthened this model since it was first established in 2005, investing over £50m in the process and building significant management expertise in all of these specialist areas, beyond the traditional retail operations.

This deep vertical integration enables the Group to differentiate itself from its competitors by significantly reducing costs and adding value to customers in terms of both price and quality, underpinning the Group's motto:

"Compare the quality, compare the price"

Key competitive strengths

The Directors believe that this unique model provides significant advantages to the Group, including:

- enabling Card Factory to offer its clearly differentiated value proposition of quality products at affordable prices while maintaining strong margins;
- providing Card Factory with control over the quality, design and merchandising of its products, with the ability to act directly on customer preferences;
- exclusivity of design – the vast majority of Card Factory's products are exclusive to Card Factory;
- economies of scale (eg with regard to the size of card print runs) that have been built up over a significant period of time;
- greater security of supply chain and enhanced visibility of stock, allowing the Group to react more dynamically to market trends;
- enhanced financial flexibility through better working capital management;
- benefits from the significant investment in design capabilities (including the artwork and verses required to support the range of designs), production and warehousing infrastructure, people and retail stores;
- a management team with the diverse experience and expertise required to operate a deeply vertically integrated retail business as opposed to a pure retail model; and
- an integrated business model that would involve significant execution risk to replicate.

1997
OPENED FIRST STORE IN WAKEFIELD, YORKSHIRE

2003
ACQUIRED WAREHOUSE AND DISTRIBUTION FACILITY

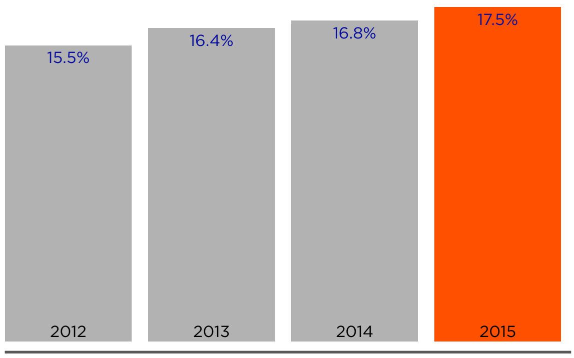
2005
ACQUIRED DESIGN STUDIO

2009
ACQUIRED PRINT FACILITY 'PRINTCRAFT'

Card Factory has consistently and significantly grown its share of the UK greetings card market since formation in 1997. Based on the latest available market data from OC&C Strategy Consultants ('OC&C') for the 2015 calendar year, Card Factory is the market leader in terms of both value (17.5%) and volume (32.6%).

UK Card Market Value Share (%)

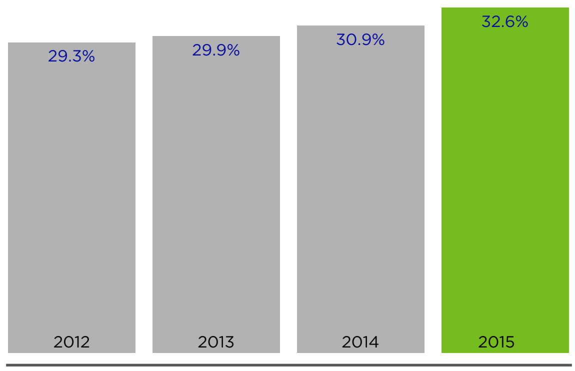
17.5%



Source: OC&C March 2017

UK Card Market Volume Share (%)

32.6%

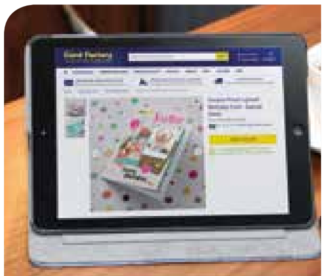


Source: OC&C March 2017

2011
ACQUIRED GETTING PERSONAL; RELOCATED AND EXPANDED PRINTCRAFT

2013
OPENED NEW HEAD OFFICE

2014
FLOTATION ON THE LONDON STOCK EXCHANGE



2015
RELAUNCHED NEW CARD FACTORY WEBSITE

Business Model continued

Design

- Strong team built gradually since 2005, now designing a large proportion of Card Factory store products
- Broad skill set including illustrators, verse writers, packaging specialists, editorial, technical constructors and designers
- Typically redesign over 4,000 cards and hundreds of non-card items each year
- Extensive database of thousands of creative designs, captions and verses

Sourcing

- Dedicated in-house sourcing team covering wide range of non-card products
- Close links with in-house design team to ensure designing and sourcing to an acceptable margin
- Long-standing relationships with many third-party manufacturers, particularly in the Far East
- Internal quality control function supported by third-party supplier audits

Printing

- Existing supplier acquired in 2009 and relocated to larger premises in 2011
- Well-invested, scalable facility based in Shipley, Yorkshire with limited further expansion capex
- Currently producing over 200 million cards per annum for Card Factory store network
- Strategically positioned to grow capacity to c400 million cards in line with growth in anticipated store roll out and further share gains

Warehousing

- National distribution centre based in Wakefield, Yorkshire
- Over 360,000 sq ft of storage space
- Supplemented by other local, third-party storage, principally for seasonal peak requirements
- Supported by Microsoft AX ERP system implemented in 2009

Distribution

- Outbound distribution performed by third-party logistic partners
- Small fleet of own vehicles for specific deliveries
- Frequent store replenishment to support high store sales densities
- Limited proportion of products shipped direct to store (eg helium gas canisters, postage stamps)

Store network

- Nationwide network of over 850 stores, principally built from individual openings rather than acquisition
- High quality estate – less than 1% of portfolio loss-making at store contribution level
- Versatile, high returns model operating successfully in a wide range of locations and demographic areas
- Detailed target location database supports estimated total estate of up to 1,200 stores in the UK and Republic of Ireland

Merchandising

- Extensive range of card and non-card products
- Highly differentiated retail proposition offering quality products at a fraction of the price of the Group's principal competitors
- Transparent pricing builds trust with customers
- Consistently high net promoter scores

Online

- Complementary area of growth
- Relatively new entrant in a small but fast-growing market niche
- Market entry through acquisition of Getting Personal in 2011 – predominantly personalised gifts
- Relaunch of Card Factory transactional website in 2015

Our Four Pillar Strategy

Like-for-like sales growth

The Group has a strong track record of consistently delivering like-for-like sales growth and growing average basket value ('ABV'). The Board's strategy is to continue this track record, whilst maintaining the core value proposition, by:

- continuing to improve overall product quality and range for both card and non-card products developed by its established design team;
- further developing the Group's in-store merchandising and pricing architecture to increase the number of items sold per basket and/or to encourage customers to trade up to higher priced items; and
- leveraging our electronic point of sale ('EPOS') system to provide more granular sales data for analysis of customer purchasing trends, thereby assisting in increasing items sold per basket, for example through identifying and stocking non-card products that are more likely to be purchased alongside greeting cards.

The Group also expects to benefit from ongoing revenue growth as recent store openings continue to grow their share of the local market in line with the typical maturity curve of four to six years. At the point of maturity, annual sales in individual stores are typically 30% to 40% higher than in the first year post-opening.

Like-for-like sales definition

The Group defines Card Factory store like-for-like ('LFL') sales as the year-on-year growth in sales for Card Factory stores which have been opened for a full year, calculated on a calendar week basis. The reported LFL sales figure excludes sales:

- made via the Card Factory website, www.cardfactory.co.uk;
- made via the separately branded personalised card and gift website, www.gettingpersonal.co.uk;
- by Printcraft, the Group's printing division, to external third-party customers; and
- from stores closed for all or part of the relevant period (or the prior year comparable period).

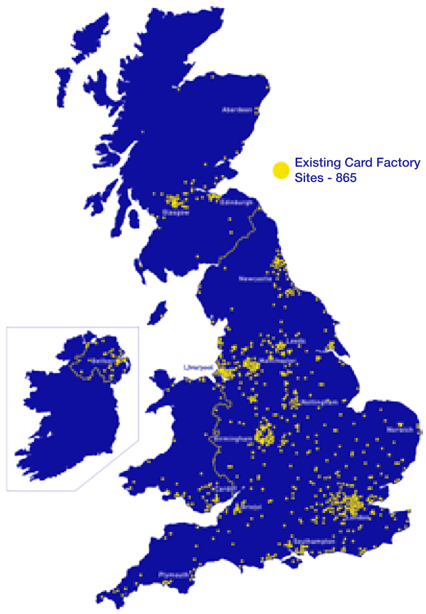
Card Factory stores are included in the reported LFL figures for each week of trading completed after having been open for a full 52 weeks, as compared to the same relevant week in the previous period.

Total Card Factory LFLs are reported including the impact of the Card Factory website.

The Group defines Getting Personal LFL sales as the year-on-year growth in sales for the Getting Personal website, calculated on a calendar week basis.

New store roll out

The Group intends to expand its store portfolio organically from its existing store estate to up to 1,200 stores in total (a figure supported by external analysis undertaken by OC&C), including up to approximately 100 potential new stores in the Republic of Ireland. The Board intends to continue this future roll out at a similar rate to the Group's historical rate of organic store openings of c50 net new stores per annum.



Target locations for all of these new stores have already been identified and these locations, together with other potential locations, are kept under regular review. Although these new opportunities are expected to have, on average, lower sales potential than the average of the Group's existing store locations, primarily due to the new stores typically being in lower footfall locations than the average of the Group's existing stores, the Directors believe these new stores will nevertheless enhance EBITDA and will continue the trend of delivering a strong return on capital.

Management undertakes a formalised appraisal process for new location opportunities which includes an assessment of potential store sales and profitability, the results of which are stored in a database of new store opportunities which is continually updated and refreshed.

Business efficiencies

Card Factory has a long-established culture of strong cost control and a consistent track record of delivering best-in-class margins. The Board will continue to pursue business efficiency initiatives to further improve the business and its competitive position.

The Group aims to maintain and, where possible, enhance its gross margins through continuous improvement in the supply chain process. In particular, the Group intends to continue to diversify its range of suppliers (to reduce reliance on key suppliers) and further develop direct sourcing relationships with manufacturers.

Similarly, the Group aims to protect and, where possible, enhance operating margins through the continued strong control of operating costs, including: the management of overall employee costs; negotiation of improved rental terms upon the expiry and renewal of existing leases; and tight control over other costs and expenses.

As the Group continues to grow like-for-like sales and proceed with its new store roll out, the business will continue to leverage the growing economies of scale when negotiating contracts with suppliers and manufacturers.

Since 2010, in anticipation of planned long-term growth, the Group has invested heavily in its infrastructure, including:

- an EPOS system to provide more granular sales data;
- expansion of Printcraft as part of a 10 year capital expenditure plan following its relocation to larger premises in 2011;
- the relocation of Getting Personal's personalised gift production facility to Printcraft in 2013; and
- investment in the Central Distribution Centre and Group head office completed in 2013.

The Group will continue to leverage the benefits of these recent significant investments over the medium term.

Online development

The Group's online operations are currently focused on Getting Personal, acquired in 2011. Sales of personalised gifts represent the vast majority of the revenue generated from its website www.gettingpersonal.co.uk.

The Directors believe there are opportunities to further grow the Group's sales in this complementary segment through further product development (eg changes to existing product ranges and new product ranges), enhancements to the website (including the mobile offering) and improved marketing.

While the personalised online segment of the greeting cards market remains small, according to OC&C representing just 5.3% of the total single cards market, by value, and 2.0%, by volume, in 2015, the Directors believe it provides an opportunity for growth.

During 2015 the Card Factory transactional website was relaunched on the responsive technology platform developed by the team at Getting Personal. We continue to enhance, test and evolve our online proposition and product offering on this second site and have introduced a wider selection of personalised cards and gifts, including a small range of photo upload products.

The Directors believe that the Group is well placed to capture a greater share of this growing segment of the market.

Chairman's Statement

"The Board is excited by the opportunities, both strategic and operational, that Karen has identified to further improve an already very successful business."

Geoff Cooper
Chairman

Card Factory has had another good year, once again delivering a record performance in terms of both revenue and underlying profit generation. Whilst this year marks the third anniversary of the IPO, it is also the twentieth anniversary of the Company's formation. Having started life as a local family owned discounter, the Group has developed into a high margin, national, value retailer with over 850 stores, two transactional websites and a position of clear market leadership. During this period the Group has demonstrated an ability to grow sales and profit, increase market share and generate significant returns for shareholders. The Board's objective is to continue to build on this strong track record in the years ahead.

The Group continues to focus on its successful four pillar strategy, underpinned by its unique vertically integrated model which provides significant competitive advantage, particularly in challenging retail environments, as seen in 2016. In her report that accompanies these results, our Chief Executive Officer, Karen Hubbard, provides an update on the Group's current strategic priorities. The Board is excited by the opportunities, both strategic and operational, that Karen has identified to further improve an already very successful business.

In January we announced that our Chief Financial Officer, Darren Bryant, intended to retire after eight years with the Group. Throughout this period Darren has contributed significantly to the strategic development and sustained growth of Card Factory. As our CFO, he successfully steered the Company through its 2014 IPO and its first three years as a public company. After such an intense period of activity we understand his wish to retire. We are extremely grateful for all he has done and, when he steps down, it will be with our very best wishes for the future. Darren has agreed to continue in his role until a successor has been identified and through a transitional period. The search for that successor is well advanced and a further announcement will be made in due course.

The Board has increased the total ordinary dividend for the year by 7.1% to 9.1p per share, reflecting our strong cash generation and confidence in the future prospects of the business. This is in addition to the 15.0p per share special dividend paid in November 2016. In line with our stated capital policy, we currently expect to make further returns of surplus cash to shareholders towards the end of the current financial year.

Geoff Cooper
Chairman
27 March 2017

"The Group has demonstrated an ability to grow sales and profit, increase market share and generate significant returns for shareholders."

Chief Executive Officer's Review

"We are trusted to be there to help our customers celebrate their life moments and milestone events."

Karen Hubbard
Chief Executive Officer

Overview

I am pleased to report another record year at Card Factory in terms of both sales and underlying profit performance. Throughout the year we have continued to provide a compelling offer with extensive ranges of designs across our cards, party products, dressings and gifts. Our ranges continue to resonate well with our customers who recognise the quality and value that we offer.

We have also strengthened and innovated our offering, adding line extensions in both card and non-card and further successful seasonal ranges. During 2016 our Mother's Day offer saw the single highest sales day in Card Factory history. Our store and online offering has enabled us to provide great value for our customers who see us as their retailer of choice for such important events.

Since joining, I have undertaken a detailed strategic review of the business. Having done so, I am confident that our existing, proven four pillar strategy is the right one to ensure future business growth.

Over the past year, it is this established strategy that allowed us to deliver a good performance in a challenging retail market. Our LFL sales remained positive and our business continued to deliver best-in-class margins whilst remaining highly cash generative, allowing another 15p special dividend to be paid to shareholders.

However, with the benefit of fresh eyes, I believe there are additional opportunities to further strengthen the business for the longer term.

We are trusted to be there to help our customers celebrate their life moments and milestone events. Our business model, with its integrated supply chain, allows us to provide an unrivalled offer to our customers. In particular, we have the widest range of high quality cards, with innovative designs and styles, all available at compelling prices. Together, it means that our customers can find quality cards to say exactly what they wish to say at a price that is affordable for them.

Market update

The latest independent research published by OC&C in March 2017 has confirmed that a number of important and established market trends that were highlighted at the time of our IPO in 2014 remain as valid today:

- the market for single greeting cards is well established, robust and resilient; it continues to show modest growth in value terms and remains stable in terms of volume, supported by a growing and ageing population – this trend in volume and value is forecast to continue;
- the sending of physical greeting cards is deeply ingrained in UK culture with high levels of emotional attachment to card purchasing;

- there has been no meaningful shift in the use of digital greetings as a replacement for the physical card;
- the online personalised card segment remains an attractive niche, not yet fully targeted by Card Factory;
- Card Factory has maintained significant clear blue water versus its competitors in terms of the consumer's perception of value; and
- Card Factory continues to grow market share in terms of both volume and value – continuing a consistent trend seen since the Company's formation twenty years ago.

Strategic performance

We continue to make good progress against our four established strategic pillars:

1. LFL sales growth

Card Factory stores delivered positive like-for-like growth in the year of +0.4% notwithstanding a tough comparative (FY16: +2.8%) and the lower levels of footfall experienced by the general retail market. Including cardfactory.co.uk, LFL sales growth from the Card Factory fascia was +0.6% (FY16: +3.0%). However, I believe that we can do better and it was pleasing to deliver a good Christmas trading performance with cumulative like-for-like sales growth for the fourth quarter returning to the expected historic range of +1% to +3%.

In card, we continued to focus on introducing new styles and designs, whilst maintaining our value offer – customers can still buy high quality cards at prices that are up to two-thirds lower than that charged for similar products by our principal competitors.

In non-card, our design and buying teams developed a number of new ranges, including our successful 'Pugs' range, a broader selection of wedding gifts, innovation in gift bags and boxes and new candle designs. This design and innovation has been recognised and well received by our customers. For the year as a whole, the proportion of sales from non-card items increased to 42.3% (FY16: 41.3%). This in part was as a result of our EPOS system acting as an enabler to drive average transaction value to help offset downward pressure on footfall.

Another driver of Card Factory fascia LFL growth was our website, cardfactory.co.uk. We have made good progress with this segment of the business, as is outlined further below within my commentary on online development.

Looking forward, we intend to maximise LFL growth through: (i) ensuring we leverage our Design Studio to continue improving the designs of our card ranges and innovation in our non-card ranges; and (ii) focusing on retail disciplines, in particular ensuring improved availability, better space and merchandising planning, and a greater focus on customer service and operational standards.

2. New store roll out

Our internal property team has enabled us to continue to open and operate new stores efficiently and in a cost effective manner and we have been successful in locations where we were previously unrepresented.

We opened 51 net new stores in FY17 across a variety of retail locations including high streets, shopping centres and retail parks, providing the opportunity for more customers to experience us in new markets. In total we had 865 stores at the end of the financial year (31 January 2016: 814). The quality of our estate is quite remarkable: of our stores open for over one year, only five (less than 1% of the estate) were loss making and their aggregate loss was only £0.1m at store contribution level.

Looking forward, we continue to have a strong pipeline of potential new stores, including a number of opportunities in retail parks, a segment of the market where we are seeking to increase our presence. We expect to add a further 50 net new stores to our estate in the current financial year.

We continue to monitor developments across our competitors and the broader retail space to ensure that we are well positioned to take advantage of property opportunities that may materialise.

I believe that there is a significant opportunity in the Republic of Ireland. We have recently completed a number of detailed studies of the market and its dynamics; we think our offer will be seen to be very attractive to the potential customer base. A further update will be provided at the interim results.

Across both geographies, we continue to target a cost-effective estate of 1,200 stores, across high streets, shopping centres and retail parks, capable of driving strong returns whilst maintaining the quality inherent in the Card Factory brand.

Chief Executive Officer's Review continued

3. Business efficiencies

The Group has consistently delivered one of the best operating profit margins in the retail sector and continuing to achieve this, whilst offering our customers value, means that we have to maintain the most efficient and lowest cost base.

As referred to within our Chief Financial Officer's Review and previous announcements, we have for some time anticipated further significant cost pressures, in particular foreign exchange and wage rates. Whilst our competitors are facing the same challenges, we have a competitive advantage by virtue of our vertically integrated model and resulting superior operating margins. Our value proposition and our response to external challenges should present an opportunity to further strengthen our market position if we execute well. We will remain conscious of our customers' sensitivity to price points, ensuring that we are delivering the right customer offer to retain and grow our market share.

We have a defined business efficiencies programme in place to help mitigate, where possible and appropriate, the impact of our cost headwinds. We have already started to see initial benefits of recent investment in our buying function and loss prevention team. Our LED conversion programme is also progressing well, further reducing our cost to operate.

Looking ahead, I see further business efficiency opportunities including: lowering the cost of sales through better buying; driving lean fulfilment in stores through supply chain efficiencies; and maintaining operational productivity in stores through simplicity of operations. We have commenced a number of initiatives focused on these areas; I will provide a more detailed report on progress in due course.

4. Online development

We have two online sites – cardfactory.co.uk and gettingpersonal.co.uk.

We see cardfactory.co.uk as offering a Card Factory customer a compelling range of personalised cards and gifts with the same focus on quality and value as are found in our stores. We are also evaluating options for including more non-personalised products on the site, including balloons and party products. We believe there are growth opportunities for cardfactory.co.uk and have invested in our talent and renewed the focus on the offer to deliver profitable sales growth. Sales growth of c50% in FY17 for cardfactory.co.uk was solid despite strong prior year comparatives (FY16: c500%). We are aiming to maintain this positive growth in FY18 through leveraging this approach.

We continue to have strong aspirations for gettingpersonal.co.uk, which is focused on personalised gifts. Whilst this remains a relatively small and profitable part of the Group in terms of both sales and profit contribution, its financial performance in the year was disappointing with sales down by 2.6%. Given lower conversion rates, investment in the management structure and some one-off costs, the EBITDA performance of £2.8m (FY16: £4.1m) was below our expectations, having grown by almost 150% over the previous 24 months.

We have made some significant changes in this business during the year, including recruiting a new senior team, investing in online talent and renewing the focus on product and the customer experience.

Whilst we are early in the turnaround phase for gettingpersonal.co.uk, we are encouraged by the increased site visitors and conversion rates with customers responding positively to the innovation in new product ranges. I am optimistic that we can make significant progress with this business in terms of both sales and profit contribution to the Group.

Looking ahead, the key focus areas across both online channels will be implementing a new and better digital marketing approach; improving the look and feel of our websites; and further innovating our personalised product ranges.

Other strategic priorities

Alongside a continued focus on these four strategic pillars, my strategic review identified opportunities to further strengthen our business for all stakeholders, and to enhance future shareholder returns, with a focus on three areas – further targeted investment, greater engagement with colleagues, and listening even more to our customers.

Ongoing investment to drive shareholder value

As highlighted a year ago, in order to optimise the benefits of our existing EPOS system the Board commissioned an independent detailed review of a potential software upgrade to enable further system improvements and efficiencies to be delivered. This review was completed during the year and we concluded that greater value could be driven by a switch to an alternative software provider, resulting in a non-cash one-off charge of £1.1m. All remaining non-EPOS stores (c300 stores in total) will be converted to the new EPOS system during FY18, allowing the business to introduce contactless payments and the sale of third party gift cards. We will then upgrade the existing EPOS stores to the new software package in FY19. Having the entire estate operating on this common platform will leave us well placed to fully leverage future growth opportunities from this investment over the medium term.

As mentioned we have also invested in our online businesses, marketing team and various head office functions to ensure that we have the right infrastructure, talent and capacity to drive strategic priorities and growth.

The Board will continue to assess further incremental investment across the Group on a case by case basis, taking into account the scale, likelihood and timing of anticipated returns. This ongoing, controlled investment will ensure that we continue to deliver on the four pillar strategy and deliver strong returns to our shareholders over the medium term.

Engagement with our colleagues

I have visited many of our stores over the past year and I have seen first-hand how much our colleagues care about and are committed to serving our customers. We all recognise that the success of the Card Factory business is down to the ongoing commitment and contribution from our colleagues. Our customer facing teams hold a key relationship with our customers and, through them, we can continue to be the highly successful retailer that we have been in the past.

We have undertaken our first colleague engagement survey and throughout the past 6 months we have been actively listening to our colleagues. They are proud to work in a business with such a strong growth story, but in some important areas we can do better for them. We have too many gaps in our store management teams, our employee turnover is too high; and we can offer better training to improve loyalty. Each of these issues are already being addressed and will deliver noticeable returns over the medium term.

To support opportunities in this area, we have recruited a new Group HR Director to ensure that we remain focused on giving our colleagues across the business - in the design studio, our print works, stores, distribution and support centres - a great place to work, and on building on our culture to ensure further success.

Listening to our customers

Throughout the year we have ensured that we have listened to our customers and they have shared the areas where they feel we are unrivalled and where they think we could do even more. We remain a brand that is seen to provide great value for money and can be relied upon to have the best prices across the entirety of our range. They appreciate our wide range of cards and continue to be pleasantly surprised at the quality for such value. We have now introduced a number of ranges that we previously did not offer and our customers were delighted with these new ranges which have subsequently become strong sellers for us.

However, we can also do things better. We can improve speed of service; make our shops more convenient to shop; and generally improve the shopping experience. A number of these will be addressed through our revised EPOS roll out and we are also completing work on store planning and stocking.

Summary & outlook

I remain confident in the resilience and robustness of the card industry itself and the ability for Card Factory to continue to excel. Card Factory has and will continue to gain share on the basis of our highly attractive and differentiated quality and value proposition. We will also continue to increase the mix of both our non-card products and online sales as we further improve our offering in these areas. This year we will continue to focus on our areas of differentiation and on the additional opportunities that I have identified, and in particular to deliver in the areas that will enable us to be efficient into the future, recognising the external pressures faced by all retailers in the current environment.

Chief Executive Officer's Review continued

We have a strong brand and recognition as a market leader in our area of expertise. Our talented teams across the business continue to deliver for our customers and we continue to invest for the future. We have the capabilities and strategy to deliver going forward which will enable us to offer our customers the quality products at a great price that they have become accustomed to from us.

Whilst the new financial year is only two months old and seasonal sales patterns are distorted by Easter and Mother's Day falling three weeks later than last year, we are pleased with everyday like-for-like sales in the year to date. I look forward to providing a further trading update at our AGM in May.

Karen Hubbard
Chief Executive Officer
27 March 2017

"We have the widest range of high quality cards, with innovative designs and styles, all available at compelling prices."

"51 net new stores were opened."

Chief Financial Officer's Review

"The Board currently anticipates, subject to trading performance, to make a further return of surplus cash to shareholders in line with our stated policy towards the end of the current financial year."

Darren Bryant
Chief Financial Officer

The 'FY17' accounting period refers to the year ended 31 January 2017 and the comparative period 'FY16' refers to the year ended 31 January 2016.

Revenue

Total Group revenue during the year grew by 4.3% to £398.2m (FY16: £381.6m), driven by growth in the Card Factory store network:

	FY17 £'m	FY16 £'m	Increase/ (Decrease)
Card Factory	**380.5**	363.4	+4.7%
Getting Personal	**17.7**	18.2	-2.6%
Group	**398.2**	381.6	+4.3%

The Group's established new store roll out programme continues to be an important driver of sales growth for the business. In the year under review, 51 net new stores were opened (FY16: 50), bringing the total estate to 865 stores at the year end.

Like-for-like ('LFL') sales growth was broken down as follows by retail channels:

	FY17	FY16
Card Factory stores	**+0.4%**	+2.8%
Card Factory online	**+49.4%**	+497.7%
Card Factory combined	**+0.6%**	+3.0%
Getting Personal	**-2.4%**	+17.5%
Total online combined	**+0.5%**	+22.8%

As expected, the ongoing improvements to the depth, quality and merchandising of our non-card product offering led to a continuation of the marginal mix shift to this category, a trend we have seen for a number of years. The full year mix for FY17 was 55.3% single cards (FY16: 56.4%), 42.3% non-card (FY16: 41.3%) and 2.4% Christmas Box Cards (FY16: 2.3%). We expect this trend to continue as we further improve our non-card offering.

Revenue from the Card Factory transactional website grew by approximately 50% to £1.6m following strong growth of approximately 500% in FY16.

As previously announced, following a period of sustained strong growth in both sales and profit in recent years, FY17 performance at Getting Personal was disappointing. We continue to target double digit revenue growth at Getting Personal in the year ahead. See CEO's report for further details.

Operating costs

Cost of sales and operating expenses continued to be well controlled and can be analysed as follows (excluding non-underlying items detailed below):

	FY17		FY16		Increase/
	£'m	% of revenue	£'m	% of revenue	(Decrease)
Cost of goods sold	**119.7**	**30.1%**	120.1	31.5%	(0.3)%
Store wages	**68.9**	**17.3%**	62.2	16.3%	10.8%
Store property costs	**64.8**	**16.3%**	60.3	15.8%	7.5%
Other direct expenses	**18.2**	**4.5%**	16.6	4.3%	9.1%
Cost of sales	**271.6**	**68.2%**	259.2	67.9%	4.8%
Operating expenses*	**28.1**	**7.1%**	27.4	7.2%	2.3%

* excluding depreciation and amortisation.

The overall ratio of cost of sales to revenue was broadly flat at 68.2% on an underlying basis (FY16: 67.9%) with the following movements in sub-categories:

- Cost of goods sold: principally comprises cost of raw materials, production costs, finished goods purchased from third party suppliers, import duty, freight costs, carriage costs and warehouse wages. The reduction in this cost ratio, as also seen in the first half of the year, principally reflects the improvements in underlying product margins, lower average freight rates and the benefit from various business efficiency initiatives, in particular, Loss Prevention, better stock management and other supply chain efficiencies. The lower sales contribution of Getting Personal, a lower margin business, also benefited the overall Group gross margin percentage. As a result of our hedging policy, the weighted average rate expensed to the profit and loss account in FY17 was similar to that recognised in FY16. As highlighted previously and discussed in more detail below, whilst our existing hedges provide a degree of protection, foreign exchange margin pressure remains an area of concern for FY18 given the depreciation of Sterling versus the US Dollar.
- Store wages: includes wages and salaries (including bonuses) for store based staff, together with National Insurance, pension contributions, overtime, holiday and sick pay. As reported with the interim results, this cost has increased as expected as new stores have been opened and pay increases have been awarded, including the impact of the new National Living Wage.
- Store property costs: consists principally of store rents (net of rental incentives), business rates and service charges. This cost has increased in absolute terms as new stores have been opened. As reported at the interim stage, the ratio of store property costs to revenue has also increased slightly, principally as a reflection of lower than anticipated LFL sales performance. A number of the Group's existing stores remain on leases taken out before the recession when the property market was stronger and the Company's covenant was weaker and there remains an opportunity for further savings as these older leases come up for renewal over the coming years. Following the recent business rates review, we expect our annual rates liability to reduce by c£2m per annum with effect from April 2017.
- Other direct expenses: includes store opening costs, store utility costs, waste disposal, store maintenance, point of sale costs and marketing costs. This cost category is largely variable in respect of existing stores and increases with new store openings. The ratio of other direct expenses to revenue has increased slightly from 4.3% to 4.5% with increased online marketing costs and other miscellaneous cost increases being offset by various business efficiency initiatives including our LED conversion programme.

Operating expenses (excluding depreciation and amortisation) include items such as head office remuneration, costs relating to regional and area managers, design studio costs and insurance together with other central overheads and administration costs. The Group has continued to invest in central infrastructure and people in recent years to support the ongoing planned growth; we expect this trend to continue. Total operating expenses (excluding depreciation and amortisation) increased by 2.3% to £28.1m (FY16: £27.4m), although reduced slightly as a percentage of revenue.

Depreciation and amortisation increased from £9.7m to £10.7m reflecting the continuing capital investment in the Group.

Foreign exchange

With approximately half of the Group's annual cost of goods sold expense relating to products sourced in US Dollars, the Group takes a prudent but flexible approach to hedging the risk of exchange rate fluctuations. The Board adopts the policy of using a combination of vanilla forwards and structured options to hedge this exposure. The Group has used structured options and similar instruments to good effect for a number of years. The Board continues to view such instruments, structured appropriately, to be commercially attractive as part of a balanced portfolio approach to exchange rate management, even if from a technical accounting perspective, they may not be deemed to meet the IFRS hedge effectiveness test.

At the date of this announcement, cover is in place for 100% of the anticipated FY18 US Dollar cash requirement at a weighted average rate of c$1.36, lower than the average rate recognised in underlying cost of goods sold in the FY17 income statement of $1.64. Approximately two-thirds of this US Dollar cash requirement for FY18 is guaranteed regardless of the prevailing spot rate with 11% of the anticipated annual requirement under structured options dependent upon Sterling remaining above $1.10 and the balance under structured options dependent upon Sterling remaining above $1.20. All structured options are layered in small tranches (maximum individual trade of $2m per month) with knock-out thresholds tested in the month prior to delivery and then reset. Cover is also in place for approximately 25% of the anticipated FY19 US Dollar cash requirement at a weighted average rate of c$1.36, again through a combination of vanilla forwards and structured options. Further hedging layers will be added for FY19 during the course of the current financial year.

Underlying EBITDA and operating profit

The underlying EBITDA margin of the Group remained broadly flat at 24.7% (FY16: 24.9%), reflecting certain cost increases offset by the benefits of various business efficiency initiatives:

	FY17 £'m	FY16 £'m	Increase/ (Decrease)
Underlying EBITDA			
Card Factory	**95.7**	90.9	+5.3%
Getting Personal	**2.8**	4.1	-30.4%
Group	**98.5**	95.0	+3.8%
Underlying EBITDA margin			
Card Factory	**25.2%**	25.0%	+0.2ppts
Getting Personal	**16.0%**	22.4%	-6.4ppts
Group	**24.7%**	24.9%	-0.2ppts

The Group's underlying operating margin was also broadly flat at 22.1% (FY16: 22.4%).

Looking forward to FY18, our sector faces well-publicised cost headwinds, in particular foreign exchange. Card Factory has a proven track record of successfully managing such pressures in the past through strong cost control and constant business improvement. A number of business efficiency initiatives are underway and we will continue to pursue other business efficiency projects and cost mitigation initiatives where appropriate.

Given the best-in-class margins generated by our unique vertically integrated model, compared to our principal competitors we believe that we are strategically very well placed to manage this cost pressure over the medium term. The Board is prepared, if necessary, to invest a small element of our best-in-class margins over the short term to ensure our longer term competitive positioning is further strengthened. We are also continuing to invest across the Group, including further improvement of our customer proposition and ongoing investment in our digital and IT capabilities and infrastructure in order to enable the delivery of long-term sustainable growth. For FY18, based on current exchange rates, we anticipate that post mitigation our margins will be approximately 150bps below the levels achieved in FY17 (pre mitigation approximately 300bps), with the impact weighted slightly more to the first half given the phasing of cost trends and the delivery of our various business efficiency initiatives.

Net financing expense

Net financing expense, excluding non-underlying items, decreased by 17.6% to £2.7m (FY16: £3.3m). The FY17 expense benefited from the debt refinancing completed in June 2015 as well as a slightly lower interest rate margin. Net financing expense for FY18 is estimated to be approximately £4m.

Profit before tax

Underlying profit before tax for the financial year amounted to £85.1m (FY16: £82.0m), an increase of 3.8%.

The table below reconciles underlying profit before tax to the statutory profit before tax for both financial years:

	FY17 £'m	FY16 £'m
Underlying profit before tax	**85.1**	82.0
Non-underlying items:		
Cost of sales		
(Loss)/profit on foreign currency derivative financial instruments not designated as a hedge	**(0.6)**	3.9
Operating expenses		
Loss on disposal of redundant EPOS assets	**(0.9)**	–
Accelerated depreciation on EPOS assets	**(0.2)**	–
Other non-underlying operating expenses	**(0.4)**	(0.3)
	(1.5)	(0.3)
Net finance expense		
Refinanced debt issue cost amortisation	**-**	(1.8)
Loss on interest rate derivative financial instruments not designated as a hedge	**(0.2)**	(0.1)
	(0.2)	(1.9)
Statutory profit before tax	**82.8**	83.7

As highlighted in the CEO's review, following an independent detailed review of a potential EPOS software upgrade to enable further system improvements and efficiencies to be delivered, the Board concluded that greater value could be driven by a switch to an alternative software provider, resulting in a non-cash one-off charge of £1.1m.

Further detail on the non-underlying reconciling items is set out in note 3 of the financial statements on page 96.

Tax

The tax charge for the year was 20.7% of profit before tax in line with the prior year (FY16: 20.7%).

Earnings per share

Basic and diluted underlying earnings per share for the year were 19.8p (FY16: 19.1p), an increase of 3.8%. After the non-underlying items described above, basic and diluted underlying earnings per share for the year were 19.3p (FY16: 19.5p), a decrease of 1.1%.

Capital expenditure

Capital expenditure in the year amounted to £10.4m (FY16: £11.6m), including strategic investments in LED conversions (£0.9m) to reduce our annual in-store energy costs and digital print (£1.0m) as we seek to grow our sales and profit from personalised card and gift segment.

The FY17 total was lower than the £12m guidance due to the phasing of capex in relation to Printcraft and EPOS, both of which are expected to reverse in FY18. Taken together with the acceleration of EPOS conversion, the Board anticipates that total capital expenditure in the coming year will amount to approximately £15-16m and then revert to approximately £12m per annum from FY19 in line with previous guidance.

Strong financial position

The Group remains highly cash generative, driven by its strong operating margins, limited working capital absorption and the relatively low capital expenditure requirements of its expansion programme.

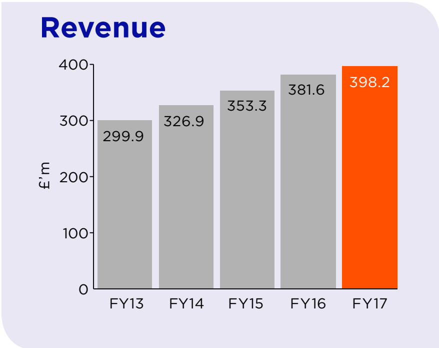
Cash conversion, calculated as operating cashflow (being underlying EBITDA less capex and underlying working capital movements) divided by underlying EBITDA improved significantly to 90.4% (FY16: 81.2%). This improvement reflects working capital improvements and slightly lower capex.

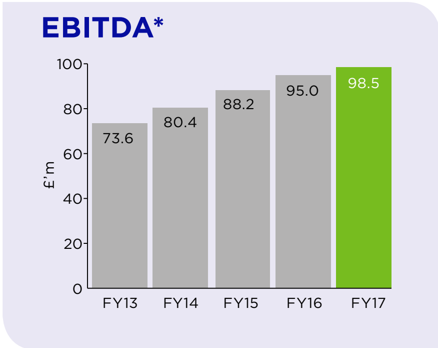
As at 31 January 2017, net debt (excluding debt issue costs of £0.7m) amounted to £135.8m, analysed as follows:

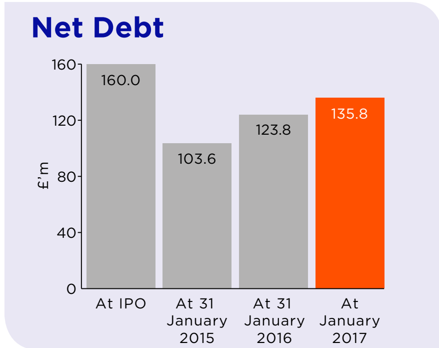
	FY17 £'m	FY16 £'m
Borrowings		
Current liabilities	**8.8**	0.1
Non-current liabilities	**129.3**	134.1
Total borrowings	**138.1**	134.2
Add: debt costs capitalised	**0.7**	0.9
Gross debt	**138.8**	135.1
Less cash	**(3.0)**	(11.3)
Net debt	**135.8**	123.8

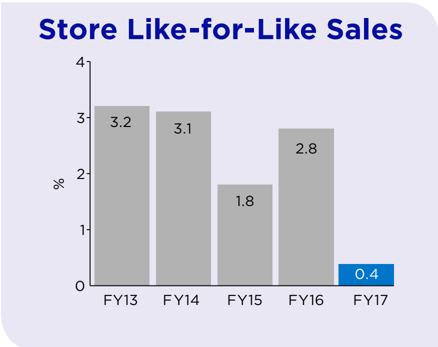
Net debt at the year end represented 1.38 times underlying EBITDA a similar level of leverage to prior year (FY16: 1.30 times), reflecting strong cash generation in the year offset by the payment of the special dividend.

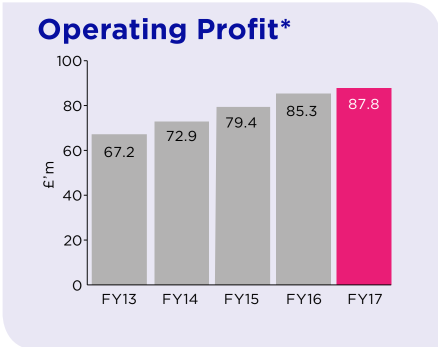
Chief Financial Officer's Review continued

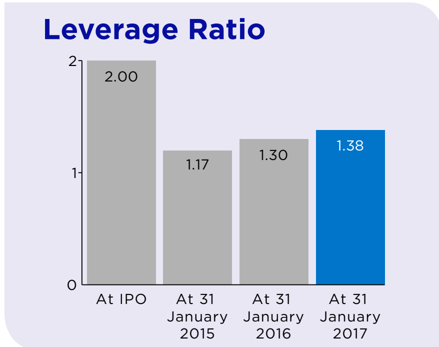












*Shown on an underlying basis

Dividends and capital structure

As stated at the time of the IPO, we expect to maintain a progressive dividend policy which reflects the Company's strong earnings potential and cash generative characteristics, while allowing us to retain sufficient capital to fund ongoing operating requirements and invest in the Company's long term growth plans.

For the year ended 31 January 2017, the Board is recommending an increase in the final ordinary dividend of 5.0% to 6.3p per share (FY16: 6.0p), giving a total ordinary dividend for the year of 9.1p per share, an increase of 7.1% (FY16: 8.5p) and dividend cover of 2.18 times underlying earnings per share.

The final dividend will, subject to shareholders' approval at the Company's Annual General Meeting on 25 May 2017, be paid on 9 June to shareholders on the register on 5 May.

As previously announced, over the medium term the Board expects to maintain leverage broadly in the range of 1.0 to 2.0 times net debt to underlying historic LTM EBITDA. Whilst this leverage ratio will typically vary during the financial year, the Board's current intention is to maintain average leverage around the mid point of this range.

To the extent there is surplus cash within the business, the Board expects to return this to shareholders. The Board will consider the most appropriate method of returning such surplus cash from time to time, taking into account, amongst other things, views of shareholders and the liquidity of the shares.

In line with this strategy, a special dividend of 15.0 pence per share, equating to a return of £51.1m, was paid to shareholders in November. The Board currently anticipates, subject to trading performance, to make a further return of surplus cash to shareholders in line with our stated policy towards the end of the current financial year.

Darren Bryant
Chief Financial Officer
27 March 2017

Principal Risks and Uncertainties

Good risk management is an integral part of planning and achieving the Group's strategic objectives. The Board and the senior management team are collectively responsible for managing risks and uncertainties across the Group. In determining the Group's risk appetite and how risks are managed, the Board, Audit and Risk Committee and the senior management team look to ensure an appropriate balance is achieved which enables the Group to achieve its strategic and operational objectives and facilitates the long-term success of the Group.

The Group's Audit and Risk Committee is responsible for reviewing the Group's risk management framework and ensuring that it enables the Committee and the Board to carry out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

The Board reviews the Group's most significant risks at least twice a year, in addition to periodically challenging the Executive Directors in relation to any specific concerns and as to what they consider to be the risks which would 'keep them awake at night'. Further details of our risk management framework are set out in the Corporate Governance Report on page 45.

The principal risks and uncertainties facing the Group are set out below, together with details of how these are currently mitigated:

Risk Type	Description	Mitigation
Market Since 2016 ↔	The Group continues to generate almost all of its revenue from the sale of greeting cards, dressings and gifts. Although the Group has a proven track record of understanding the needs of our customers, trends and tastes can change, often quite quickly, and there is a risk that we may not be able to effectively predict and respond to changing consumer demands and market trends which could affect our sales, performance and reputation.	• Regular customer surveys and market research supported by experienced marketing resource. • Significant additional investment in and collaboration between our in-house design and buying teams during the year. • Investment in our merchandising team to improve customer shopping experience. • Developing multiple sales channels, particularly online, to respond to changing consumer demands. • Strong focus on product innovation with designs continuously refreshed through key trading seasons and new product ranges being introduced. • Detailed sales analysis guides design and purchasing decisions. • Weekly trading meetings driving better 'real time' decision-making. • Vertically integrated model helps the Group position itself to quickly respond to changes in its markets.
Competition Since 2016 ↔	Competition in the greeting card, dressings and gifting sectors continues to intensify particularly during key seasons like Christmas. Product choice and quality, store location and design, inventory, price and customer service remain key to differentiating our offering. We compete with a wide range of retailers (including new entrants) and, as the quality and range of products we offer has grown, our competitor group has widened. Significant competitors include national retailers who enjoy strong brand presence recognition, financial resources and purchasing economies of scale, any of which could give them a competitive advantage.	• Sustained investment in the assets, systems and people supporting our vertically integrated model which underpins our competitive position. • In-house design and print operations help maintain and improve the quality and value of our offering. • Strong focus on innovation and product development helps refresh and strengthen our proposition each year. • All key elements of competitor activity, including new store openings and market entrants, closely monitored with selective localised strategies used to remain competitive. • Rigorous store selection process to ensure our store opening programme enables us to maintain our competitive position. • Continuous review of individual store performance and customer trends and behaviours supported by more targeted externally facilitated customer research.

Principal Risks and Uncertainties continued

Risk Type	Description	Mitigation
Our Brands Since 2016 ↔	'Card Factory' and 'Getting Personal' are the Group's key brand assets. Protecting and enhancing them underpins our reputation. If we are unable to protect them or we fail to sustain our appeal to our customers, our reputation and our sales and future prospects could be jeopardized.	• Rigorous protection of our intellectual property, and greater guidance and education for our buying team when buying third party product. • Regular reviews of customer trends and competitor activity. • Customer surveys address brand perception with specialist marketing resource now supporting activity driven from these. • Product innovation and closer collaboration between our design and buying teams to ensure we're giving customers the quality and value they expect from Card Factory. • Development of our dedicated quality control function that works with our design, buying and print teams and third-party suppliers to ensure product quality and safety.
Business Strategy Since 2016 ↔	The Group's four pillar strategy has been developed with the aim of achieving long-term value for our shareholders. If the strategy and vision for the business are not properly developed, communicated or delivered, the Group's performance could suffer. Strategy implementation requires careful prioritisation of resource to ensure a focus on those initiatives from which the business will benefit most.	• New CEO has provided further insight and experience in the continued development of the Group's strategy. • We regularly monitor the implementation of, and performance against, strategy both at Board and senior management team level. • Business objectives, and how we prioritise and communicate these are set in the context of our four pillar strategy. • Continued investment in the senior management team to ensure the Group has the capacity and capability to implement its strategy. • Competitor analysis, customer research and sales data used to bring focus to the development of our retail proposition.
Store Portfolio Expansion Since 2016 ↔	The Group has an extensive store network across a wide range of locations and demographics but, in line with our strategy, further profit growth depends in part on us being able to find good locations for new stores. Managing the competition for retail sites and achieving acceptable commercial terms are key to our strategy. Supporting our growing portfolio through our operational infrastructure, financial systems and managerial controls and procedures is critical to the Group's success.	• Maintained database of new store opportunities. • Additional specialist resource recruited into the property team to implement acquisition strategy. • Further development of our appraisal process for new store locations including store formats with the benefit of the additional insight and experience of our new Property Director. • Commercial analysis conducted on new stores to assess potential sales and profitability taking into account the number of other Card Factory and competitor stores in close proximity. • Commercial developments monitored in the real estate market and our strategy is adjusted where a change may adversely affect a store's potential profitability. • Group's operational capabilities support the current portfolio expansion strategy in the UK.
Sourcing/ Supply Chain Since 2016 ↔	Third-parties, including many in the Far East, supply nearly all of our non-card products, our handcrafted greeting cards and certain raw materials. If they fail to satisfy orders it may affect the business or result in us having to seek alternative suppliers, who may not be able to fulfil our needs. We are also exposed to changes in supplier dynamics and increases in raw material prices. Our supplier profile means we are subject to the risks of manufacturing and importing of goods from overseas including freight costs and duty, as well as supply interruption and reputational risk arising from supplier labour practices.	• Strong relationships with key suppliers. • Continuously developing and broadening supplier base providing greater flexibility and reducing reliance on individual suppliers. • Periodic inspections and third-party facilitated technical audits of factories operated by major suppliers with clear actions where weaknesses are identified. • Sedex membership ('the Supplier Ethics Data Exchange') combined with a programme of standalone ethical audits of key suppliers. • Dedicated product quality control function which is responsible for the testing and inspection of products. • During 2015, both Sportswift Limited (which trades as 'Card Factory') and Printcraft Limited, obtained Forest Stewardship Council ('FSC') certification.

Risk Type	Description	Mitigation
Key Personnel Since 2016 ↑	The Group's Four Pillar strategy and long-term success depend on our ability to: develop and manage succession plans for the Group's senior management team; sustain and develop our senior management team and employees; and to build our teams where this supports our growth and ensures we have appropriate capability and capacity to pursue our strategic goals.	• On joining, Karen Hubbard, undertook an extensive tailored induction and handover programme with support from the former CEO, the CFO and the rest of the Board and senior management team. • Management development has been supported using external agencies and, in some cases, one-to-one business mentors. • Succession plans for the whole of the senior management team are being developed and the succession of our CFO is being managed by the Nomination Committee. • The Group has recruited a new Human Resources Director who will oversee the development of the Group's wider people strategy. • The Group's Remuneration policy (set out in the Directors' Remuneration Report on pages 53 to 71) is designed to incentivise senior management and promote the long-term success of the Group but will be reviewed in light of recent developments regarding remuneration strategy. • Delivery of the Group's strategic objectives and business performance are currently and will remain central to any remuneration policy the Group adopts with remuneration structured to align the interests of the senior management team and shareholders.
Managing Change Since 2016 **NEW**	As the Group seeks both to increase scale and improve efficiency, the number of business initiatives it wishes to undertake also increases. This introduces a risk of management overload and 'business as usual' activities could be compromised.	• A dedicated Programme Director has been recruited to manage some of the important projects the Group is pursuing and to ensure change is being managed alongside 'business as usual' priorities and takes into account capacity within the relevant teams. • Members of the Board have 'buddied up' with members of the senior management team to provide additional mentoring and support. • Specialist resource is supporting the Group's marketing activities and online development. • The Group's senior management team carefully prioritise projects and initiatives to ensure they support delivery of the Group's strategy. • Board receives regular updates and has the opportunity to challenge the initiation or speed of progression of major projects.
Finance and Treasury Since 2016 ↑	Our funding arrangements and the fact that we source the majority of our non-card merchandise, as well as handmade cards and certain raw materials, from suppliers in the Far East mean that a lack of appropriate levels of covenant headroom and/or cash resources in the Group, or significant variations in interest or exchange rates, could have an impact on our operations and performance. The CFO's Review on page 20 sets out in further detail the risk to the Group of recent exchange rate fluctuations after the UK's decision to leave the European Union.	• Current financing arrangements and Group cash generation continue to provide the Group with appropriate financial support and cash resources for the delivery of its strategy. • Treasury management processes and policy in place to govern cash management and manage exposure to foreign exchange and interest rate fluctuations including those resulting from the Brexit decision. • Foreign exchange and interest rate hedging contracts pre-approved directly by the CFO and communicated to the Board monthly. • Treasury strategy reviewed and approved annually by the Board with periodic consultation between the CFO and the Chairman of the Audit and Risk Committee. • The Group's programmes within its Business Efficiencies strategic pillar have been reviewed to ensure opportunities for cost savings are being robustly pursued. • Further details of the Group's financial position are described in the CFO's Review on pages 21 and 22 and the Group's viability statement is on page 77 of the Directors' Report.

Principal Risks and Uncertainties continued

Risk Type	Description	Mitigation
Business Continuity Since 2016 ↔	Any major disruption to any of the parts of our vertically integrated business model, in particular to our printing facility, Printcraft, our distribution centre or our design studio, could severely affect our ability to supply our stores. Disruption to any of these functions could also force us to use third-party providers which could be expensive and on onerous terms.	• The Group's crisis management arrangements continue to be developed and have been reviewed by our internal audit services provider Deloitte LLP with our Audit and Risk Committee providing further guidance to the senior management team. • Crisis management arrangements will be supplemented by periodic scenario testing which will allow the Group's arrangements to evolve ensuring they meet the needs of the business. • Stock held across multiple locations to mitigate the risk of a catastrophic event at any one of our storage facilities. • Group IT systems are subject to specific disaster recovery arrangements. • The Group also maintains appropriate business interruption insurance cover.
Compliance Since 2016 ↔	The Group is subject to legislation and regulations in areas including corporate governance, the listing and trading of our shares, employment (including that relating to the introduction of the new National Living Wage), product quality, trading, the environment, health and safety, bribery and data protection. Any failure to comply with these could lead to penalties, fines, damages, claims or reputational damage which could impact the financial performance of the business.	• Policies and procedures are in place governing behaviours in all key areas, some which address mandatory requirements and others adopted voluntarily. • Senior management team members manage compliance of the Group's key operational teams with escalation and disciplinary action where needed. • Group's General Counsel and Company Secretary oversees compliance with the support of external advisers. Senior management team members liaise with him to ensure issues are identified and managed. • Impact of new legislation on the Group is monitored with changes implemented where required, eg Market Abuse Regulations.
Information Technology Since 2016 ↑	Reliable, resilient and efficient IT systems, including those supporting our retail operations (both physical and online), our head office function and our in-house design and printing operations, are important to the Group. Failure to adequately develop and maintain these or any prolonged system performance problems or cyber-attack could seriously affect our ability to implement the Group's strategy and to carry on the business.	• Since their appointment, our internal audit services provider Deloitte LLP, have largely focused their work on the Group's use of technology and the structure and resources supporting this. • Detailed reviews of the Group's point of sale technology systems and the resilience of our IT systems, including their ability to withstand cyber-threats, have been carried out by Deloitte with actions and recommendations being monitored by the Audit and Risk Committee including further investment in additional cyber-security measures. • The Group has conducted a detailed review of its IT strategy and governance. • Further investment has been made in the systems supporting both the Card Factory and Getting Personal trading websites. • Key IT risks are documented and agreed service levels for recovery of key business systems are in place.
Online Since 2016 ↔	The Group's online presence, via our Getting Personal and Card Factory transactional websites, remains a relatively new and developing part of the business but is one of our four strategic pillars of growth. Our websites operate in a very competitive market with relatively low barriers to entry. If they do not evolve to account for changing customer tastes and the different devices being used by customers to make online purchases, they may not deliver the anticipated revenue growth. This may also affect our reputation and customer perception of our brands.	• Investment in the management team at Getting Personal. • New team reviewing Card Factory online proposition and marketing activity supporting this. • Online focused team put in place within the Group's design studio. • Continued investment in offering via in-house web development team. • Analysing various data (transactional, industry, competitor, etc) to ensure we respond appropriately to changing customer tastes. • Mobile sites have evolved to reflect evolution in consumer behaviour to new channels.

Corporate Social Responsibility Report

OUR AIMS

Card Factory is committed to providing products of excellent quality and value to our customers – the lifeblood of our business. In achieving this we recognise and understand the importance of showing all of our stakeholders how we take our corporate and social responsibility ('CSR') seriously.

Our aim is for CSR to be embedded within our culture; for it to guide management and employee behaviour; and to have clear responsibility and accountability both for our CSR strategy and for the actions necessary to execute it.

We do not have a separate CSR function as it is intrinsically important in every role. The Board has overall responsibility for CSR and how we manage and monitor performance.

Our CSR activity is focused on the following key topics:

- Customers
- Manufacturing and Sourcing
- Environment
- Health and Safety
- Employees
- Community

CUSTOMERS

Our business is built on providing great quality products, service and value to our customers.

Key achievements during the year were:

- further investment in, and increased focus on, customer insight through increased customer research ensuring we continue to listen to our customers and develop our service and proposition;
- a continued redesign of existing card ranges and launch of new ranges, both everyday and seasonal, supported by further investment in our design team ensuring our customers continue to have a great choice of good quality products that are great value;
- introduction of new non-card product ranges across our store network, increasing customer choice, refreshing and diversifying our range and reflecting current trends;
- investment in new point of sale materials and fixtures and fittings across our store network enabling us to better showcase some of our new and existing products and making better use of available space in stores both of which improve the customer shopping experience;
- reviewing the layout of our counter areas and our queue management during our busiest trading periods to ensure customers are served as quickly as possible;
- an acceleration in the roll out of our investment in LED lighting across the store network, enhancing customer and colleague experience in store and enabling us to become more energy efficient;
- greater use of training videos for our store colleagues, providing them with a more practical guide to key operational requirements;
- a significant reduction in the time we take to respond to customer complaints and a goal of reducing this to 72 hours during the course of 2017;
- re-launch of the Card Factory Facebook page providing customers with another popular and accessible channel through which to provide us with feedback on our service and products; and
- further investment in the development of Card Factory's online proposition (www.cardfactory.co.uk) ensuring it meets the needs of our customers in terms of quality and value and is easier to navigate and buy products.

The continued development of our products and customer service, both of which contribute to our retail proposition and customer experience, continue to underpin our position as the UK's leading specialist greeting card retailer – a position we intend to keep.

MANUFACTURING AND SOURCING

We are proud that the majority of cards sold in our stores are designed and manufactured by us in the UK. The balance of cards and other products are sourced from a broad and growing supplier base throughout the UK, Europe and the Far East, principally China.

Supplier auditing

We are continuing to develop our supplier factory auditing programme to ensure it provides reasonable assurance that we are trading with suppliers that operate ethically, and who also produce good quality safe products that comply with all relevant laws and standards. We carry out audits using third-party specialists to ensure consistency in assessment.

Currently we are aiming to ensure that all current suppliers outside the EU, with whom our purchases exceed £50,000 pa, have received separate ethical and technical audits commissioned by us by the end of 2017.

The ethical audits we commission use criteria, SA8000, which is an auditable certification standard developed by Social Accountability International. It encourages organisations to develop, maintain, and apply socially satisfactory practices in the supply chain. The SA8000 standard is the most recognised social certification standard for factories and organisations worldwide. The audit scope includes: child labour, forced labour and disciplinary practices, health and safety, discrimination, freedom of association, collective bargaining, working hours, remuneration and the environment.

Ethical audit results are categorised as either 'Satisfactory', 'Needs Improvement' or 'Needs Major Improvement'. If an audit indicates a supplier 'Needs Major Improvement' we will seek to ensure that an appropriate corrective action plan is put in place by the supplier and that the relevant member of the purchasing team is informed so that no further orders are placed with that supplier until a re-audit has been carried out and an acceptable result has been achieved.

In exceptional circumstances where an unsatisfactory audit result occurs and the supplier concerned has an order in progress, the matter is brought to the attention of a senior member of the supply chain team so we can decide how to proceed. In certain instances this has resulted in financial loss where an order is cancelled or refused on the results of such an audit to ensure we maintain integrity over our supply chain.

By the end of 2017, our aim is to have ethical audits in place for suppliers representing more than 90% of the total value of goods we currently purchase from outside the EU. We have consciously set ourselves this challenging target to demonstrate our commitment in this area.

The technical audits we commission focus on a supplier's ability to produce the quantity of goods we require safely, in accordance with our specifications and all relevant standards including those relating to labelling. Technical audit results are expressed as a percentage and, if the result is 95% or lower, a corrective action plan is sought for the non-compliances found in the audit and a suitable timeframe is agreed with the supplier and monitored. If the original audit result is less than 70%, a re-audit is arranged after evidence of corrective actions has been received. If we are not satisfied with the results of the re-audit we will not make any further orders with that supplier until the issues are rectified.

We also ask all our suppliers to sign our supplier compliance manual before trading commences, and we have continued to strengthen our quality assurance and inspection operations, utilising third-party partners in the Far East to complement our own team with the medium term goal of having a colleague dedicated to inspecting products at source prior to shipment.

We have been a member of Sedex, a large and recognised membership organisation which shares ethical trade data with members, since 2013 and we actively encourage our current or prospective suppliers to join this organisation, if not already members.

The audits we commission and the information provided through our Sedex membership help us to monitor human rights issues through our supply chain and we support this with periodic visits to the factories of key suppliers by our sourcing team. The continued investment in our sourcing team during the year gives us capacity to support greater scrutiny of supplier practices.

Paper-based products

In our UK manufacturing operations, appropriate due diligence is undertaken to ensure, so far as practicable, that we comply with the EU Timber Regulations ('EUTR'). We have also continued to develop the level of controls over paper-based materials within our products, sourced from the Far East, to replicate the level of due diligence we undertake within our own manufacturing facilities with those of third-party suppliers.

During 2015, both our main trading subsidiary, Sportswift Limited (which trades as 'Card Factory'), and our UK manufacturing operation, Printcraft Limited, obtained FSC certification. This has and will continue to assist in providing a more robust and simplified supply chain over which to comply, so far as practicable, with EUTR and demonstrating the transparency we have over our sourcing of paper-based materials from sustainable sources.

We are committed to working with our key third-party suppliers to ensure that products on sale in our stores are manufactured using FSC certified material. Our long-term goal is that, so far as possible, all paper-based and wood-based products sold in our stores are produced using FSC certified material by 2020, actively developing and promoting a policy to maximise the use of wood fibres from forestry operations certified by the FSC within our supply chain.

In our day-to-day operations we also seek to ensure that all paper and paper board materials classified as waste are separated and recycled and this is supported by our waste management services provider who only use landfill as a final resort once all other disposal methods have been exhausted.

ENVIRONMENT

We recognise our operations impact the environment and the policies we adopt are important to our business and its stakeholders. Our objective is to reduce our impact on the environment, from material sourcing to customer use and disposal, across the following key topics:

Waste recycling

We recognise the impact waste generated from our activities has on the communities we operate in. We proactively look to reduce the level of waste generated and maximise the proportion of waste that is recycled.

We continue to educate our teams to maximise the level of waste that can be recycled and minimise the number of collections required to reduce the associated carbon footprint of waste collection and movement and to minimise store waste sent to landfill.

All of our store locations have the facility to recycle paper, cardboard and plastic-based materials (which constitute a very large proportion of store waste) either through the use of dry mixed recycling containers (in which 95% of waste deposited must be recyclable) or waste containers which allow more specific separation of materials (with the latter mainly being in shopping centres with centrally managed facilities).

Our distribution centres in Wakefield also operate a recycling programme to ensure all plastic and cardboard materials are bailed on site and removed for recycling.

Packaging
We use a third-party consultancy to ensure we meet the requirements of the UK Packaging Waste Regulations and purchase the appropriate level of packaging recovery notes.

The majority of the products we sell are designed in-house which affords us the opportunity to reduce packaging waste for both products and transit packaging. We continually seek to improve this, and this also helps us to reduce container and road transport costs.

Energy
Electricity is the main form of energy we consume and we analyse consumption across our entire estate, including our distribution centres, our manufacturing facility and our stores. Where possible, we look for opportunities to reduce our consumption and reduce wastage by introducing new procedures or making use of available technology. As we have previously reported, this work was supplemented by an energy audit carried out under ESOS (see below).

Operationally, we have continued to focus on:

Installation of smart meters
During the year we have continued to install smart meters into our existing and new stores to allow us to measure electricity usage on a half-hourly basis and we are aiming to have these in place across all of our stores within the next 12 months. Smart meters enable us to reduce electricity usage by:

- tackling behaviour in stores, for example, monitoring unnecessary use of air conditioning and heating or when lights are left on in stores after they have closed;
- identifying areas which use electricity within stores and producing plans to target areas of excess usage. For example, there may be legacy equipment we inherit when we open a store that is not fit for our purposes or which is located in parts of a store that no longer need it; and
- performing electrical audits to assess heavy consumption stores and consider where savings can be made, with close attention to lighting and heating installations in the back-of-house areas.

Installation of LED lighting
During the year, we have accelerated our investment in the installation of energy-efficient LED lighting across our store estate with another 250 (FY16: 70) of our pre-existing stores being retro-fitted and all of the 54 new stores (which includes 3 relocations) we have opened being fitted with LED lighting (FY16: 64). In the existing stores, for which we have comparative data, we have reduced our daily electricity usage by an average of 50%.

In addition to its cost efficiency, the LED lighting enhances both the customer experience and working conditions for store colleagues given the nature of the lighting and the fact that it emits less heat.

Fuel efficiency
We invest to improve fuel efficiency and reduce the number of miles travelled as part of our commitment to reducing energy consumption.

We operate a fleet of company cars and vans in which we aim to include, as far as practicable, more fuel-efficient vehicles and for which we monitor fuel consumption.

With our third-party distribution partners, we have actively taken steps to reduce miles travelled for store deliveries from our national distribution centre in Wakefield. By working in partnership with our carriers and making changes to our business processes, we are now sorting a large proportion of our deliveries destined for the northern parts of the United Kingdom and Scotland so that they are processed through northern distribution hubs.

ESOS
In 2015/16, with the support of our energy consultants, we carried out our first audit under The Energy Savings Opportunity Scheme (ESOS). This new mandatory requirement was introduced through EU legislation. During the year, we have reviewed the findings of the audit and are beginning to implement some of the recommendations for energy efficiency savings. This will supplement the measures we already take to assess and reduce energy consumption.

Greenhouse Gas ('GHG') emissions
Greenhouse Gas Statement for the Group
GHG emissions for the Group for the year ended 31 January 2017, in tonnes of carbon dioxide equivalent ('tCO_2e'), were:

Source	tCO_2e	%
Fuel combustion (stationary)	109	0.6%
Fuel combustion (mobile)	1,273	6.5%
Fugitive emissions (F-gas)	61	0.3%
Purchased electricity	18,161	92.6%
TOTAL	**19,604**	

Annual comparison and emissions intensity

tCO_2e	2016-17	2015-16	Reduction
Total emissions	19,604	22,997	14.8%
Emissions intensity*	49.2	60.3	18.4%

*expressed in tCO_2e per £m turnover

Methodology and emission factors

These emissions were calculated using the methodology set out in the updated greenhouse gas reporting guidance, Environmental Reporting Guidelines (ref. PB 13944), issued by the Department for Environment Food and Rural Affairs in June 2013. Further details of the methodology applied in calculating these emissions can be found on Card Factory's investor website (www.cardfactoryinvestors.com).

HEALTH AND SAFETY

The health and safety of all our employees, customers, contractors, visitors and members of the public is of paramount importance to the Group.

All employees are responsible for ensuring that stores and other working environments are safe and operated without significant risk. Health and safety is incorporated into our day-to-day practices, including colleague induction, and we support and reinforce this through training programmes which help to mitigate health and safety risks.

Whilst the Board has ultimate responsibility for health and safety, it is managed on a day-to-day basis by our compliance and safety team, who liaise with line managers in all parts of the business to ensure compliance with our policies and that all colleagues receive appropriate training, tailored to support their specific roles.

Compliance and safety meetings are held regularly throughout the year and are attended by representatives from key operational teams with appropriate escalation to the senior management team where material issues or risks arise. The overriding objective of the decisions taken at these meetings is to make our stores and workplaces safe places for customers, employees and visitors alike.

The compliance and safety team also analyses trends and takes a pro-active approach to managing health and safety practices.

Additionally, our activities during the year have sought to develop how we collaborate and communicate across the Group in addressing health and safety matters and to streamline processes and procedures.

Key activities during the year included:

- employee engagement – colleagues across the business were given the opportunity to have their say on health and safety matters as part of the wider employee engagement survey undertaken across the Group. The compliance and safety team will be involved in rolling out any specific initiatives that will improve how we operate, particularly in our retail stores;
- loss prevention – following the restructuring of and investment in our loss prevention team, they have worked closely with the compliance and safety team to establish certain procedural safeguards within their programme of activities that ensure the safety and security of the loss prevention team in carrying out its activities; and
- retail risk assessments – the risk assessment process has been simplified in stores to improve efficiency, whilst maintaining legal compliance. Roll out has begun to the whole store estate and positive feedback has been received from all to date.

The Board periodically receives reports on health and safety matters throughout the Group including details of any material incidents and remedial actions.

EMPLOYEES

Our colleagues across the Group are critical to Card Factory's ability to deliver the great products and customer service which underpin our success. We employ more than 7,000 permanent colleagues. During the Christmas trading period, colleague numbers increased to more than 13,000 across the Group, taking into account temporary seasonal workers.

The focus during the last year has been an investment in a Group-wide employee engagement survey to understand how our colleagues feel about the business and, in particular, what they think we do well and the areas in which they think we need to develop. This exercise, which was supported by Best Companies, has provided valuable insight which we are using to develop a programme of activities aimed at ensuring our colleagues continue to feel valued and engaged as the business grows. Our recently appointed Group Human Resources Director is leading this programme and we will report on it in more detail in next year's Annual Report.

Other key activities during the last year have been:

- the introduction of a long service recognition award scheme for employees with 5, 10 and 15 years' service;
- the launch of another offering under the Group's 'save as you earn' ('SAYE') share scheme enabling eligible employees to save to buy shares in the Company at a discounted rate;

- the continued roll out of our new learning management system ('SPARK') across the Group, which supports employee development and training and allows us to monitor our learning culture; and
- further development for our senior retail managers in employee relations.

We are an equal opportunities employer with a diverse workforce; our policy is to recruit, develop, promote, support and retain skilled and motivated people regardless of disability, race, religion or belief, sex, sexual orientation, gender identification, marital status or age.

At the end of the financial period the percentage breakdown of male and female employees across the Group was as follows:

	% Male		% Female	
	FY17	FY16	**FY17**	FY16
Board	**67**	83	**33**	17
Senior management team	**75**	89	**25**	11
All employees	**20**	20	**80**	80

We regularly communicate with our employees in a variety of ways including:

- our employee engagement survey and employee focus groups, which are both new developments introduced during the last year and included sessions conducted by our CEO as part of her induction programme;
- 'Tell Karen', which we launched towards the end of the financial year, gives colleagues the chance to share directly with the CEO, their thoughts on how we can grow the business and provide our customers great service;
- a quarterly letter from our CEO to all colleagues;
- weekly retail news bulletins, providing operational instructions to all of our stores;
- an online message board communicating key operational messages to all stores via our intranet;
- regular meetings with regional and area managers ahead of key trading periods who then share key messages with store colleagues;
- store manager visits to head office to discuss and review Card Factory's retail proposition;
- Card FACTually, a periodic newsletter which contains a message from the CEO and takes a more light-hearted look at the business and includes details of the community and charity events we are involved in;
- Board and senior management team members regularly visiting stores to assess the retail proposition and get feedback from employees and customers, particularly during key trading periods; and
- visits to our Mock Shop, a representative Card Factory store at our head office which reflects the layout of a typical Card Factory store as it progresses through each trading season. This provides a visual representation of what we aim to achieve in our stores and also gives employees the opportunity to provide feedback on our retail proposition.

COMMUNITY

We recognise the importance of being responsible members of the communities in which we work. We look to support charitable causes that can benefit from our growth.

Card Factory is proud to have been supporting Macmillan Cancer Support since 2006. Employees and customers at Card Factory take part in multiple fundraising events, ranging from loose change donations to the annual National Bear Raffle in our stores, as well as the sale of Macmillan Christmas cards.

For a number of years, a group of employees from across our business have also competed in the Great North Run attracting sponsorship from colleagues, friends and relatives.

During the year the total amount we have raised for Macmillan passed £4 million which is an incredible achievement and one of which all our colleagues should be proud. We intend to continue this very successful partnership with Macmillan, whose valuable work helps to ensure that no one faces cancer alone.

In addition to the money we raise for Macmillan, we have also donated considerable sums to the British Heart Foundation, Alzheimer's Society, and the NSPCC. These three charities were chosen by our colleagues to benefit from the sale of plastic carrier bags in England, following the introduction of the 5p carrier bag charge in October 2015. We intend to continue donating these sums to charitable causes.


Card Factory is proud to have been supporting Macmillan Cancer Support since 2006.


We have raised over

£4 MILLION!*

An incredible partnership!

"Macmillan Cancer Support thanks the staff and customers of Card Factory for their incredible fundraising activities which continue to help us ensure that no one faces cancer alone."

Sharon Cottam - Partnership Manger, Macmillan Cancer Support

WE ARE MACMILLAN. CANCER SUPPORT

Card Factory

* Total raised to date: £4,600,052.

Directors and Officers

Geoff Cooper
Non-Executive Chairman

Geoff joined the Board and became Chairman of the Group in April 2014. Geoff has over 20 years' experience of serving on boards of UK public companies, in particular as Chief Executive of Travis Perkins plc from March 2005 until December 2013 and as a Director and Non-Executive Chairman of Dunelm Group plc between 2004 and 2015. Geoff is also a Director and Non-Executive Chairman of AO World plc, Bourne Leisure and an adviser to Charterhouse Capital Partners LLP. He is a chartered management accountant and had a career in management consultancy before joining Gateway (subsequently Somerfield plc) as Finance Director in 1990. In 1994, he became Finance Director of UniChem plc, subsequently Alliance UniChem plc (which later became part of Alliance Boots plc), where he was appointed Deputy Chief Executive in 2001.

Other current commitments: Non-Executive Chairman of AO World plc and Bourne Leisure Holdings Ltd. Adviser to Charterhouse Capital Partners LLP.

Karen Hubbard
Chief Executive Officer

Karen was appointed to the Board of Card Factory plc with effect from 22 February 2016 and succeeded Richard Hayes as Chief Executive Officer of the Group in April 2016. Before joining the Group, Karen served as Chief Operating Officer of B&M European Value Retail S.A., the fast growing multi-price value retailer, where she was responsible for retail operations, distribution and logistics, supply chain, IT, HR, marketing and store development. From 2009 to 2014, she held a number of senior roles at ASDA, latterly Executive Director Property, Format Development and Multi-Channel. Karen previously spent 14 years in BP's retail operations, initially in Australia before moving to the UK in 2004 where she became UK Convenience Retail Director, responsible for BP's own retail estate across all formats including Connect/Simply Food, Motorway, Express and the franchise channel.

Other current commitments: None.

Darren Bryant
Chief Financial Officer

Darren was appointed Group Finance Director in June 2009 (subsequently renamed Chief Financial Officer in 2010) having previously been a Partner at PwC LLP. He was appointed to the Board of Card Factory plc on 30 April 2014. Darren spent over 17 years at PwC, principally in the London Corporate Finance division, where he advised on a wide range of private company, private equity and public company transactions. He also spent two years on secondment at The Panel on Takeovers & Mergers in the late 1990s where he regulated a large number of public company transactions. Darren is a Fellow of the Institute of Chartered Accountants in England and Wales and holds a First Class MEng degree in Electrical & Electronic Engineering with Business Studies from Imperial College, London University. As previously announced, Darren has informed the Board of his intention to retire from his position following the appointment of his successor and an appropriate handover period.

Other current commitments: None.

Octavia Morley

Senior Independent Non-Executive Director

Octavia joined the Board as Senior Independent Non-Executive Director in April 2014. Octavia has ten years' experience of serving on boards of UK public companies. She served on the board of John Menzies plc as a Non-Executive Director between 2006 and 2015. Octavia was previously the Chief Executive of Oka Direct Limited and the Managing Director of Crew Clothing Co. Limited. She also served as Chief Executive Officer, and latterly as Chairman of LighterLife UK Limited until December 2009, has held positions as Commercial Director of Woolworths plc between 2003 and 2005 and as Managing Director of e-commerce at Asda Stores Limited and Buying and Merchandising Director at Laura Ashley plc.

Other current commitments: Non-Executive Director of Ascensos Limited.

David Stead

Independent Non-Executive Director

David Stead joined the Board as an Independent Non-Executive Director in April 2014. He is an experienced Director of companies in the UK retail sector. David was Chief Financial Officer of Dunelm Group plc from September 2003 until his retirement from that role at the end of 2015. David is also the Senior Independent Non-Executive Director of Joules Group plc. Prior to his role at Dunelm, David served as Finance Director for Boots The Chemists and Boots Healthcare International between 1991 and 2003. David is a chartered accountant, having spent the early part of his career with KPMG.

Other current commitments: Senior Independent Non-Executive Director of Joules Group plc and Honorary Member of Council, University of Birmingham.

Paul McCrudden

Independent Non-Executive Director

Paul joined the Board as an Independent Non-Executive Director in December 2014. Paul is currently Global Head of Live Marketing at Twitter and prior to that was Head of Social Media at advertising agency AMV BBDO. In his earlier career Paul was Account Director at Imagination (a creative brand agency) and a Consultant in New Technologies at Accenture. Paul also served as Chairman of the board of trustees at Hoipolloi, a film and theatre production company funded by the Arts Council England.

Other current commitments: Global Head of Live Marketing at Twitter.

Directors and Officers continued

Shiv Sibal

Company Secretary and General Counsel

Shiv joined the Company as General Counsel and Company Secretary in May 2014. Shiv is an experienced corporate finance lawyer with more than 15 years' experience in the legal sector. Prior to joining the Company, Shiv was a corporate partner with national law firm Bond Dickinson LLP focused on supporting public companies with IPOs, equity fundraisings, mergers and acquisitions, governance and their continuing regulatory obligations. Prior to joining, Shiv also spent more than eight years working for international law firm Pinsent Masons LLP in their corporate team.

Other current commitments: None

Richard Hayes, was Chief Executive Officer (until 25 April 2016) and an Executive Director of Card Factory plc during the financial period up until 30 June 2016.

Board committees

Audit and Risk Committee	Remuneration Committee	Nomination Committee
David Stead (Chairman)	Octavia Morley (Chairman)	Geoff Cooper (Chairman)
Octavia Morley	Geoff Cooper	Octavia Morley
Paul McCrudden	David Stead	David Stead
	Paul McCrudden	Paul McCrudden

Chairman's Letter – Corporate Governance

Geoff Cooper
Chairman

Dear Shareholder

Our activities during the year have been focused on supporting the senior management team under the leadership of our new CEO, Karen Hubbard, in continuing to develop and evolve the Group's established four pillar growth strategy in an increasingly challenging retail environment.

Whilst this strategy has driven the Group's success to date, the Board recognises the importance of measuring the continuing validity of our strategy as economic conditions change, for example, assessing the potential impact of the government's decision to interpret the referendum result as a clear mandate to leave the European Union on the Group's operations.

As the business continues to grow following its IPO, the Board remains committed to high standards of governance and continuous improvement in these arrangements. We believe that this can be demonstrated by pragmatically applying corporate governance principles and guidelines in a way that enhances or protects the value of the business.

New challenges continue to arise in guidelines and practice, for example on executive remuneration, viability statements, quarterly reporting, share dealing regulations and diversity. The FRC has also recently announced a comprehensive review of the Corporate Governance Code that will potentially shift the governance landscape yet again. The Board remains confident that its approach to compliance, focusing on delivering real business benefit, will continue to serve the Company well as we respond to these challenges.

The membership and roles of each of the Board Committees are detailed in separate sections of this report together with the individual reports on their activities during the year.

At our Annual General Meeting ('AGM') this year, all of our Directors will be seeking reappointment.

I look forward to welcoming shareholders at the Company's AGM in May.

Yours sincerely

Geoff Cooper
Chairman
27 March 2017

Corporate Governance Report

LEADERSHIP AND APPROACH

The Board is committed to the highest standards of corporate governance. The Board understands the importance of its leadership on governance in setting the culture and values instilled in the business, and in achievement of long-term strategic goals whilst successfully managing risks for our shareholders.

We believe that good governance is demonstrated by applying corporate governance principles and guidelines in a way that enhances or protects the value of the business. This ensures a pragmatic governance culture sits alongside the entrepreneurial spirit which has enabled Card Factory to develop into the business it is today.

KEY GOVERNANCE ACTIVITIES

Key activities during the year were:

- managing and supporting the induction of our Chief Executive Officer, Karen Hubbard, who formally succeeded Richard Hayes in April 2016;
- in light of Karen's appointment, enabling further reflection on and refinement of the Group's strategy and agreeing clear actions for development over the short to medium term. This included capturing Richard Hayes' reflections on his time with the business prior to his retirement in June;
- through the Nomination Committee, further developing succession plans for the wider management team;
- supporting the management team with their development of the Group's mission, vision and values which will support the Group's future development and growth;
- carrying out our second internal Board evaluation which included a review of our progress against the objectives the Board set itself during its first Board evaluation in January 2016;
- reviewing the objectives and performance of the business in each of the four pillars of its growth strategy;
- a review of the Group's foreign exchange strategy in light of the UK's decision to leave the European Union;
- continually reviewing the matters being considered by the Board during the year as well as planning the Board's agenda for the year ahead;
- a full review of the Group's share dealing codes and practices in light of the introduction of the Market Abuse Regulations;
- inviting external speakers from a range of backgrounds to Board meetings to share their business insights, experience and also their views on the prevailing macroeconomic environment and its impact on retailers; and
- hosting our first Corporate Governance presentation for investors reflecting upon our journey so far as a listed company.

CODE COMPLIANCE

Save as set out in the paragraphs below, the Board has complied with and intends to continue to comply with the requirements of the UK Corporate Governance Code published in September 2014 by the Financial Reporting Council ('the UK Corporate Governance Code' or 'the Code') a copy of which can be obtained from www.frc.org.uk. The Company will report to its shareholders on its compliance with the UK Corporate Governance Code in accordance with the Listing Rules ('LRs').

ROLE OF THE BOARD

The strategy for the growth of the business is determined by the Board in a manner that both facilitates the development and growth of the Group over the long term in the interests of its shareholders, and recognises the importance of our duties to colleagues, customers, the community in which we operate and the interests of our other stakeholders all of which have been central to the development of the business and its culture to date.

In addition to setting strategy, the Board takes overall responsibility for measuring the Group's progress towards this and ensures that the exercise of its control and decision-making powers are aligned with its strategic direction.

BOARD COMPOSITION, BALANCE AND INDEPENDENCE

The Board currently comprises six members.

The Code recommends that at least half the board of directors of a UK listed company, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the director's judgement.

In the period between Karen Hubbard's appointment to the Board, as Chief Executive Officer Designate, on 22 February 2016 and Richard Hayes retirement from the Board and the Group at the end of June 2016, the constitution of the Company's Board did not technically comply with this recommendation as the Board consisted of the Non-Executive Chairman, three Independent Non-Executive Directors and three Executive Directors. This non-compliance was only temporary and to allow for an orderly handover to Karen Hubbard following her appointment.

The Board considers all of the current Non-Executive Directors as independent Non-Executive Directors (within the meaning of the Code) and free from any business or other relationships that are likely to interfere with the exercise of their independent judgement.

Although the Board remains small relative to some other similar premium listed companies, the preference is for it to remain this way to ensure it continues to be an effective and efficient decision-making body that supports the Group's growth. This is kept under review to ensure the Board has the appropriate balance of skills and experience to support its exercise of its duties. Additionally, the Board is mindful of ensuring that succession planning extends to the Board itself and is currently considering this.

Chairman – Geoff Cooper

The Code recommends that, on appointment, the chairman of a company with a premium listing on the Official List should meet the independence criteria set out in the Code.

On appointment, the Board considered Geoff Cooper to be independent but his appointment is subject to the terms of a letter of appointment dated 30 April 2014 under which, as part of his remuneration, Geoff was given the option to invest £330,000 in the Company by means of an acquisition of ordinary shares as part of, or alongside, the offer of shares conducted in conjunction with the Company's IPO at the offer price of 225p per share ('the Offer Price'). Geoff took up this offer at the time of the IPO and agreed to acquire 146,666 ordinary shares. This entitled him, on the second anniversary of the completion of the IPO, to make a further investment of £330,000 in the Company by purchasing a further 146,666 ordinary shares at the Offer Price. Geoff exercised this option on 24 May 2016 and is now entitled, subject to his remaining as Chairman of the Company, on the third anniversary of the IPO, to make one further investment of £330,000 in the Company by purchasing a further 146,666 ordinary shares at the Offer Price.

Notwithstanding Geoff Cooper's share options and his role as an adviser to Charterhouse, the Board considered Geoff to be independent on appointment.

Senior Independent Director – Octavia Morley

The Code recommends that the board of directors of a company with a premium listing should appoint one of the Non-Executive Directors as a Senior Independent Director to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors when necessary. The Senior Independent Director should be available to shareholders if they have concerns, which contact through the normal channels of the Chief Executive Officer has failed to resolve, or for which such contact is inappropriate. Octavia Morley has been appointed as the Senior Independent Director of the Company and has considerable experience of acting as an Independent Non-Executive Director having been an Independent Non-Executive Director of John Menzies plc between 2006 and 2015.

BOARD RESPONSIBILITY

The Company has a clear division of responsibilities between the Non-Executive Chairman and the Chief Executive Officer. In general terms, the Non-Executive Chairman is responsible for running the Board and the Chief Executive is responsible for running the Group's business on a day-to-day basis.

This clear division of responsibilities, when taken together with the schedule of matters which the Board has reserved for its own consideration, ensures that no one person has unlimited and unchecked power to make decisions that may have a material impact on the Group as a whole. A copy of the matters reserved for the Board is available on Card Factory's investor website (www.cardfactoryinvestors.com) and, on request, from the Company Secretary.

Corporate Governance Report continued

BOARD ATTENDANCE

During the year, the Board held eight scheduled meetings and various Board Committee meetings were also held with attendance as follows:

Director	Role	Board Meetings (8 meetings)	Remuneration Committee (3 meetings)	Audit and Risk Committee (4 meetings)	Nomination Committee (2 meetings)
Geoff Cooper	Non-Executive Chairman and Chair of Nomination Committee	8	3	–	2
Octavia Morley	Senior Independent Director and Chair of Remuneration Committee	8	3	4	2
David Stead	Independent Non-Executive Director and Chair of Audit and Risk Committee	8	3	4	2
Paul McCrudden	Independent Non-Executive Director	8	3	4	2
Richard Hayes*	Executive Director	3	–	–	–
Karen Hubbard	Chief Executive Officer	8	–	–	–
Darren Bryant	Chief Financial Officer	8	–	–	–

* Richard Hayes retired from the Board on 30 June 2016.

BOARD ACTIVITIES AND EFFECTIVENESS

Board meetings are structured to ensure they focus on key strategic and operational matters that are affecting the business and examples of those matters considered by the Board during the year are set out below. Additionally, the Board considers any decisions that are within the matters reserved for the Board.

The Board had in place a schedule of matters that were discussed during the year and a similar schedule is in place detailing matters for discussion at Board meetings in the current financial year.

As part of its normal planning, the Board puts these schedules in place in advance of each financial year and they include regular reports from the Chief Executive Officer and the Chief Financial Officer on the operational and financial performance of the Group together with regular feedback from the Non-Executive Chairman and the Non-Executive Directors on their engagement with the business. They also include a rolling agenda of other key strategic, operational, governance and risk topics, as well as periodic presentations from senior management team members which ensure that the Group's Non-Executive Directors remain informed of key developments within the Group. This is regularly updated to ensure the Board is responsive to the strategic and operational issues affecting the business.

The key topics discussed by the Board during the year were:

Strategy	Performance	Governance
Group strategy overview	Annual results	Group crisis plan
Mission, vision and values	Interim results	Treasury policy
Group IT strategy development	Sales analysis including key seasons	Governance and legal updates
Property strategy	Competitor activity review	New and retiring CEO reflections
Product development initiatives	Review of store rollout programme	Principal risks review
Foreign exchange strategy	Group IT projects update	Investor relations updates
Supply chain and logistics	Card Factory website review	Board and Committee planner
Design studio review	Getting Personal review	Human Resources
Group's capital structure		Health and safety
Online marketing strategy		Board evaluation
Business efficiencies – inventory		Market Abuse Regulations
Republic of Ireland		
SAYE 2017 grant		
Review of EPOS		
National living wage		

All Directors receive papers in advance of Board meetings including regular reports from the senior management team covering the parts of the business they are responsible for and which monitor achievement against the Group's key performance indicators, both financial and strategic.

To aid efficient decision-making, a standard summary report has been developed for material matters requiring Board approval that includes management's clear recommendation on the matters being addressed.

The Board measures the time spent on strategy, governance and performance at each meeting. Over the year, the majority of our time was spent on strategy, followed by performance and governance, which the Board considers to be appropriate.

Minutes of all Board and Committee meetings are taken by the Company Secretary and circulated for approval. The minutes record actions, decisions and deadlines arising out of the topics discussed and a rolling list of key actions accompanies the minutes for each Board meeting. This enables the Board to monitor the progress with each action by those responsible on a regular basis. In addition, the Company Secretary monitors progress with less material actions and regularly reports to the Board.

External speakers

During the year, the Board also invited several external speakers to attend our Board meetings as lunch guests. These sessions, whilst relatively informal, allowed the Board to benefit from the business insights and experience of our guests as well as their views on the prevailing macroeconomic environment and its impact on retailers. The Board intends to continue with this programme of speakers during the coming year.

Board strategy day

For its Board meeting in July 2016, the Board held a strategy discussion at which it reviewed each element of the Group's four growth pillars. This provided our newly appointed CEO, Karen Hubbard, an opportunity to share her insights into the strategy and to bring her considerable retail experience to the discussion. The actions arising from this meeting have been built into management's programme of activities with the Board having the opportunity to review progress at appropriate times throughout the year.

INVESTOR RELATIONS

The Board recognises the importance of explaining financial results and key strategic and operational developments in the business to the Company's shareholders, and of understanding any shareholder concerns. The Board regularly communicates and meets with shareholders and analysts and the Board will continue to adopt this approach.

The Chief Executive Officer and Chief Financial Officer have overall responsibility for investor relations. They are currently supported by the Company's retained financial PR advisers, MHP Communications, and its corporate brokers, UBS, who help organise presentations and visits to the Group's operations and stores for analysts and shareholders.

The formal reporting of the Group's full and half-yearly results has been and will continue to be a combination of presentations, group calls and meetings and one-to-one meetings in a variety of locations where we have shareholders. The Chief Executive Officer and Chief Financial Officer report back to the Board after any investor-related events and also ensure that the Board is kept regularly informed of feedback from analysts and shareholders. In addition, the Chairman and the Non-Executive Directors regularly join the Executive Directors at these investor-related events and occasionally meet with shareholders separately to discuss the Group's approach to governance and other governance developments which affect the Group. The Group's brokers also provide feedback after the full and half-year results' announcements and, as appropriate, other investor-related events to inform the Board about investor views.

All the Non-Executive Directors and, in particular, the Chairman and Senior Independent Director are available to meet with major shareholders, if they wish to raise issues separately from the arrangements described above. In addition, in January 2017 the Chairman, Non-Executive Directors and the Company Secretary hosted the Company's first corporate governance presentation for the Group's major investors. We have asked attendees to provide feedback on the event and are considering making this a regular event.

The Company will also communicate with shareholders through the AGM, at which the Chairman will give an account of the progress of the business over the last year and a review of current issues, and will provide the opportunity for shareholders to ask questions. All Directors will be available at the AGM.

Card Factory's investor website is also updated with news and information including this Annual Report and Accounts which sets out our strategy and performance together with our plans for future growth (www.cardfactoryinvestors.com).

SIGNIFICANT SHAREHOLDERS

Details of the Group's significant shareholders and of shareholder voting rights are set out in the Directors' Report on page 76.

Corporate Governance Report continued

NON-EXECUTIVE DIRECTOR MEETINGS

The Chairman and the other Non-Executive Directors met four times in the year without Executive Directors being present and they intend to continue to meet regularly to ensure that any concerns can be raised and discussed outside formal Board meetings. On one of these occasion, the Senior Independent Director and the other Non-Executive Directors continued the meeting without the Chairman to review his performance.

The Chairman and the other Non-Executive Directors regularly have informal meetings with the Executive Directors and other members of the senior management team in the business, often at a store location or at the Group's head office.

BOARD COMMITTEES

The Board has three committees:

- an Audit and Risk Committee;
- a Nomination Committee; and
- a Remuneration Committee.

If the need should arise, the Board may set up additional committees.

Audit and Risk Committee

The Audit and Risk Committee assists the Board in discharging its responsibilities with regard to:

- financial reporting;
- external and internal audits and controls, including reviewing and monitoring the integrity of the Group's annual and interim financial statements;
- reviewing and monitoring the extent of the non-audit work undertaken by external auditors;
- advising on the appointment of external auditors;
- overseeing the Group's relationship with its external auditors;
- reviewing the effectiveness of the external audit process;
- reviewing the effectiveness of the Group's internal controls and risk management systems; and
- whistleblowing and loss prevention.

The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half-yearly reports remains with the Board. The Audit and Risk Committee will give due consideration to laws and regulations, the provisions of the Code and the requirements of the Listing Rules.

The Code recommends that an Audit Committee should comprise of at least three members who are Independent Non-Executive Directors, and that at least one member should have recent and relevant financial experience. The Audit and Risk Committee is currently chaired by David Stead, and its other members are Octavia Morley and Paul McCrudden. The Directors consider that David Stead has recent and relevant financial experience.

The Audit and Risk Committee met four times during the year and, in future, will meet no fewer than three times per year.

The Audit and Risk Committee has taken appropriate steps to ensure that the Company's Auditor is independent of the Company and obtained written confirmation from the Company's Auditor that it complies with guidelines on independence issued by the relevant accountancy and auditing bodies.

The Audit and Risk Committee has access to sufficient resources to carry out its duties, including the services of the Group General Counsel and Company Secretary and the Group's loss prevention team. In addition, Deloitte LLP, provide internal audit services to the Group. Independent external legal and professional advice can also be taken by the Audit and Risk Committee if it believes it necessary to do so.

The Audit and Risk Committee chair will be available at Annual General Meetings of the Company to respond to questions from shareholders on the activities of the Audit and Risk Committee during the year, a report on which is set out on pages 48 to 52 of the Governance section of this report.

The Audit and Risk Committee's terms of reference, which are available on request from the Company Secretary and are published on Card Factory's investor website (www. cardfactoryinvestors.com), comply with the Code.

Remuneration Committee

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including:

- making recommendations to the Board on the Company's policy on executive remuneration;
- setting the over-arching principles, parameters and governance framework of the Group's remuneration policy; and
- determining the individual remuneration and benefits package of each of the Company's Executive Directors, its Company Secretary and other members of the Group's senior management team.

The Remuneration Committee also ensures compliance with the Code in relation to remuneration and is responsible for preparing an annual remuneration report for approval by the Company's members at its AGM.

Non-Executive Directors' and the Chairman's fees are determined by the full Board.

The Code provides that a Remuneration Committee should comprise of at least three members who are Independent Non-Executive Directors, free from any relationship or circumstance which may or would be likely to, or appear to, affect their judgement and that the Chairman of the Board of Directors may also be a member provided he is considered independent on appointment. The Remuneration Committee is chaired by Octavia Morley, and its other members are Geoff Cooper, David Stead and Paul McCrudden.

The Remuneration Committee met three times during the year and, in future, will meet not less than twice a year.

The Board and the Remuneration Committee have employed Kepler (a brand of Mercer), a consulting agency which specialises in executive remuneration, to advise and assist in connection with the Group's executive remuneration arrangements and its reporting obligations. Kepler do not provide any other services to the Group.

A report on the Remuneration Committee's activities during the year is set out on pages 53 to 54 of the Governance section of this report.

The Remuneration Committee's terms of reference, which are available on request from the Company Secretary and are published on Card Factory's investor website (www. cardfactoryinvestors.com), comply with the Code.

Nomination Committee

The Nomination Committee assists the Board in discharging its responsibilities relating to the composition and make-up of the Board and any committees of the Board. It is also responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as Directors or committee members as the need may arise. The Nomination Committee is responsible for evaluating the balance of skills, knowledge and experience and the size, structure and composition of the Board and committees of the Board, retirements and appointments of additional and replacement directors and committee members and will make appropriate recommendations to the Board on such matters.

The Code recommends that a majority of the members of a Nomination Committee should be Independent Non-Executive Directors. The Nomination Committee is chaired by Geoff Cooper, and its other members are Octavia Morley, David Stead and Paul McCrudden. The Directors therefore believe that the Company is in compliance with the Code. The Nomination Committee met twice during the year and, in future, will meet not less than once a year. A report on the activities of the Nomination Committee during the year is set out on page 73 of the Governance section of this report. The Nomination Committee's terms of reference, which are available on request from the Company Secretary and are published on Card Factory's investor website (www. cardfactoryinvestors.com), comply with the Code.

TRAINING AND INDUCTION

It is important to the Board that all Directors have the ability to influence and challenge appropriately so that the Board and the Group, as a whole, can maximise the benefit they derive from their business knowledge and experience.

New Directors receive a full, formal and tailored induction on joining the Board, including meeting other members of the Board, the senior management team, other key team members and the Group's advisers. The induction includes visits to the Group's stores, head office, its design studio, Printcraft (the Group's print facility) and the headquarters of its online subsidiary, Getting Personal (www.gettingpersonal.co.uk).

Since joining in February 2016, Karen Hubbard has been through an extensive tailored induction plan details of which are set out in the Nomination Committee Report on page 73.

Throughout the year, all of the Non-Executive Directors have continued to visit all of the Group's operations both informally and together with members of the senior management team and feedback is given at the following Board meeting.

Additionally, the Non-Executive Directors have this year informally 'buddied up' with members of the senior management team to build on their day-to-day knowledge of specific areas of the business and support those team members in sustaining and developing our four pillars growth strategy.

New Directors are also given the opportunity to review information about the Group including Board and Committee papers and strategy documentation which they may find useful in preparing for their role.

The Group's Company Secretary and General Counsel periodically reports to the Board on any new legal, regulatory and governance developments that affect the Group and, where necessary, actions are agreed.

Please see the Directors' biographies on pages 34 to 36 for details of the skills and experience of each Director.

BOARD EVALUATION

The Board conducted its second internal evaluation during the year which was led by the Chairman and facilitated by the Company Secretary. This second evaluation predominantly assessed the Board's performance against the objectives agreed at the evaluation carried out in January 2016 which the Chairman and Company Secretary reviewed and provided feedback on in advance of the session. The key objectives the Board has set itself for the coming year are to:

- ensure a robust plan is established to secure growth under the Group's four pillar and associated function strategy, and to monitor progress on its achievement;
- ensure a comprehensive succession plan is established for the senior management team and other key employees;
- appoint, induct and settle a new CFO into the Board and senior management team;
- initiate a process aimed at identifying longer-term growth options for the Group; and
- increase the proportion of unstructured debate on the Board's agenda.

Board evaluation will continue to be conducted on an annual basis and the Board will, every third year, as required by the Code, conduct an externally facilitated evaluation, with the first of these to take place later this calendar year.

CONFLICTS OF INTEREST

The Companies Act 2006 allows the Board of a public company to authorise conflicts and potential conflicts of interest of individual Directors where the Articles of Association of the company contain an enabling provision. The Company's Articles of Association give the Board this authority subject to the following safeguards:

- Directors who have an interest in matters under discussion at a Board meeting must declare that interest and abstain from voting; and
- only Directors who have no interest in the matter being considered are able to approve a conflict of interest and, in taking that decision, the Directors must act in a way they consider, in good faith, would be most likely to promote the success of the Company.

The Directors are able to impose limits or conditions when giving authorisation if they feel this is appropriate. All Directors are required to disclose any actual or potential conflicts to the Board and there are no current matters disclosed that are considered by the Board to give rise to a conflict of interest.

All conflicts are considered by the Board and any authorisations given are recorded in the Board minutes and reviewed annually by the Board. The Board considers that its procedures to approve conflicts of interest and potential conflicts of interest are operating effectively.

APPOINTMENT AND REMOVAL OF DIRECTORS

All Directors have service agreements or letters of appointment in place and the details of their terms are set out in the Directors' Remuneration Report on pages 53 to 71. The service agreements and letters of appointment are available for inspection at the Company's registered office during normal business hours.

The Articles of Association of the Company provide that a Director may be appointed by ordinary resolution of the Company's shareholders in general meeting, or by the Board so long as the Director stands down and offers him or herself for election at the next AGM of the Company. The Articles also provide that each Director must stand down and offer him or herself for re-election by shareholders at the AGM at least every 3 years. The Code recommends that directors of companies in the FTSE 350 index should be subject to annual re-election. The Company complies with this recommendation.

Directors may be removed by a special resolution of shareholders, or by an ordinary resolution of which special notice has been given in accordance with the Companies Act 2006. The Articles of Association of the Company also provide that the office of a Director shall be vacated if he is prohibited by law from being a Director, or is bankrupt; and that the Board may resolve that his or her office be vacated if he or she is of unsound mind or is absent from Board meetings without consent for six months or more. A Director may also resign from the Board. The Nomination Committee makes recommendations to the Board on the appointment and removal of Directors.

In accordance with the Code, all Directors will retire from the Board and offer themselves for re-election at the AGM.

POWERS OF DIRECTORS

The business of the Company is managed by the Board, which may exercise all of the powers of the Company, subject to the requirements of the Companies Act 2006, the Articles of Association of the Company and any special resolution of the Company. As stated above, the Board has adopted internal delegations of authority in accordance with the Code and these set out matters which are reserved to the Board or committees and the powers and duties of the Chairman and the Chief Executive Officer respectively.

At the AGM of the Company, the Board will seek authority to issue shares and to buy back and reissue shares. Any shares bought back would either be held in treasury, cancelled or sold in accordance with the provisions of the Companies Act 2006. For further details see the Notice of Annual General Meeting which accompanies this report.

ADVICE, INDEMNITIES AND INSURANCE

All Directors have access to the advice and services of the Company Secretary. In addition, Directors may seek legal advice at the Group's cost if they consider it necessary in connection with their duties.

The Directors of the Company, and the Company's subsidiaries, have the benefit of a third-party indemnity provision, as defined by section 236 of the Companies Act 2006, in the Company's Articles of Association. In addition, Directors and Officers of the Company and its subsidiaries are covered by Directors' and Officers' liability insurance as well as prospectus liability insurance which provides cover for liabilities incurred by Directors in the performance of their duties or powers in connection with the issue of the Prospectus in relation to the IPO. Until his retirement on 30 June 2016, Richard Hayes (Executive Director) had the benefit of these policies. No amount was paid under any of these indemnities or insurances during the year other than the applicable insurance premiums.

ARTICLES OF ASSOCIATION

The Company's Articles of Association can only be amended by a special resolution of its shareholders in a general meeting, in accordance with the Companies Act 2006.

GOVERNANCE AND RISK

The Board, as a whole, takes overall responsibility for ensuring that the Company has a continuous and robust process in place to identify, evaluate and manage any significant risks that may affect the achievement of the Group's strategic and operational objectives. Given the nature of our business and our operating model, we do not have a separate risk committee. Our Audit and Risk Committee oversees our risk management framework as part of its activities, and ensures that it enables the Committee and the Board to carry out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

The key elements of the process which have been established by the Group to identify, evaluate and manage any significant risks are as follows:

- the Board and the senior management team take a leadership role in managing risk within the business and look to embed the principles of sound risk management in the teams they are responsible for managing;
- specific risks are recorded in the Group's risk register and assessed in terms of impact and likelihood;
- responsibility for monitoring and managing these risks on a day-to-day basis is given to the relevant members of the Group's senior management team and they provide regular updates to the Group's Executive Directors and the rest of the senior management team;
- in the event there is a change in their assessment of the impact or likelihood of the risk or they identify a new risk which the Group may face, the Group's risk register is updated to reflect this;
- the Audit and Risk Committee regularly reviews the Group's risk register and gives detailed consideration to those risks which have been identified as principal risks affecting the Group and the actions being taken and processes in place to mitigate them as well as providing regular and rigorous challenge to the Executive Directors;
- the Board as a whole carries out a review of the principal risks affecting the Group twice a year as well as assessing whether the Group is striking an appropriate balance between its appetite for risk and the achievement of its strategic goals; and
- certain principal risks, for example, competitor activity and business strategy are, as part of the day-to-day management of the business, the subject of separate and regular detailed discussions at Board meetings and meetings of the senior management team.

The Board collectively recognise that the continuous robust assessment and control of risk are fundamental to the Group achieving its strategic and operational objectives, and the Audit and Risk Committee seeks to ensure that the risk management framework evolves with the business and the trading environment in which the Group operates.

The risk management framework is designed to manage, rather than eliminate, the risk of failing to achieve strategic objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Board and the Audit and Risk Committee have reviewed the effectiveness of the Group's risk management framework and the Company's risk register and their alignment with the Company's strategic objectives in accordance with the Code for the period ended 31 January 2017 and up to the date of approving the Annual Report and Accounts. The Board as a whole considered the principal risks and relevant mitigating actions and determined that they were acceptable for a retail business of the size and complexity as that operated by the Group.

Corporate Governance Report continued

INTERNAL CONTROL AND AUDIT

Overall responsibility for the system of internal control and reviewing its effectiveness lies with the Board. In its day-to-day operations, the Group continuously assesses the performance of its internal controls and, where necessary, looks to enhance its control environments. Additionally, Deloitte LLP were appointed in 2015 to provide internal audit services to the Group. Further details of the scope of their work during the year is set out in the report of the Audit and Risk Committee on pages 50 and 51. The internal audit plan that has been agreed with Deloitte supports the Group's assessment of its controls and processes.

The Group's system of internal control can be summarised as follows:

Board
Takes collective responsibility for internal controls Reserves certain matters for the Board Oversees the control framework and responsibility for it Approves key policies and procedures Monitors development of performance
Audit and Risk Committee
Oversees effectiveness of internal control framework Receives reports from external auditor Approves internal audit programme Receives internal audit reports
Senior management team
Responsible for operating within the control framework Monitors compliance with policies and procedures Recommends changes to controls where needed Monitors performance
Loss prevention team
Focus on cash losses and fraud in stores
Compliance and safety risk assessors
Review compliance with internal procedures that ensure good health and safety standards are observed
Co-sourced internal audit function
Deloitte LLP

Specific elements of the current internal control framework include:

- a list of matters specifically reserved for Board approval;
- clear structures and accountabilities for colleagues, well understood policies and procedures, and budgeting and review processes all of which the Executive Directors are closely involved with;
- every member of the senior management team having clear responsibilities and operating within defined policies and procedures covering such areas as capital expenditure, treasury operations, financial targets, human resources management, customer service and health and safety;
- the Executive Directors and the senior management team monitoring compliance with these policies and procedures and, in addition, regularly reviewing performance against budget, analysis of variances, major business issues, key performance indicators and the accuracy of business forecasting; and
- a continuous review programme of store compliance by the loss prevention team (as regards financial procedures in stores), by risk assessors working in the health and safety team and by other teams within the Group.

The Audit and Risk Committee has responsibility for overseeing the Group's system of internal controls and of the internal audit programme and receives the report of the external auditor as part of the annual statutory audit.

The Board and the Audit and Risk Committee have monitored and reviewed the effectiveness of the Group's internal control systems in accordance with the Code for the period ended 31 January 2017 and up to the date of approving the Annual Report and Accounts and confirmed that they are satisfactory.

Internal control systems such as this are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute, assurance against material accounting misstatement or loss. Where any significant failures or weaknesses are identified from the systems of internal control, action is taken to remedy these.

DISCLOSURES UNDER DTR 7.2.6R

The disclosures the Company is required to make pursuant to DTR 7.2.6R are contained in the Directors' Report on pages 75 to 78.

SHARE DEALING CODE

The Company has introduced a new code of securities dealings in relation to the ordinary shares. The code was adopted during the financial year and addresses the requirements of the new EU Market Abuse Regulation which came into force in July 2016. The code adopted applies to the Directors, members of the senior management team and to other relevant employees of the Group. Following the abolition of the Model Code contained in the Listing Rules, the Company's previous share dealing code, which was largely based upon these, was abolished.

Strategic Report

Governance

Financials

ANTI-BRIBERY

The Company has implemented internal procedures and measures (including the provision of an Anti-Corruption and Bribery Policy) designed to ensure compliance by it and other members of the Group with the UK Bribery Act 2010 (as amended).

WHISTLEBLOWING

The Group is committed to conducting its business with honesty and integrity, with high standards of corporate governance and in compliance with legislation and appropriate codes of practice. We expect all colleagues to maintain such high standards but recognise that all organisations face the risk of things going wrong from time to time, or of unknowingly harbouring illegal or unethical conduct.

We recognise that a culture of openness and accountability is essential in order to prevent such situations occurring, or to address them when they do occur. We maintain a whistleblowing policy that is designed to encourage colleagues to report such situations without fear of repercussions or recriminations provided that they are acting in good faith. By having early knowledge of any wrongdoing or illegal or unethical behaviour, we improve our ability to intervene and stop it. The policy sets out how any concerns can be raised and the response that can be expected from the Company and provides colleagues with the assurance that they can do this in complete confidence. Our Loss Prevention team, in its day-to-day activities, seeks to reinforce this message and, in addition, the Group periodically uses communication campaigns to supplement this. The Audit and Risk Committee is notified of any whistleblowing reports.

This report was reviewed and approved by the Board on 27 March 2017.

Geoff Cooper
Chairman
27 March 2017

Chairman's Letter – Audit and Risk Committee

David Stead
Chairman of the Audit and Risk Committee

Dear Shareholder

The Audit and Risk Committee plays an important role in ensuring that the interests of shareholders are properly protected by monitoring the activities and conduct of management and auditors, including those providing internal audit services, and ensuring they are operating in accordance with the control frameworks in the business and with all applicable rules and standards.

The Committee has clear terms of reference and a programme of activities designed to give assurance as to the continuing effectiveness of the Group's internal controls, its financial and business reporting and its framework for identifying and managing risk.

This programme of activities sets the agenda for Committee discussions and, whilst addressing the key topics which the Committee should always be considering, provides sufficient flexibility for the Committee to consider additional issues when they arise.

I am pleased to report that the Committee has continued to build on its work since its formation at the time of the Company's IPO. In particular, I would highlight the following activities carried out during the year:

- overseeing and reviewing the work carried out by Deloitte LLP (our internal audit service provider) including their reviews of the Group IT network resilience and cyber security, the Group's point of sale technology systems, the Group's inventory management systems and its crisis management arrangements;
- continuing to monitor the control structure of the Group that supports the Board's ability to make judgements about the Group's financial position and prospects including the continued tracking of progress with actions identified in the reviews carried out at the time of the IPO. These activities have been supplemented by the internal audit work carried out by Deloitte;
- continuing to monitor the Group's approach to risk management, ensuring that effective and robust risk management is an integral part of the Group's business planning and decision-making processes with the principal risks being regularly reviewed by the senior management team, the Committee and the Board; and
- following the review carried out by Deloitte, overseeing the introduction of a cyber security steering group and regular reporting to the Committee to monitor and support the implementation of Deloitte's recommendations.

The formal report of the Committee that follows provides further detail on its activities during the year. The Committee is committed to ensuring that its activities are focused on business issues that add to, or preserve value and that they remain aligned with the strategic goals of the Group whilst also continuing to satisfy the requirements of the Code.

I look forward to meeting shareholders at the AGM in May.

Yours sincerely

David Stead
Chairman of the Audit and Risk Committee
27 March 2017

Audit and Risk Committee Report

This report provides details of the role of the Audit and Risk Committee and the work it has undertaken during the year.

ROLE OF THE AUDIT AND RISK COMMITTEE

The principal responsibilities of the Committee, which has received delegated authority from the Board, are to:

- oversee the integrity of the Group's financial statements and public announcements relating to financial performance;
- oversee the Group's external audit process including its scope and the extent of the non-audit services provided by our auditor;
- monitor the effectiveness of financial controls;
- evaluate the process for identifying and managing risk throughout the Group; and
- ensure that the Annual Report and Accounts are fair, balanced and understandable.

A more detailed explanation of the Audit and Risk Committee's role is set out in the Corporate Governance Report on page 42. The Committee's terms of reference, which are published on Card Factory's investor website (www.cardfactoryinvestors. com), comply with the UK Corporate Governance Code.

MEMBERSHIP

The Audit and Risk Committee is chaired by David Stead, and its other members are Octavia Morley and Paul McCrudden.

As David Stead is a chartered accountant and was the Chief Financial Officer of Dunelm Group plc from 2003 to 2015, the Board considers that he has both recent and relevant financial experience in accordance with the requirements of the Code.

The Chief Executive Officer, the Chief Financial Officer, and the Chairman of the Board usually attend meetings of the Committee by invitation, along with representatives from our auditor, KPMG LLP, and our internal audit services provider, Deloitte LLP. The Company Secretary acts as secretary to the Committee.

MEETINGS

The Committee met four times during the year with details of attendance at these meetings set out in the Corporate Governance Report on page 40.

ROUTINE ACTIVITIES DURING THE YEAR

During the year, the work of the Committee has principally fallen under the following areas:

- reviewing the integrity of the draft financial statements for the year ended January 2016, the appropriateness of accounting policies and going concern assumptions and considering the auditor's report regarding its findings on the annual results;
- assessing whether the Annual Report and Accounts for the year ended January 2016, taken as a whole, were fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's strategy, business model and performance;
- approval of the Group's half-year results statements published in September 2016;
- considering the findings of a routine review by the Financial Reporting Council ('FRC') of our Annual Report and Accounts for the year ended January 2016;
- verifying the independence of the Group's auditor, approving their audit plan and audit fee and setting performance expectations;
- considering the findings of the Audit Quality Review of KPMG's audit for the year ended January 2016;
- reviewing the findings, and the implementation of actions arising from, the internal audit projects undertaken by Deloitte LLP during the year;
- reviewing the systems and controls which the Group has in place to enable the Board to make proper judgements on a continuing basis as to the financial position and prospects of the Group;
- reviewing the Group's risk register in March and September;
- reviewing the work carried out by the Group's loss prevention team in detecting and preventing fraud and theft of cash and stock;
- monitoring the Group's compliance with its policy for use of our auditor for non-audit work;
- reviewing the Group's tax strategy;
- monitoring the implementation of a capital restructuring within the Group's subsidiaries to facilitate the payment of dividends to shareholders; and
- with the support of both KPMG LLP and Deloitte LLP, monitoring developments in legislation, reporting and practice which affect matters for which the Committee is responsible.

ACTIVITIES AFTER THE YEAR END

In the period following the year end, the Committee met once in March 2017 and reviewed the following:

- the Group's risk management framework, ensuring it enables the Directors to identify and carry out a robust assessment of the principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity;
- the process undertaken by management to support the Group's viability statement (which is set out on page 77) including the time period assessed and the principal risks and combinations of risks modelled;

Audit and Risk Committee Report continued

- the integrity of the draft financial statements for the year ended January 2017, including the appropriateness of accounting policies and going concern assumption;
- the external auditor's report;
- the systems and controls which the Group has in place to enable the Board to make proper judgements on a continuing basis as to the financial position and prospects of the Group;
- whether this Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- the performance, effectiveness and qualifications of the external auditor and recommendation for their reappointment; and
- the Company's policy on the use of auditors for non-audit services.

SIGNIFICANT AREAS OF JUDGEMENT

Within its terms of reference, the Committee monitors the integrity of the Group's annual and half-year results, including a review of the significant financial reporting issues and judgements contained in them.

At its meeting in March 2017, the Committee: reviewed the Group's results for the financial year; considered a paper prepared by KPMG LLP, which included comments on significant reporting and accounting matters in the year under review; and reviewed a paper from the Chief Financial Officer to support the Directors' going concern and viability statements.

The major accounting issues discussed by the Committee concerned:

- the existence and valuation of the Group's inventory; and
- the accounting relating to the Group's foreign exchange hedging instruments.

Inventory

The Group holds significant volumes, and a broad range, of inventory. Certain of the Group's inventory procedures are manual in nature as are certain controls around inventory once it has left the Group's distribution centre and has been delivered to stores. In light of these manual procedures and controls, there is a heightened risk that a material misstatement could arise due to the volume or cost of inventory being incorrectly recorded.

The Group has a number of formal processes and procedures to assess the reasonableness of the inventory value presented in the Annual Report and Accounts. These include:

- full inventory counts twice yearly both in-store and in the Group's distribution centre;
- additional store counts of seasonal inventory at the end of the key trading seasons for the business;
- reviews of inventory levels by store; and
- detailed analytical review to assess the reasonableness of the inventory figure.

The Committee is satisfied that the judgements made by management are reasonable and that appropriate disclosures have been made in the Annual Report and Accounts.

Accounting for foreign exchange hedging instruments

The business aims to hedge a significant proportion of planned foreign currency stock purchases. A number of forward hedges (including structured options) are in place and, where appropriate, hedge accounting is adopted by the Group.

Hedge accounting is by nature complex and is subject to documentary requirements and periodic effectiveness testing involving a degree of judgement. In order to ensure compliance with the requirements for hedge accounting the Group formally documents the designation of foreign currency hedges at the outset of each hedging relationship and hedge effectiveness is tested on a monthly basis. Forecast foreign currency requirements and the level of hedges in place are monitored on an ongoing basis.

The Committee is satisfied that accounting policies in respect of hedge accounting have been appropriately applied.

ASSESSMENT OF ANNUAL REPORT AND ACCOUNTS

The Committee confirmed to the Board that it considered this Annual Report and Accounts as a whole to be fair, balanced and understandable, to the extent possible whilst complying with all applicable legal, regulatory and reporting requirements.

INTERNAL AUDIT

Deloitte LLP provide internal audit services for the Group, giving additional support in evaluating the effectiveness and robustness of the Group's system of internal control and its approach to identifying and mitigating risks.

During the year, Deloitte's work covered the following areas:

- the Group's point of sale technology systems – a comprehensive review of the Group's current systems in light of the Group's current and future requirements taking into account the Group's growth and development since these systems were introduced;
- the resilience of the Group's IT network and cyber security – this principally focused on assessing the Group's vulnerability to external threats but also considered some of the potential internal threats. It

included development recommendations which are being implemented over a period of time under the supervision of the Committee by a cyber security steering group that includes relevant members of the Group's senior management team;

- the Group's inventory management systems – this review considered all key aspects of the Group's inventory management systems with a focus on store stock controls, reverse logistics and inventory costing;
- the Group's crisis management arrangements – the review focused on the development of the Group's existing crisis management arrangements and the steps the Group needs to take to develop these to the satisfaction of the Committee.

LOSS PREVENTION

During the course of the last year, the Group completed a detailed review of its loss prevention function, which had been identified as an area where improvements were required particularly given the high proportion of transactions in Card Factory stores that are conducted in cash. The review incorporated the views of all key stakeholders within the business and identified a number of areas for improvement.

Having considered the findings, the senior management team, with the support of the Committee, restructured the Group's loss prevention function. The main objective of this restructuring was to introduce a more holistic set of loss prevention activities, incorporating a greater use of data to support investigations and a more robust approach to disciplinary action when supported by clear evidence. Whilst initially the team's actions were focussed on fraud and theft detection, these have evolved during the course of the year, with greater education and awareness of prevention methods being rolled out across the Group's retail management team.

The Committee continues to receive regular reports on the activities of the loss prevention team and the progress being made.

EXTERNAL AUDITOR

KPMG LLP have conducted the statutory audit for the financial year ended 31 January 2017 and they attended all four of the Committee meetings held during that year as well as the one held in March 2017. The Committee had the opportunity to meet privately with them during the period.

The fee paid to KPMG LLP for the statutory audit of the Group and Company financial statements and the audit of Group subsidiaries pursuant to legislation was £107,500. A breakdown of fees paid to KPMG LLP during the financial year is set out in note 4 to the financial statements on page 96.

Resolutions to reappoint KPMG LLP as auditor and to authorise the Directors to agree their remuneration will be put to shareholders at the AGM.

Our current policy is to tender the statutory audit at least every ten years. As KPMG LLP have been our auditor since 2011/12, this means that the next tender will be for the 2021/22 audit at the latest. We intend to invite at least one firm outside the 'Big Four' to participate in the tender process.

Whilst we have not now conducted a competitive tender for the audit for more than six years, the Committee and the Board continue to believe this is in the best interests of shareholders. KPMG LLP have, during their time as the Group's auditor, developed an extensive knowledge of the Group and they successfully supported the Group through its IPO in 2014. KPMG's knowledge and experience and the stability this provides is important to the Group as it continues through its initial years as a listed Group. In line with audit partner rotation requirements 2016/17 is the first year in which the Independent Auditor's Report will be signed by KPMG LLP's new audit partner who has attended all of the Committee meetings during the year and who has separately met with the Chairman of the Audit and Risk Committee.

We comply with the Competition and Markets Authority's Statutory Audit Services Order 2014.

The Group has no contractual arrangements (for example, within borrowing arrangements) that restrict its choice of auditor.

Audit and Risk Committee Report continued

USE OF AUDITORS FOR NON-AUDIT WORK

The Committee recognises that the use of audit firms for non-audit services can potentially give rise to conflicts of interest and is therefore a sensitive issue. The Group has a formal policy regarding its use of audit firms for non-audit services and the Committee, in addition to being responsible for the oversight of our auditor on behalf of the Board, also has responsibility for monitoring how this policy is implemented.

Under the policy, our auditor is currently eligible for selection to provide non-audit services where it is in the Group's best interest for it to do this and it is best placed to deliver the required service in terms of quality and cost, taking into account their skills and experience. This is subject to the overriding principle that the auditor may not provide a service which:

- places them in a position to audit their own work;
- results in them making management decisions for the Group;
- creates a mutuality of interest; or
- puts them in the role of advocate for the Company or any member of the Group.

All work commissioned from our auditor is required to be sanctioned by the Chief Financial Officer, who consults with the Committee Chairman if the fee involved is significant or if there are any issues regarding independence, and the policy has built in levels of authority to control the awarding of non-audit work to the Company's auditor.

The Chief Financial Officer also periodically provides the Committee with reports on audit, audit related and non-audit expenditure, together with details of any material non-audit related assignments.

The aggregate fees paid to KPMG LLP for non-audit work during the year were £36,000 (equivalent to 33% of the audit fee). During the course of the year we have engaged KPMG LLP to provide tax advice, to perform an independent review of our half-year results, and for sundry additional assignments including advice in connection with a capital restructuring exercise within the Group's subsidiaries. Full details are given in note 4 to the financial statements on page 96.

The Committee is satisfied that the overall levels of audit related and non-audit fees, and the nature of services provided, are not such as to compromise the objectivity and independence of our auditor.

Following the issue of the EU Audit Directive in June 2016, we have reviewed our policy regarding the use of audit firms for non-audit services. A copy of the revised policy which has been adopted is available on Card Factory's investor website (www.cardfactoryinvestors.com). The key changes to the policy are to reflect that:

- fees for non-audit services provided by the statutory auditor in any year may not exceed 70% of the average fees for the Group statutory audit in the three previous years;
- the auditor will be prohibited from providing certain non-audit services, including:
  - almost all tax work including general tax advice;
  - internal audit;
  - corporate finance; and
  - involvement in management activities, including working capital and cash management and the provision of financial information.

FRC REVIEWS

Review of Annual Report and Accounts

During the year the Conduct Committee of the FRC carried out a routine review of the Company's Annual Report and Accounts for the year ended 31 January 2016 in accordance with Part 2 of the Committee's Operating Procedures. Based on their review, the Company was informed that the Committee did not wish to raise any questions or queries with us (although they retain the right to revisit that in the future). This is a pleasing outcome, although it is important to note that the Conduct Committee's review only considered the Company's compliance with reporting requirements rather than verifying the accuracy of the information contained in the report which the Company is responsible for.

FRC Audit Quality Review

The FRC's Audit Quality Review team carried out a review of the audit conducted by KPMG LLP for the year ended 31 January 2016 specifically in the areas of revenue recognition, inventory and foreign exchange hedging. In selecting which aspects of an audit to review, the FRC take account of those areas considered to be higher risk by the auditors and Audit and Risk Committee, their knowledge and experience of audits of similar entities and the significance of an area in the context of the financial statements. Control and analytical review procedures relating to store revenue recognition were identified as areas where limited additional evidence of and development in the work carried out by KPMG LLP would be appropriate and they have responded to the FRC confirming the actions they will take to address these findings.

This report was reviewed and approved by the Committee on 27 March 2017.

David Stead
Chairman of the Audit and Risk Committee
27 March 2017

Chairman's Letter – Remuneration Committee

Octavia Morley
Chairman of the Remuneration Committee

Dear Shareholder

I am pleased to present our third Directors' Remuneration Report as a listed company, for the financial year ended 31 January 2017.

The Remuneration Committee continues to keep all aspects of Executive Director remuneration under review against market and best practice for UK-listed companies and other retailers, investor guidelines and against the requirements of the UK Corporate Governance Code (or 'the Code'). The Committee has developed a remuneration policy which it believes is appropriate and balanced, supports the Company's objective to deliver shareholder value and aligns executive and shareholder interests.

Whilst our policy is proving an appropriate framework for motivating our Executive Directors to achieve the business objectives of the Group and driving the creation of long-term shareholder value, we are mindful of the continuing debate around Executive Director remuneration and shareholder preferences, including the latest investor guidelines and the ongoing BEIS consultation into corporate governance reform. Whilst we are not proposing making any fundamental changes to our policy until it is due for renewal at the 2018 AGM, we will continue to monitor developments, take into account developing market practice as we review our arrangements over the coming year and consult with shareholders where appropriate.

As disclosed in my letter in last year's report, Karen Hubbard joined the Board on 22 February 2016, taking over as CEO in mid-April. In the recruitment process, we were mindful of our policy to ensure the remuneration of a new Director is in the best interests of the Group and its shareholders ie to avoid overpaying and to align Karen's remuneration arrangements with the Group's approved remuneration policy. Her package comprises a salary of £445,000 together with annual bonus and LTIP opportunities in line with those of the outgoing CEO (as a % of salary). Until Karen meets the shareholding requirement of 200% of salary, up to one third of any bonus earned will be mandatorily deferred in shares for three years. She receives an annual pension contribution of £15,000 (3.4% of salary). As part of her recruitment package, and in order that Karen was able to take up her position quickly – to allow a suitable handover with the outgoing CEO – the Committee approved a like-for-like buyout of her forfeited bonus, which was assessed to have a fair value of £130,000, with the time of payment matched to that of the forfeited award.

Richard Hayes stepped down as CEO in mid-April and retired from the Board at the end of June. He did not receive an LTIP grant in 2016 nor was he eligible to receive any bonus for performance for the financial year 2016/17. As a good leaver, he will receive his outstanding prorated LTIP awards, to the extent that they vest based on performance, at the normal vesting date. The Committee exercised an available discretion for good leavers to disapply any holding period on vested LTIP awards, on the basis that Richard's significant shareholding continued to align his interests with that of other shareholders after he left the Board.

Chairman’s Letter – Remuneration Committee continued

As disclosed to the market in October 2016, having consulted with shareholders and considered in detail the strategic objectives of the business and the opportunities for growth over the three year performance period, the Remuneration Committee set the EPS performance measures for 2016 LTIP awards with threshold vesting at 5% compound annual EPS growth rate (‘EPS CAGR’) (2015: 9%) and maximum vesting (100% of award) at 10% EPS CAGR (2015: 15%). In addition, for awards to vest, the Company’s return on capital must be consistent with historic levels, reinforcing the focus on returns for shareholders. The Committee feels these future targets are stretching and balance the need to appropriately incentivise management whilst providing assurance to shareholders that the targets support the long-term profitable growth of the business.

During the year, the Committee has also focused on adjudicating bonuses for the year ended 31 January 2017. The Committee has reviewed the overall vesting of the bonus scheme, taking into account both Company and personal performance and considers the outcome of 20% of maximum, based on achievement of EBITDA targets to be a fair achievement for the financial year in the light of market and internal expectations. Similarly, in considering vesting of 2014 LTIP awards, we believe the outcome reflects fairly the growth in value achieved for shareholders in the period since our IPO, and that the maximum targets were appropriately stretching. Based on EPS performance of 10.73% pa and satisfaction of the return on capital underpin, 46.6% of maximum vesting is expected on or around 20 May 2017.

Other key remuneration decisions during the year have included:

- approving salary adjustments for Executive Directors; and
- ratifying the terms of the 2017 grant under the all employee ‘save as you earn’ scheme.

At the AGM, which will be held on 25 May 2017, the second section of this report, the Annual Report on Remuneration, which outlines the implementation of our remuneration policy for the forthcoming financial year, will be subject to an advisory vote.

The first section, the Directors’ Remuneration Policy, is unchanged (other than for minor changes to improve clarity), and will not be submitted for a vote, having been approved by shareholders at the Company’s AGM in 2015. We continue to value all feedback from shareholders and hope to receive your support at the forthcoming AGM.

Octavia Morley
Chairman of the Remuneration Committee
27 March 2017

Directors' Remuneration Report

INTRODUCTION

This Directors' Remuneration Report is divided into three sections: the Letter from the Chair of the Remuneration Committee, set out on pages 53 to 54; the Directors' Remuneration Policy, set out on pages 56 to 64, and the Annual Report on Remuneration, set out on pages 65 to 71.

The Directors' Remuneration Policy sets out the policy which was approved by shareholders at the AGM on 27 May 2015, and remains unchanged, other than minor text changes to improve its clarity.

No payment may be paid to a Director or past Director unless it is consistent with the approved policy unless shareholder approval is sought. The exception to this is if the payment is made pursuant to a contractual obligation that was in force at 27 June 2012 (when the new regulations came into force).

The Annual Report on Remuneration sets out how the policy has been applied during the financial year being reported on and how it will be applied in the coming year. This report will be put to shareholders for approval at the AGM on 25 May 2017, although the vote is advisory.

This report complies with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, as well as the UK Corporate Governance Code and the Financial Conduct Authority's Listing Rules.

Directors' Remuneration Report continued

DIRECTORS' REMUNERATION POLICY

This section provides Card Factory's Directors' Remuneration Policy ('the Policy') which was approved and came into effect at the 2015 AGM on 27 May 2015, and remains unchanged, other than minor text changes to improve its clarity.

Card Factory's policy for Executive Directors' remuneration is to provide a competitive package of fixed and variable pay. Fixed pay is set by reference to relevant companies to attract, motivate and retain the senior management team and to ensure a fair reward for each role. Variable pay is set to provide a competitive level of reward that aligns performance with the Group's long-term goals and shareholder interests.

POLICY TABLE FOR EXECUTIVE DIRECTOR REMUNERATION

The key components of Executive Directors' remuneration are as follows:

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Fixed pay			
Base salary To attract and retain talent by ensuring base salaries are competitive in the relevant talent market, and to reflect an executive's skills and experience	Base salaries are reviewed annually, with reference to scope of role, individual performance, experience, market competitiveness of total remuneration with reference to companies of a similar size and other retail companies, inflation and salary increases across the Group Increases will normally be effective 1 May	Whilst no maximum level of salary has been set by the Remuneration Committee, Executive Directors' salary increases will normally be in line with those for the wider employee population at Card Factory In certain circumstances (including, but not limited to, a material increase in job size or complexity, promotion, recruitment or development of the individual in the role, or a significant misalignment with market) the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain fair and competitive	Business and individual performance are considerations in setting base salary
Pension To provide post-retirement benefits	Executive Directors are entitled to receive the same auto enrolment defined contribution pension arrangements as other employees	The maximum permitted by pensions auto enrolment legislation New appointees may be offered pension arrangements based on market competitive contribution rates. Karen Hubbard receives a contribution to her personal pension of £15,000 pa	None

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Benefits To provide Executive Directors with a reasonable level of benefits and to ensure overall remuneration is market competitive	Benefits currently include private medical insurance, life insurance, income protection, and the provision of a car or car allowance Where appropriate, other benefits may be offered, for example including, but not limited to, relocation allowances	Benefits' values vary by role and are reviewed periodically relative to market It is not practical to provide a maximum opportunity for benefits, as there may be factors outside of the Company's control which change the cost to the Company (eg increases in insurance premiums) The cost of providing benefits for the year under review are disclosed in the Annual Report on Remuneration	
Variable pay			
Annual bonus To focus executives on delivery of year-on-year financial performance The ability to deliver a portion of bonuses in shares helps towards achieving an appropriate balance between year-on-year financial performance and longer-term value creation	Performance measures and targets are set at the start of the financial year by the Remuneration Committee At the end of the financial year, the Remuneration Committee determines the extent to which the targets have been achieved Awards are normally delivered in cash, but the Committee can decide that some or all of it will instead be paid in shares and deferred for up to three years. If participants have not met the shareholding requirement, up to one third of any bonus will be mandatorily deferred in shares for three years An additional benefit is provided in cash or shares equal to dividends that would have been paid over the vesting period on awards that vest The Committee has discretion to reduce the amount of any deferred bonus entitlement, or defer vesting of awards or make them subject to additional conditions, in the event of, for example, material misstatement, misconduct or reputational damage. In extreme cases, the Committee may further determine to claw back previous annual bonus payments for up to two years post-vesting	Up to 125% of salary	Performance is determined by the Committee on an annual basis by reference to financial measures (eg EBITDA) and personal performance The annual bonus for 2017/18 will be based on EBITDA performance with a personal performance underpin, as in 2016/17 (see further details in the Annual Report on Remuneration) For achievement of threshold performance, up to 15% of maximum bonus is earned In determining the bonus outcome the Committee also takes into account personal, business unit or Company performance and can reduce bonus awards accordingly The Committee retains discretion to introduce operational or strategic measures at the start of each year, to ensure alignment with the business priorities for the year. The weighting on financial measures will remain at least 80%

Directors' Remuneration Report continued

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Long Term Incentive Plan ('LTIP') To align the interests of executives with shareholders in growing the value of the business over the long term	The Committee has the ability to grant annual awards of performance shares or nil-cost options Performance is measured over a three year period. Shares are then subject to an additional two year holding period (apart from any sold to pay tax), before being released to participants An additional benefit is provided in cash or shares equal to dividends that would have been paid over the vesting period on awards that vest The Committee have discretion to reduce unvested long-term incentive awards, defer vesting of awards or make them subject to additional conditions (including those awards in a holding period) in the event of, for example, material misstatement, misconduct or reputational damage. In extreme cases, the Committee may further determine to claw back vested LTIP awards for up to two years post-vesting	Up to 175% of salary face value at grant	Subject to continued employment, awards will vest on achievement of financial performance measures (eg EPS growth, return measures), measured over a three-year performance period Up to 25% of awards will vest for achievement of threshold performance, then increase on a straight-line basis to full vesting for achieving stretch performance Measures used for LTIP awards in 2017/18 will be based on three year EPS growth with a returns underpin, as in 2016/17 (see further details in the Annual Report on Remuneration)
SAYE To encourage share ownership across the workforce	A UK tax-qualified scheme under which eligible employees (including Executive Directors) may save up to the maximum monthly savings limit (as determined by prevailing legislation) over a period of three or five years They are granted an option to acquire shares at up to a 20% discount to the price on grant. The number of shares under option is that which can be acquired at that price using the proceeds of the savings	Savings are capped at the prevailing HMRC limit at the time eligible employees are invited to participate, or such lower limit as determined by the Remuneration Committee	None
Shareholding guidelines To encourage share ownership and ensure alignment of executive interests with those of shareholders	Requirement to build up and maintain a beneficial holding of shares in the Company defined as a % of salary	Details of the current guidelines and Executive Director shareholdings are included in the Annual Report on Remuneration	None

NOTES TO THE POLICY TABLE

This Policy is unchanged in substance since approval at the 2015 AGM. Minor text changes have been made to ensure this Policy report remains clear for the reader along with other minor changes to provide additional clarity. These include:

- updates to the Policy table above to reflect 2017/18 incentive performance measures and pension arrangements for Karen Hubbard from her appointment as a Director;
- updated service contract details on pages 61 and 62 to reflect changes in Board membership and notice periods; and
- updated scenario charts on page 60 to reflect latest salaries and benefit values.

Equity plans shall be operated in accordance with the relevant rules as amended from time to time in accordance with those rules, and within the limits of the Policy.

Performance measure selection and approach to target setting

The measures used in the annual bonus are selected annually to reflect the Company's main strategic objectives for the year. Performance targets are set to be stretching but achievable, taking into account the Company's strategic priorities and the economic environment in which the Company operates. Financial targets are set taking into account a range of reference points including the Group's strategic and operating plan. The Committee considers carefully the appropriate financial conditions to attach to the annual bonus and the financial targets to attach to long-term incentive awards to ensure they continue to be: (i) relevant to our strategic objectives; (ii) mindful of risk management; and (iii) fair by being suitably stretching whilst realistic. The Remuneration Committee's rationale for the use of specific performance measures is included in the Annual Report on Remuneration.

Discretion

The Remuneration Committee reviews formulaic incentive outcomes and may adjust these within the limits of the relevant plan to ensure alignment of pay with the underlying performance of the business. The Remuneration Committee also has the discretion to make adjustments to the calculation of short- and long-term performance measures in specific circumstances and within the limits of applicable plan rules. Such circumstances include: changes in accounting standards, major corporate events such as rights issues, share buybacks, special dividends, corporate restructurings, mergers, acquisitions and disposals.

Differences in remuneration policy operated for other employees

The policy and practice with regard to the remuneration of the senior management team below the Board is consistent with that for the Executive Directors. The senior management team generally participate in the same long-term incentives as the Executive Directors with similar performance measures applied.

The Policy for our Executive Directors is considered with the remuneration philosophy and principles that underpin remuneration for the wider Group in mind. The remuneration arrangements for other employees reflect the seniority of each role. As a result, the levels and structure of remuneration for different groups of employees will differ from the Policy for executives as set out above, but with the common intention that remuneration arrangements for all groups might reasonably be considered to be fair.

All employees, including the current Executive Directors (other than the CEO, who receives an additional contribution to her personal pension of £15,000 pa), are eligible to participate in the same pension scheme (as the relevant legislation provides) with the same maximum contribution, and permanent employees will be eligible to participate (subject to certain eligibility criteria) in the UK tax-qualified SAYE scheme on identical terms.

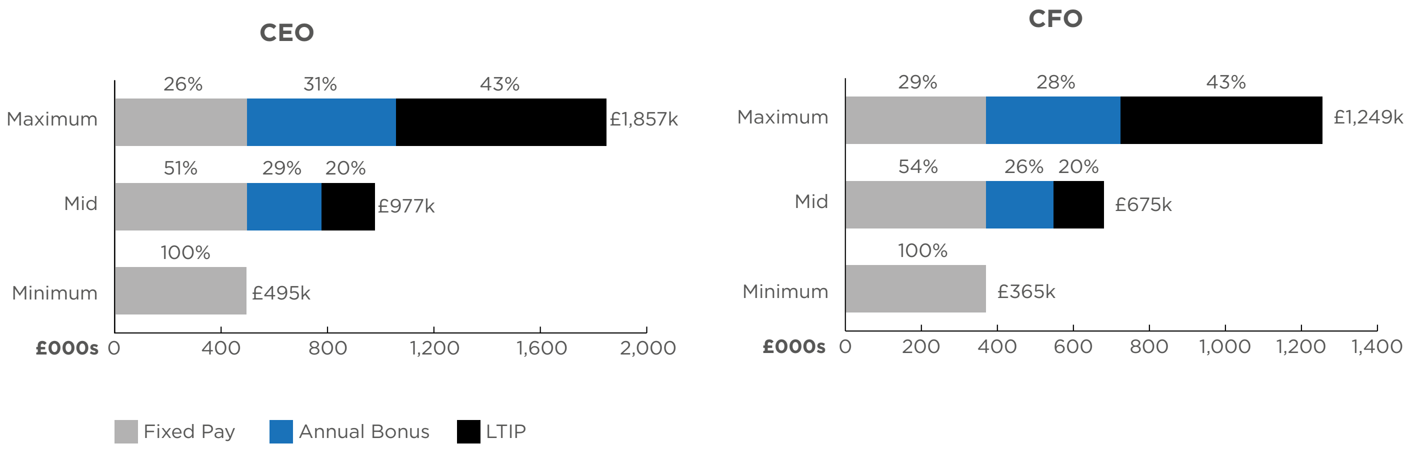
Other

In addition to the above elements of remuneration, any commitment made prior to, but due to be fulfilled after, the approval at the 2015 AGM and implementation of the Policy detailed in this report will be honoured, including arrangements put in place prior to an individual becoming a Director. The Committee also retains discretion to make non-significant changes to the policy without reverting to shareholders (for example, for regulatory, tax, legislative or administrative purposes).

PERFORMANCE SCENARIOS

The graphs below provide estimates of the potential future reward opportunities for Executive Directors, and the potential split between the different elements of remuneration under three different performance scenarios; 'Minimum', 'Mid' and 'Maximum'.

Potential reward opportunities illustrated below are in line with the existing Policy, applied to the base salaries that will be in force on 1 May 2017. The projected value of LTIP amounts assumes LTIP grants at the maximum level and excludes the impact of share price movement or dividend accrual.



In illustrating potential reward opportunities the following assumptions are made:

	Fixed pay	Annual bonus	LTIP
Minimum	Salary as at 1 May 2017	No annual bonus payable	Threshold not achieved (0%)
Mid	The CEO receives a contribution of £15,000 pa to her personal pension. The CFO has opted out of the pension scheme Benefits for the most recent financial year	On-target annual bonus payable (50% of maximum)	Performance warrants threshold vesting (25% of maximum)
Maximum		Maximum annual bonus payable	Performance warrants full vesting

APPROACH TO REMUNERATION FOR NEW DIRECTOR APPOINTMENTS

In determining appropriate remuneration for a new Director, the Committee will take into consideration all relevant factors to ensure that arrangements are in the best interests of both Card Factory and its shareholders, and will be mindful not to overpay on recruitment. In the cases of hiring or appointing a new Executive Director, the Remuneration Committee may make use of all the existing components of remuneration, and remuneration arrangements will normally be in line with those outlined in the future Policy table above, as follows:

Component	Approach	Maximum opportunity
Base salary	The base salaries of new appointees will be determined based on the experience and skills of the individual, internal relativities, relevant market data and their current basic salary	n/a
Pension	New appointees may be offered pension arrangements based on market competitive contribution rates	n/a
Benefits	New appointees will be eligible to receive benefits in line with the Policy which may include (but are not limited to) the provision of a company car or car allowance, relocation allowances	n/a
Annual bonus	The structure described in the Policy table will apply to new appointees with the relevant maximum being prorated to reflect the proportion of employment over the year	125% of salary
LTIP	New appointees will be granted awards under the LTIP on similar terms as other executives, as described in the Policy table	175% of salary
SAYE	New appointees will be invited to participate in the all-employee SAYE scheme on identical terms as other eligible employees	Savings are capped at the prevailing HMRC limit at the time employees are invited to participate

The Committee may make an award in respect of a new appointment to 'buy out' incentive arrangements forfeited on leaving a previous employer. In doing so, the Committee will take account of relevant factors including any performance conditions attached to these awards, the likelihood of those conditions being met and the proportion of the vesting period remaining. The total fair value of any such 'buy out' incentive arrangements will not exceed that of awards forfeited on leaving the previous employer, and time to vesting will be matched.

In cases of appointing a new Executive Director by way of internal promotion, the approach will be consistent with the policy for external appointees detailed above (save for 'buy outs'). Where an individual has contractual commitments made prior to their promotion to the Board, the Company will continue to honour these arrangements. Measures used for below Board employees may be different from those used for Executive Directors to tailor incentives to a particular division, role or individual.

In recruiting a new Non-Executive Director, the Remuneration Committee will use the Policy as set out in the table on page 64.

SERVICE CONTRACTS AND EXIT PAYMENT POLICY

Executive Directors

The Committee sets notice periods for the Executive Directors of no more than 12 months. The Executive Directors may be put on garden leave during their notice period (for up to six months), and the Company can elect to terminate their employment by making a payment in lieu of notice equivalent to basic salary and benefits (including pension contributions). Executive Directors' service contracts are available to view at the Company's registered office and at the forthcoming AGM.

Executive Director	Date of service contract	Notice period
Darren Bryant	30 April 2014	9 months
Karen Hubbard	5 January 2016	9 months
Richard Hayes*	30 April 2014	12 months

* Richard Hayes retired from the Board at the end of June 2016.

If employment is terminated by the Company, the departing Executive Director may have a legal entitlement (under statute or otherwise) to additional amounts, which would need to be met. In addition, the Committee may:

- settle any claims by or on behalf of the Executive Director in return for making an appropriate payment; and
- contribute to the legal fees incurred by the Executive Director in connection with the termination of employment, where the Company wishes to enter into a settlement agreement (as provided for below) and the individual must seek independent legal advice.

In certain circumstances, the Committee may approve new contractual arrangements with departing Executive Directors including (but not limited to) settlement, confidentiality, outplacement services, restrictive covenants and/or consultancy arrangements. These will be used sparingly and only entered into where the Committee believes that it is in the best interests of the Company and its shareholders to do so.

The Company's policy on termination payments is to consider the circumstances on a case-by-case basis, taking into account the executive's contractual terms, the circumstances of termination and any duty to mitigate. The table below summarises how incentives are typically treated in different circumstances:

Plan	Scenario	Timing of vesting	Calculation of vesting/payment
Annual bonus	Default treatment	No bonus is paid	n/a
	Death, injury, ill-health or disability, retirement, or any other reason the Committee may determine	Normal payment date, although the Committee has discretion to accelerate	The Committee will determine the bonus outcome based on circumstances and the date of leaving. Performance against targets is typically assessed at the end of the year in the normal way and any resulting bonus will be prorated for time served during the year
	Change of control	Ordinarily accrued bonuses will rollover into the new entity, however, the Committee has discretion to allow a bonus to be paid immediately on a change of control	Where the Committee determines that a bonus is payable, performance against targets will be assessed at the point of change of control and any resulting bonus will be prorated for time served up to the point of change of control. If bonus targets are not met, no bonus will be payable
Shares deferred as part of annual bonus	Default treatment	Awards lapse	n/a
	Death, injury, ill-health or disability, retirement, or any other reason the Committee may determine	Normal vesting date, although the Committee has discretion to accelerate	Awards are not prorated
	Change control	Immediately	Awards are not prorated
LTIP	Default treatment	Awards lapse	n/a
	Death, injury or disability, redundancy, retirement, the sale of the employing company or business out of the Group or any other reason as the Committee may determine	Normal vesting date, although the Committee has discretion to accelerate	Any outstanding awards will normally be prorated for time and performance conditions will be measured over the normal performance period (unless awards are accelerated)
	Change of control	Immediately	Any outstanding awards will be prorated for time and performance up to the point of the change of control
SAYE	Treated in line with HMRC rules		

Non-Executive Directors

The Chairman and Non-Executive Directors were appointed on the dates set out in the table below. Their letters of appointment set out the terms of their appointment and are available for inspection at the Group's registered office and at the AGM. Appointments are initially for three years (subject to annual re-election at the AGM) and unless agreed by the Board, they may not remain in office for a period longer than six years, or two terms in office, whichever is shorter. The Chairman and the Non-Executive Directors may resign from their positions but must serve the Board six and one months' written notice respectively.

Non-Executive Director	Letter of appointment date
Geoff Cooper	30 April 2014
Octavia Morley	30 April 2014
David Stead	30 April 2014
Paul McCrudden	1 December 2014

Other than the one-off option grant awarded to the Chairman pre-IPO in May 2014 in connection with his appointment (as detailed on page 71 of the Annual Report on Remuneration), Non-Executive Directors are not eligible to participate in the annual bonus or any equity schemes, do not receive any additional pension or benefits on top of the fees disclosed on page 68, and are not entitled to a termination payment.

CONSIDERATION OF EMPLOYEE REMUNERATION AND EMPLOYMENT CONDITIONS IN GROUP

The Committee considers the remuneration and employment conditions elsewhere in the Group when determining remuneration for Executive Directors. The Committee does not currently consult specifically with employees on the executive remuneration Policy, but will keep this policy under review.

CONSIDERATION OF SHAREHOLDER VIEWS

When determining remuneration, the Committee takes into account the guidelines of shareholder bodies and shareholders' views. The Committee is open to feedback from shareholders on remuneration policy and arrangements, and commits to undergoing consultation in advance of any significant changes to remuneration policy. The Committee continues to monitor trends and developments in corporate governance and market practice to ensure the structure of the executive remuneration remains appropriate.

EXTERNAL DIRECTORSHIPS

The Committee acknowledges that Executive Directors may be invited to become Independent Non-Executive Directors of other quoted companies which have no business relationship with the Company and that these duties can broaden their experience and knowledge to the benefit of the Company.

Executive Directors are permitted to accept such appointments with the prior approval of the Chairman. Approval will only be given where the appointment does not present a conflict of interest with the Group's activities and the wider exposure gained will be beneficial to the development of the individual. Where fees are payable in respect of such appointments, these would be retained by the Executive Director.

Directors' Remuneration Report continued

POLICY TABLE FOR NON-EXECUTIVE DIRECTOR REMUNERATION

The key components of Non-Executive Directors' remuneration are as follows:

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Non-Executive Directors' fees To attract Directors with the appropriate skills and experience, and to reflect the time commitment in preparing for and attending meetings, the duties and responsibilities of the role and the contribution expected from the Non-Executive Directors	Annual fee for Chairman and Non-Executive Directors Additional fees paid for additional roles or time commitment, eg chairing Board Committees Non-Executive Directors do not participate in any incentive schemes or receive any other benefits (other than nominal travel expenses)	Any increases to NED fees will be considered as a result of the outcome of a review process and taking into account wider market factors, eg inflation The maximum aggregate annual fee for all directors provided in the Company's Articles of Association is £1,000,000 pa Further details of current fees are included in the Annual Report on Remuneration	Performance of the Board as a whole will be reviewed regularly as part of a Board evaluation process

ANNUAL REPORT ON REMUNERATION

This is the Annual Report on Remuneration for the financial year ended 31 January 2017. This report sets out how the Policy has been applied in the financial year being reported on, and how it will be applied in the coming year.

REMUNERATION COMMITTEE MEMBERSHIP AND ADVISERS

The Remuneration Committee consists of three Independent Non-Executive Directors: Octavia Morley (Chairman), David Stead and Paul McCrudden, and the Non-Executive Chairman, Geoff Cooper. A more detailed explanation of the Remuneration Committee's role is set out in the Corporate Governance Report on pages 42 and 43 and a copy of its terms of reference, which comply with the UK Corporate Governance Code, are available on Card Factory's investor relations website (www. cardfactoryinvestors.com).

The Committee fulfils its duties with a combination of both formal meetings and informal consultation with relevant parties internally and externally. Its principal external advisers are Kepler, a brand of Mercer, who were appointed by the Committee, and who also provide remuneration advice to the Company. Kepler, and its parent company Mercer, do not provide any other services to the Company. Kepler is a signatory to the Code of Conduct for Remuneration Consultants in the UK, details of which can be found on the Remuneration Consultants Group's website at www.remunerationconsultantsgroup.com. Accordingly, the Committee is satisfied that the advice received from Kepler is objective and independent. Fees paid to Kepler for the financial year were £8,285 which were charged on the basis of time and materials.

COMMITTEE ACTIVITIES

During 2016/17, the Committee met to consider the following remuneration matters:

- to determine 2016 grants of LTIP awards and associated targets;
- to review current shareholdings of Executive Directors;
- to authorise payment of annual bonuses in respect of 2015/16 to Executive Directors and members of the senior management team;
- to agree salary reviews, annual bonus opportunity and annual bonus targets in respect of 2016/17 for the Executive Directors and members of the senior management team;
- to ratify the terms of the 2017 grant under the all employee 'save as you earn' scheme;
- to review developing trends in remuneration governance; and
- to formally approve the Directors' Remuneration Report set out in this Annual Report.

SINGLE FIGURE OF TOTAL REMUNERATION FOR EXECUTIVE DIRECTORS – AUDITED

The table below sets out a single figure for the total remuneration received by each Executive Director employed by the Company during the period for the year ended 31 January 2017 and the prior year:

	Karen Hubbard		Darren Bryant		Richard Hayes[1]	
	2016/17	2015/16	**2016/17**	2015/16	**2016/17**	2015/16
Salary	**£418,186**	n/a	**£352,002**	£345,100	**£191,250**	£456,750
Pension benefit	**£14,067**	n/a	**–**	–	**£154**	£365
Taxable benefits[2]	**£23,003**	n/a	**£8,000**	£8,000	**£21,118**	£35,355
Non-taxable benefits[3]	**£3,205**	n/a	**£3,389**	£3,847	**£2,348**	£5,526
Annual bonus[4]	**£104,849**	n/a	**£70,747**	£273,972	**–**	£453,263
LTIP[5]	**n/a**	n/a	**£264,894**	n/a	**£288,375**	n/a
SAYE[6]	**–**	n/a	**–**	£1,148	**–**	£459
Other[7]	**£130,000**	n/a	**n/a**	n/a	**n/a**	n/a
Total	**£693,310**	n/a	**£699,032**	£632,067	**£503,245**	£951,718

1. Richard Hayes retired from the Board at the end of June 2016.
2. Taxable benefits include: car or car allowance (Karen Hubbard: £21,614, Darren Bryant: £8,000 allowance, Richard Hayes 2016/17: £15,395, 2015/16: £25,652); fuel allowance (Richard Hayes , 2016/17: £4,876, 2015/16: £7,977); and family private medical insurance.
3. Karen Hubbard and Darren Bryant (and formerly Richard Hayes) are members of the Group Life Assurance Scheme. The amounts stated relate to insurance premiums paid by the Group.
4. Annual bonus paid for performance over the relevant financial year. Darren Bryant's annual bonus will be paid in cash. In accordance with the Policy, one third of Karen Hubbard's bonus payment will be deferred in shares for three years as she has not met the relevant shareholding requirement. The shares have no vesting conditions and Karen will be entitled to receive them in three years. Further details on performance criteria, achievement and resulting awards for the financial year ended 31 January 2017 can be found on page 66.
5. 2014 LTIP awards are expected to vest as to 46.6% on or around 20 May 2017, based on 3-year performance to 31 January 2017. The award for Richard Hayes will be pro-rated to reflect his retirement date. The value for 2016/17 in the table above has been calculated using the 3-month average share price to 31 January 2017 of 251p; no awards were due to vest during 2015/16.
6. Embedded value of SAYE options at grant. There are no performance conditions.
7. As previously disclosed, as part of her recruitment package, and in order that Karen Hubbard was able to take up her position at a time to allow a suitable handover with the outgoing CEO, the Committee approved a like-for-like buyout of her forfeited bonus, which was assessed to have a fair value of £130,000, with the time of payment matched to that of the forfeited award.

Directors' Remuneration Report continued

SALARY

During the year the Remuneration Committee reviewed the salary of the CEO who was awarded an increase of 2% in line with increases for the wider workforce. Given that Darren Bryant has informed the Board that he wishes to retire following the appointment of a successor and an appropriate handover period, his salary has not been reviewed. The salaries of the Executive Directors are, with effect from 1 May 2017, as follows:

Executive Director	1 May 2017	1 May 2016
Karen Hubbard	**£453,900**	£445,000
Darren Bryant	**£353,736**	£353,736
Richard Hayes[1]	**n/a**	£459,000

1. Richard Hayes retired from the Board at the end of June 2016.

EXECUTIVE DIRECTORS' PENSION ARRANGEMENTS

Darren Bryant opted-out of the auto enrolment pension arrangements and no pension contributions were made for him for the year under review. From appointment as a Director the CEO has received a contribution to her personal pension of £15,000 pa. For 2017/18, the Executive Directors pension arrangements will be unchanged.

ANNUAL BONUS

The Group operates an annual performance-related bonus scheme for a number of the senior management team including Executive Directors. Bonus opportunities for 2016/17 were 125% of salary (pro-rated for time in role) for Karen Hubbard and 100% of salary for Darren Bryant. Richard Hayes did not participate in the 2016/17 annual bonus. Annual bonus awards granted to Executive Directors' in respect of 2016/17 were as follows:

Executive Director	Bonus[1]
Karen Hubbard	£104,849
Darren Bryant	£70,747
Richard Hayes	n/a

1. Darren Bryant's annual bonus will be paid in cash. In accordance with the Policy, one third of Karen Hubbard's bonus payment will be deferred in shares for three years as she has not met the relevant shareholding requirement. The shares have no vesting conditions and Karen will be entitled to receive them in three years.

The awards in respect of 2016/17 were based on EBITDA and subject to a personal performance underpin. Personal performance is assessed based on balanced achievement against the four pillars of the agreed growth strategy (see pages 8 and 9 of the Strategic Report), to ensure the foundations for future growth are laid, as well as delivering in the current year. The EBITDA performance targets for the year were:

Performance level	2016/17 EBITDA target	Percentage of maximum bonus awarded
Threshold	**£98.3m**	15%
Maximum	**£101.9m**	100%

For levels of performance between the points set out in the tables, vesting would be determined on a straight-line, pro rata basis. No bonus is awarded for performance below the threshold. The range between threshold and maximum has been drawn relatively tightly in line with the relative consistency of business performance. In the financial year ended 31 January 2017, Card Factory achieved underlying EBITDA of £98.5m. The Committee assessed the personal performance underpin to have been achieved based on balanced achievement against the four pillars of the agreed growth strategy, and as such, annual bonuses were awarded at 20% of maximum.

ANNUAL BONUS FOR 2017/18

For the financial year ending 31 January 2018, the Committee will operate the annual bonus using the same measures as were used in 2016/17. The EBITDA targets have been set by the Committee and will require Executive Directors to deliver significant stretch performance. Given the close link between these targets and Card Factory's competitive strategy, EBITDA targets are considered commercially sensitive but will be published in the following year's Annual Report on Remuneration.

The use of an EBITDA performance measure, in the opinion of the Committee, focuses management on strong annual financial performance and is heavily dependent on the Company's success in achieving its short and long-term strategic goals. The overall assessment of personal performance, assessed based on balanced achievement against the four pillars of the agreed growth strategy, helps ensure that the Executives' behaviours support longer-term value creation.

LONG TERM INCENTIVE PLAN ('LTIP') – AUDITED

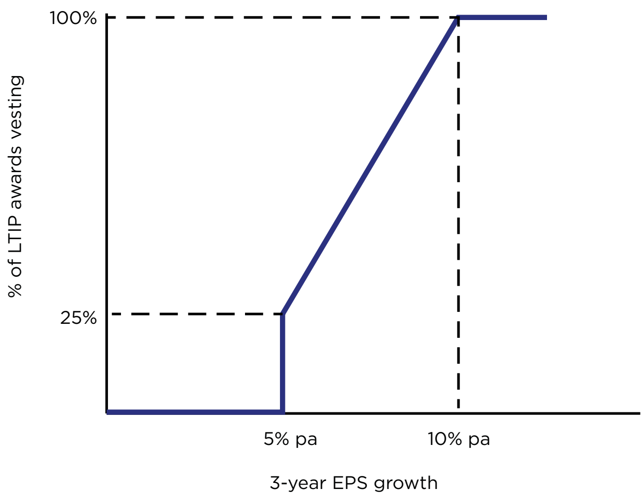
Grants of awards under the LTIP in 2016

Awards under the LTIP were granted to the Executive Directors on 30 September 2016. Awards were made over shares worth 175% of basic salary for Karen Hubbard and 150% of salary for Darren Bryant. Awards that vest (after any sales required to pay tax and social security contributions) will be subject to a 2-year holding period.

Executive	Number of LTIP shares awarded	Face/maximum value of awards at grant date[1]	% of award vesting at threshold and (Maximum)	Performance period
Karen Hubbard	235,485	£778,750	25% (100%)	1.2.16–31.1.19
Darren Bryant	160,448	£530,604	25% (100%)	1.2.16–31.1.19

1. Based on the average middle market quotation of a share in the capital of the Company for the six months prior to the date of award, 30 September 2016, of 330.7p.

2016 LTIP vesting schedule



The primary performance targets attached to those awards, based on annual EPS growth over three financial years starting with that in which the award is granted, are illustrated in the chart above. For the purposes of the LTIP, EPS is adjusted to add back the additional financing expense resulting from the payment of special dividends. In addition, for awards to vest, the Remuneration Committee needs to be satisfied that the Company's return on capital has been broadly consistent with historic levels.

The use of an EPS growth performance measure, in the opinion of the Committee, focuses management on continued strong financial performance and is heavily dependent on the Company's success in achieving its strategic goals. The Committee believes that a returns underpin appropriately reinforces the need to focus on returns for shareholders and encourages capital discipline.

As disclosed to the market in October 2016, having consulted with shareholders and considered in detail the strategic objectives of the business and the opportunities for growth over the three year performance period, the Remuneration Committee set the EPS performance measures with threshold vesting (25% of maximum award) at 5% compound annual EPS growth rate ('EPS CAGR') (2015: 9%) and maximum vesting (100% of award) at 10% EPS CAGR (2015: 15%). In addition, for awards to vest, the Company's return on capital must be consistent with historic levels, reinforcing the focus on returns for shareholders. The Committee feels these future targets are stretching and balance the need to appropriately incentivise management whilst providing assurance to shareholders that the targets support the long-term profitable growth of the business.

LTIP awards in 2017

For 2017, the Committee intends to grant LTIP awards to Executive Directors in line with the Policy using the same performance measures as were used in 2016. In accordance with the Policy, the Remuneration Committee will review the corresponding targets ahead of the 2017 grant to ensure they are appropriately stretching over the performance period and deliver strong earnings growth and capital returns, whilst being mindful of the potential cost pressures facing the sector over the three year period. Awards will be made over shares worth 175% of basic salary for the CEO and 150% of salary for the CFO and details of the awards will be set out in next year's report and at the time of their grant.

2014 LTIP awards vesting

Awards granted in 2014 under the LTIP were subject to the 3-year EPS compound annual growth targets of 9% pa to 15% pa with 25% vesting at threshold, and were subject to a return on capital underpin. EPS performance over the 3-year period 1 February 2014 to 31 January 2017 was 10.73% pa implying 46.6% vesting. The Committee has reviewed return on capital over the same period and is satisfied that vesting of the awards is justified. As a result, awards will vest on, or as soon as possible after, the third anniversary of the date of grant, 20 May 2017. Vested awards will be subject to a 2-year holding period although, as previously disclosed and noted below, the Committee disapplied this holding period for Richard Hayes on his retirement in June 2016.

SAYE

No SAYE awards were granted to Executive Directors during the year under review.

REMUNERATION FOR RETIRING DIRECTORS

Richard Hayes stepped down as CEO in mid-April and retired from the Board at the end of June. As outlined above, he therefore did not receive an LTIP grant in 2016 nor was he eligible to receive any bonus for performance for the financial year 2016/17.

As a good leaver he will, to the extent that they vest based on performance, receive his outstanding prorated LTIP awards at the normal vesting date. The Committee has exercised an available discretion for good leavers to disapply any holding period on vested LTIP awards, on the basis that his significant shareholding (see table on page 71) will continue to align his interests with that of other shareholders after he leaves the Board. The Committee did not, however, exercise its available discretion to accelerate the vesting of his awards.

NON-EXECUTIVE DIRECTOR FEES

The fees payable to the Chairman and Non-Executive Directors take into account general economic and market conditions, time commitment and responsibility, and the remuneration of Non-Executive Directors in similar positions in comparable UK-listed companies. Changes are generally effective from 1 May. No increases were made in the year under review and none are proposed for the current year.

	2017/18	2016/17
Base fees		
Chairman	**£125,000**	£125,000
Senior Independent Director	**£49,000**	£49,000
Non-Executive Director	**£45,000**	£45,000
Additional fees		
Chair of the Remuneration Committee	**£8,000**	£8,000
Chair of the Audit and Risk Committee	**£8,000**	£8,000

SINGLE FIGURE OF TOTAL REMUNERATION FOR NON-EXECUTIVE DIRECTORS – AUDITED

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 January 2017 and the prior year.

	Base fee		**Additional fees**		**Other**		**Total**	
Non-Executive Director	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16
Geoff Cooper	**£125,000**	£125,000	**£0**	£0	**£0**	£0	**£125,000**	£125,000
Octavia Morley	**£49,000**	£49,000	**£8,000**	£8,000	**£0**	£0	**£57,000**	£57,000
David Stead	**£45,000**	£45,000	**£8,000**	£8,000	**£0**	£0	**£53,000**	£53,000
Paul McCrudden	**£45,000**	£45,000	**£0**	£0	**£0**	£0	**£45,000**	£45,000

PAYMENTS FOR LOSS OF OFFICE

No exit payments were made during the year.

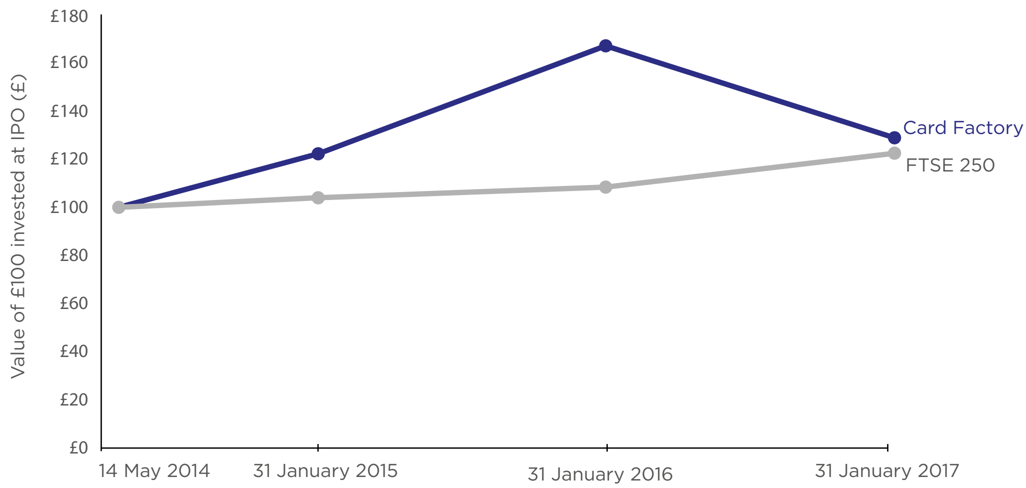
PAYMENTS TO PREVIOUS DIRECTORS

No payments were made to past Directors in the year (other than those disclosed on page 65 in relation to Richard Hayes' retirement).

HISTORICAL PERFORMANCE GRAPH AND CEO SINGLE FIGURE OF REMUNERATION

The graph below illustrates the total shareholder return performance of Card Factory against the FTSE 250 over the period since the Group listed on 20 May 2014. The FTSE 250 has been chosen as it is a recognised broad equity market index of which the Group is a member.

£100 invested TSR



Source: Datastream

CEO	2016/17[1]	2015/16	2014/15
Single figure of remuneration (£'000)	**1,005**	951	884
Annual bonus outcome (% of max)	**20.0%**	79%	77%
LTIP vesting (% of max)	**46.6**	n/a	n/a

1. For 2016/17 this represents the aggregate single figure for Karen Hubbard (from date of appointment as CEO) and Richard Hayes (to date of stepping down as CEO).

CHANGE IN CEO CASH REMUNERATION, 2015/16 TO 2016/17

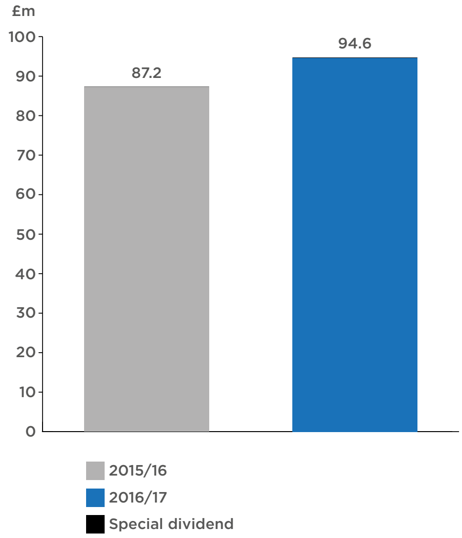
	Change in CEO pay over the year[1]	Average change across all employees[2]
Salary	(1.9)%	6.56%
Taxable benefits	(13.6)%	–
Annual variable	(76.9)%	(26.0)%

1. For 2016/17 this represents the aggregate single figure for Karen Hubbard (from date of appointment as CEO) and Richard Hayes (to date of stepping down as CEO).
2. Permanent store employees (representing c 90% of all permanent employees).

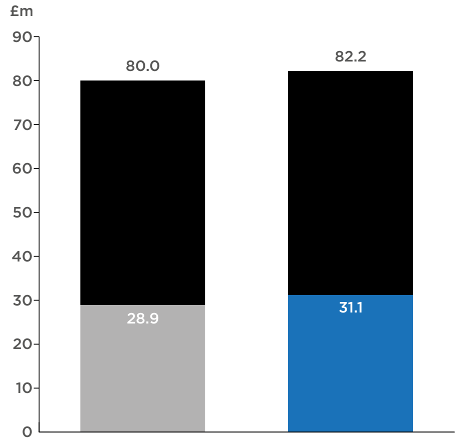
DISTRIBUTION STATEMENT

The charts below illustrate the year-on-year change in total remuneration for all employees and total shareholder distributions.

Total remuneration for all employees +8.5%



Total shareholder distributions +2.6% (including special dividend) +7.1% (excluding special dividend)



STATEMENT OF SHAREHOLDER VOTING

The following table shows the results of the shareholder votes on the 2015 Directors' Remuneration Policy at the 2015 Annual General Meeting and on the Annual Report on Remuneration at the 2016 Annual General Meeting:

	Remuneration Policy (2015)		Annual Report on Remuneration (2016)	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	284,523,755	98.32%	282,022,199	99.97%
Against	4,872,781	1.68%	82,813	0.03%
Total votes cast (excluding withheld votes)	289,396,536	100%	282,105,012	100%
Total votes withheld[1]	102,680	–	9,403	–
Total votes cast (including withheld votes)	289,499,216	–	282,114,415	–

1. A withheld vote is not a vote in law and is not counted in the calculation of the proportion of votes cast for and against a resolution.

DIRECTORS' SHAREHOLDINGS AND INTEREST IN SHARES – AUDITED

The Committee sets shareholding guidelines for Executive Directors. The current guideline is to build and maintain, over time, a personal (and/or spousal) holding of shares in the Company equivalent in value to at least 150% of the Executive Director's annual base salary (200% for the CEO). The Chief Financial Officer currently significantly exceeds this requirement. The Chief Executive Officer joined the Company on 22 February 2016, and therefore has not yet met the shareholding guideline. She has purchased shares during the year as set out in the table on page 71, but no awards received by her under the share incentive schemes operated by the Company have vested as at the date of this report. The guidelines also state that an Executive Director is expected to (i) retain at least half of vested LTIP shares, after the sale of sufficient shares to cover tax and national insurance contributions triggered by the exercise (and associated dealing costs); and (ii) defer one third of any earned net annual bonus into shares for three years, until the guideline level is achieved.

Director	Owned outright[1]	Shares held: Unvested and not subject to performance	Shares held: Unvested and subject to performance	Options held: Vested but not exercised	Options held: Unvested and subject to continued employment	Current shareholding (% of salary/ fee[2])	Shareholding requirement (% of salary/ fee)	Guideline met?
Executive Directors								
Karen Hubbard	39,404	0	235,485	0	0	22%	200%	No
Darren Bryant	5,676,087	0	570,765	0	3,103	4,012%	150%	Yes
Richard Hayes	6,687,456	0	633,579[3]	0	1,241	3,648%	200%	Yes
Non-Executive Directors								
Geoff Cooper	293,332	0	0	0	146,666	587%		
Octavia Morley	13,333	0	0	0	0	58%		
David Stead	22,222	0	0	0	0	105%		
Paul McCrudden	0	0	0	0	0	0%		

1. Including shares owned by connected persons.
2. Calculated using the closing share price of the Company on 31 January 2017 of 250p.
3. As disclosed elsewhere in this report, the awards for Richard Hayes will be pro-rated to reflect his retirement date.

There have been no changes in the numbers of shares owned by the Directors and their connected persons between the end of the year and the date of this report.

DETAILS OF DIRECTORS' INTERESTS IN SHARES IN INCENTIVE PLANS

	Date of grant	Share price at grant	Exercise price	Number of shares awarded	Face value at grant	Performance period	Exercise period
Karen Hubbard							
LTIP	30.9.16	330.7p[2]	n/a	235,485	£778,750	1.2.16–31.1.19	n/a
Darren Bryant							
LTIP	20.5.14[3]	225p	n/a	226,666	£510,000	1.2.14–31.1.17	n/a
	1.4.15[3]	277.7p[1]	n/a	183,651	£510,000	1.2.15–31.1.18	n/a
	30.9.16	330.7p[2]	n/a	160,448	£530,604	1.2.16–31.1.19	n/a
SAYE	26.6.15	327p	290p	3,103	£10,147	n/a	1.8.18–31.1.19
Richard Hayes							
LTIP	20.5.14[3]	225p	n/a	350,000	£787,500	1.2.14–31.1.17	n/a
	1.4.15[3]	277.7p[1]	n/a	283,579	£787,500	1.2.15–31.1.18	n/a
Geoff Cooper							
Pre-IPO options[4]	20.5.14	225p	225p	146,666	£330,000	n/a	20.5.17

1. Based on the average middle market quotation of a share in the capital of the Company for the three months prior to the date of award, 1 April 2015, of 277.7p.
2. Based on the average middle market quotation of a share in the capital of the Company for the six months prior to the date of award, 30 September 2016, of 330.7p.
3. 2014 LTIP awards are expected to vest on 20 May 2017 as to 46.6% of maximum. As disclosed elsewhere in this report, the 2014 and 2015 LTIP awards for Richard Hayes will be pro-rated to reflect his retirement date.
4. In connection with his appointment, Geoff Cooper was given the option to invest £330,000 in the Company by means of an acquisition of ordinary shares as part of, or alongside, the offer of shares conducted in conjunction with the IPO at the offer price of 225p per share. Geoff took up this offer at the time of the IPO and agreed to acquire 146,666 ordinary shares and this has entitled him, on each of the second and third anniversaries of the date of the completion of the IPO, to make further investments of £330,000 in the Company by purchasing a further 146,666 ordinary shares at the offer price. Geoff's entitlement to make such purchases is conditional upon and subject to his remaining as Chairman of the Company on the relevant dates. It is not intended to offer the Chairman or Non-Executive Directors participation in similar arrangements in the future. Geoff Cooper exercised 146,666 pre-IPO options on 24 May 2016.

Approved by the Board of Card Factory plc on 27 March 2017 and signed on its behalf by

Octavia Morley
Chairman of the Remuneration Committee
27 March 2017

Chairman's Letter – Nomination Committee

Geoff Cooper
Chairman of the Nomination Committee

Dear Shareholder

The main focus of the Nomination Committee over the last year has been supporting our new CEO, Karen Hubbard, through an extensive induction programme which gave her the opportunity to engage with all parts of the business.

Karen's induction enabled her to fully assess the Group's four pillar strategy and development of the Group's management team. She identified how to continue to drive this strategy as well as identifying longer-term opportunities to develop the business.

The Committee, working with Karen, has also considered in detail her proposals for improving the Group's capabilities, organisation and the development of the management team. Additionally, the Committee have begun discussing succession planning, although work on this will now accelerate following the appointment of a Group Human Resources Director who can service the Committee's needs more directly.

In January 2017, Darren Bryant, the Group's CFO for the last 8 years, informed the Board of his wish to retire in due course, once a suitable successor is identified.

A professional search firm has been appointed by the Committee with a brief to undertake a rigorous search process to identify and approach experienced candidates with the skills and experience to work closely with the Board and the senior management team in driving our existing four pillar strategy. The Committee is being assisted in its work by Karen Hubbard, our Chief Executive Officer, who is fully involved in the selection process.

It is critical that Darren's successor builds on his exemplary work in driving the evolution and delivery of the Group's strategy, and building and leading a finance team to support this. Darren is committed to providing his successor with a thorough and detailed handover and, with the support of the Committee, Karen will create a detailed induction plan.

Finally, the members of the Committee have begun a programme of regular one-to-one meetings with members of the management team to understand management engagement.

In the coming years, the Nomination Committee's priority will be to continue to support the development, engagement and succession planning for the management team to ensure the Company can continue delivering the strategy and enhance shareholder value.

Yours sincerely

Geoff Cooper
Chairman of the Nomination Committee
27 March 2017

Nomination Committee Report

This report provides details of the role of the Nomination Committee, the work it has undertaken during the year and details of how it intends to carry out its responsibilities going forwards.

ROLE OF THE NOMINATION COMMITTEE

The purpose of the Committee is to assist the Board by keeping the composition of the Board under review and by conducting a rigorous and transparent process when new appointments to the Board are made.

A more detailed explanation of the Nomination Committee's role is set out in the Corporate Governance Report on page 43 and the Committee's terms of reference, which are published on Card Factory's investor website (www.cardfactoryinvestors. com), comply with the UK Corporate Governance Code.

MEMBERSHIP

The Nomination Committee is chaired by Geoff Cooper, and its other members are Octavia Morley, David Stead and Paul McCrudden.

The Chief Executive Officer attended the two meetings held this year by invitation. The Company Secretary acts as secretary to the Committee.

MEETINGS

As currently constituted, the Committee met twice during the year with details of attendance set out in the Corporate Governance Report on page 40.

COMMITTEE ACTIVITY IN 2016/17

The Committee's main activity during the year, as described in more detail in the introductory letter to this report, was to support our Chief Executive Officer's extensive induction programme.

Welcoming our new CEO

Karen Hubbard's induction process took place over three months with extensive input and involvement of the Group's retiring CEO Richard Hayes. Karen's induction covered all parts of the Group, and included:

- one-to-one meetings with senior management team members;
- meetings with the Chairman and Non-Executive Directors;
- attending Board and divisional board meetings;
- attending colleague listening groups;
- 'immersion' time at our online subsidiary, Getting Personal;
- a tour and meetings with senior management at our in-house print facility, Printcraft;
- an introduction to the design studio and how it operates;
- working in Card Factory stores and the warehouses at the Group's distribution centre in Wakefield;
- nationwide store visits with the Group's Retail Operations Director, Commercial Director and previous CEO, Richard Hayes;
- attending the preliminary results presentation and an introduction to investors during April 2016; and
- meetings and days out with Regional Managers, Area Managers and Store Managers.

COMMITTEE'S FOCUS FOR THE FUTURE

The Nomination Committee's priority over the coming year will be to continue to develop the succession planning process for all key roles in our senior management team and, in particular, to conduct a rigorous search and selection process for a successor to our CFO, Darren Bryant.

In addressing this, succession planning policy will:

- focus on the needs of the business over the medium to longer term and the importance of maintaining the appropriate balance of skills and experience across both the executive management team and among the Non-Executive Directors; and
- recognise that the Group's best interests are served by ensuring that the individuals who lead the Group represent a range of skills, experiences, backgrounds and perspectives, including gender but who at all times are most suitable people for their roles.

GENDER AND ETHNIC DIVERSITY

Our policy is that the Board should always be of mixed gender and ethnically diverse, but we feel that quotas are not appropriate as they are likely to lead to compromised decisions on Board membership, quality and size.

We will, however, seek to ensure that specific effort is made to bring forward female candidates and those from a range of ethnic backgrounds for Board appointments. We will also monitor the Group's approach to people development to ensure that it continues to enable talented individuals, from both genders and from all ethnic groups, to enjoy career progression activities within the Group.

Details of the gender balance within the Group are set out in the Corporate Social Responsibility report on page 31.

BOARD EVALUATION

The Board conducted its second internal evaluation during the year which was led by the Chairman and facilitated by the Company Secretary. Further details are set out in the Corporate Governance Report on page 44. Board evaluation will continue to be conducted on an annual basis and the Board will, as required by the UK Corporate Governance Code, later this year (its third year since composition) engage with an external agency to assist in the process.

Nomination Committee Report continued

TENURE AND RE-ELECTION OF DIRECTORS

In accordance with the UK Corporate Governance Code, all the Directors will seek re-election at the next AGM on 25 May 2017.

This report was reviewed and approved by the Board on 27 March 2017.

Geoff Cooper
Chairman of the Nomination Committee
27 March 2017

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 January 2017.

INTRODUCTION

This section of the Annual Report and Accounts includes additional information required to be disclosed under the Companies Act 2006 ('the Companies Act'), the UK Corporate Governance Code 2014 (' the Code' or 'the UK Corporate Governance Code'), the Disclosure and Transparency Rules ('the DTRs') and the Listing Rules ('the Listing Rules') of the Financial Conduct Authority.

Some of the information we are required to include in the Directors' Report is included in other sections of this Annual Report and Accounts and is referred to below. Where reference is made to these other sections, they are incorporated into this report by reference.

INCORPORATION, LISTING AND STRUCTURE

The Company was incorporated and registered in England and Wales on 17 April 2014 under the Companies Act with registration number 9002747.

The entire issued ordinary share capital of the Company is admitted to the premium listing segment of the Official List of the Financial Conduct Authority and to trading on the London Stock Exchange plc's main market for listed securities. The liability of the members of the Company is limited.

The Company is domiciled in the United Kingdom and its registered office is at Century House, Brunel Road, Wakefield 41 Industrial Estate, Wakefield, West Yorkshire WF2 0XG. The telephone number of the Company's registered office is +44 1924 839150.

STRATEGIC REPORT

The Strategic Report, which was approved by the Board on 27 March 2017 and is set out on pages 2 to 33, contains a fair review of the Group's business, a description of the principal risks and uncertainties facing the Group and an indication of the likely future developments in the business of the Group.

The review is intended to be a balanced and comprehensive analysis of the development and performance of the Group's business during the financial year and the position of the Group's business at the end of that year. The report includes, to the extent necessary for an understanding of the development, performance or position of the Group's business, analysis using financial key performance indicators.

The Strategic Report also includes the main trends and factors likely to affect the future development, performance and position of the Group's business. It also includes information about environmental matters, the Group's employees and social and community issues.

This Directors' Report should be read in conjunction with the Strategic Report, which also contains details of the principal activities of the Group during the year. When taken together, the Strategic Report and this Directors' Report constitute the management report for the purposes of DTR 4.1.8R.

RESULTS AND ORDINARY DIVIDENDS

The consolidated profit for the Group for the year after taxation was £65.7m (FY16: £66.4m). The results are discussed in greater detail in the Chief Financial Officer's Review on pages 18 to 22.

A final dividend of 6.3 pence per share (FY16: 6.0 pence) is proposed in respect of the period ended 31 January 2017 to add to an interim dividend of 2.8 pence per share (FY16: 2.5 pence) paid on 25 November 2016. The final dividend will, subject to shareholders' approval at the AGM on 25 May 2017, be paid on 9 June 2017 to shareholders on the register on 5 May 2017.

SPECIAL DIVIDEND

A special dividend of 15 pence per share was paid to shareholders on 25 November 2016.

POST YEAR END EVENTS

There have been no significant post year end events.

SHARE CAPITAL, SHAREHOLDERS AND RESTRICTIONS ON TRANSFERS OF SHARES

The Company has only one class of shares, ordinary shares of 1p each.

Further details of the Company's share capital, including changes in the issued share capital in the year under review, are set out in note 19 to the financial statements which form part of this report on page 105. There have been no further changes in the Company's share capital between the end of the financial year under review and the date of the approval of this report.

Details of awards outstanding under share based incentive schemes are given in note 25 to the financial statements which form part of this report on pages 111 and 112. Details of the share based incentive schemes in place are provided in the Directors' Remuneration Report on pages 53 to 71.

The rights and obligations attaching to the ordinary share capital of the Company are contained within the Company's Articles of Association ('Articles') which were adopted on 17 April 2014.

The Articles do not contain any restrictions on the transfer of ordinary shares in the Company other than the usual restrictions applicable where any amount is unpaid on a share. Certain restrictions are also imposed by laws and regulations (such as insider trading and marketing requirements relating to close periods) and requirements of the Listing Rules whereby Directors and certain employees of the Company require approval of the Company in order to deal in the Company's shares.

Directors' Report continued

SHAREHOLDER AND VOTING RIGHTS
All members who hold ordinary shares are entitled to attend and vote at the AGM. On a show of hands at a general meeting every member present in person shall have one vote and on a poll, every member present in person or by proxy shall have one vote for every ordinary share held. No shareholder holds ordinary shares carrying special rights relating to the control of the Company.

SUBSTANTIAL SHAREHOLDERS
At 27 March 2017 the following had notified the Company of a disclosable interest in 3% or more of the nominal value of the Company's ordinary shares:

Shareholder	Number of ordinary shares	Percentage of share capital
Invesco Perpetual Asset Management Ltd	92,934,374	27.3
Artemis Investment Management LLP	33,832,285	9.9
Majedie Asset Management	28,380,945	8.3
Stuart Middleton	18,035,477	5.3
Old Mutual Global Investors	15,677,591	4.6

CHANGE OF CONTROL
There are no agreements between the Company and its Directors or employees providing for additional compensation for loss of office or employment (whether through resignation, redundancy or otherwise) that occurs because of a takeover bid.

The only significant agreement to which the Company is a party that takes effect, alters or terminates upon a change of control of the Company following a takeover bid, and the effect thereof, is the Company's committed bank facility dated 17 April 2014 (as amended and restated on 24 June 2015) which contains a provision such that, in the event of a change of control the facility may be cancelled and all outstanding amounts, together with accrued interest, will become repayable on the date falling 30 days following written notice being given by the lenders that the facility has been cancelled.

TRANSACTIONS WITH RELATED PARTIES
The only material transactions with related parties during the year were those transactions detailed in note 28 on page 112 of the Annual Report and Accounts.

DIRECTORS
The Directors of the Company and their biographies are set out on pages 34 to 36. Details of changes to the Board during the period are set out in the Corporate Governance Report on pages 38 and 39. Details of how Directors are appointed and/or removed are set out in the Corporate Governance Report on page 44.

POWERS OF DIRECTORS
Specific powers of the Directors in relation to shares and the Company's Articles of Association are referred to in the Corporate Governance Report on pages 44 and 45.

DIRECTORS' INDEMNITIES AND INSURANCE
Information relating to Directors' indemnities and the Directors and Officers' liability insurance the Company has purchased is set out in the Corporate Governance Report on page 45.

EMPLOYEES
Information relating to employees of the Group is set out in the Corporate Social Responsibility Report on pages 30 and 31.

Share incentive schemes in which employees participate are described in the Directors' Remuneration Report on page 58 and in note 25 to the financial statements on pages 111 and 112.

HEALTH AND SAFETY
An overview of health and safety is provided in the Corporate Social Responsibility Report on page 30.

GREENHOUSE GAS EMISSIONS
The Corporate Social Responsibility Report on pages 29 and 30 sets out the greenhouse gas emissions disclosures required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

POLITICAL DONATIONS
The Group has not made any political donations in the past and does not intend to make any in the future.

TREASURY AND RISK MANAGEMENT AND FINANCIAL INSTRUMENTS
The Group's approach to treasury and financial risk management is explained in the Principal Risks and Uncertainties section on page 25. In that section, beginning on page 23, there is also a list of the principal risks and uncertainties that affect or are likely to affect the Group. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are described in the Chief Financial Officer's Review on pages 18 to 22.

TAX
The Group pays corporation tax on its operations in the United Kingdom and does not operate in any tax havens, or use any tax avoidance schemes. A copy of the Group's tax strategy is available on Card Factory's investor website (www.cardfactoryinvestors.com).

GOING CONCERN
Taking into account current and anticipated trading performance, current and anticipated levels of borrowings, and the availability of borrowing facilities and exposures to and management of the financial risks

detailed in the Strategic Report on pages 2 to 26, the Board is of the opinion that, at the time of approval of these financial statements, there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the period outlined in the viability statement below. Accordingly, the financial statements continue to be prepared on a going concern basis.

LONGER-TERM VIABILITY

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Group over the three years to 31 January 2020. This assessment has been made taking into account the Group's current position, plans and principal risks and uncertainties described in the Strategic Report on pages 2 to 26.

The Directors have determined that a three year period to 31 January 2020 is an appropriate period over which to provide its viability statement. This is the period reviewed by the Board in its strategic planning process.

In making this statement, the Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

The Board has reviewed the Group's detailed three year strategic plan, a process it undertakes on an annual basis, including an assessment of key operational and financial assumptions. The output of this plan is also used to analyse forecast debt and covenant headroom and includes a review of sensitivities to business as usual risks. These risks include the consideration of factors which could impact forecast sales levels (for example, like-for-like sales, new store openings and online growth rates) and factors which could impact profitability (for example, foreign exchange rates, wage costs, property costs and the success of various business efficiency initiatives). The results take into account the availability and likely effectiveness of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks. The scenarios modelled represent more extreme circumstances than the Company has ever experienced.

Whilst this review does not consider all of the risks that the Group might face, the Directors consider that this stress-testing based assessment of the Group's prospects is reasonable in the circumstances of the inherent uncertainty involved.

The Board also considers cash flow forecasts, the availability of financing and the Group's plans to return surplus cash to shareholders. The Group remains highly cash generative and has significant headroom on all of the covenants in its committed banking facility which expires in 2020. In assessing potential returns of surplus cash to shareholders, the Board will take into account, inter alia, expected cash generation, the actual and projected leverage ratio and the ongoing capital requirements of the business. Such returns of surplus cash are therefore discretionary and within the control of the Board.

Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company and the Group will be able to continue in operation and meet its liabilities as they fall due in the period to 31 January 2020.

DISCLOSURE OF INFORMATION AND APPOINTMENT OF AUDITORS

So far as each Director is aware, there is no relevant audit information of which the Company's Auditor is unaware and the Directors have taken all the steps which they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act. On behalf of the Board, the Audit and Risk Committee has reviewed the effectiveness, performance, independence and objectivity of the existing external Auditor, KPMG LLP, for the year ended 31 January 2017 and concluded that the external Auditor was in all respects effective. KPMG LLP has expressed its willingness to continue in office as Auditor. Accordingly, and in accordance with Section 489 of the Companies Act, resolutions to reappoint KPMG LLP as Auditor and to authorise the Directors to determine its remuneration will be proposed at the forthcoming AGM of the Company.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

The reports and financial statements contained in this Annual Report and Accounts contain certain forward-looking statements with respect to the financial condition, results of operations, and businesses of Card Factory plc. These statements and forecasts involve risk, uncertainty and assumptions because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this Annual Report and Accounts should be construed as a profit forecast.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at 11.00am on 25 May 2017 at the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ. A formal notice of meeting, explanatory circular and a form of proxy will accompany this Annual Report and Accounts.

Directors' Report continued

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

This statement is set out on page 79.

APPROVAL OF THE ANNUAL REPORT

The Strategic Report and the Corporate Governance Report were approved by the Board on 27 March 2017.

Approved by the Board and signed on its behalf by

Shiv Sibal
Company Secretary
27 March 2017

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Karen Hubbard
Chief Executive Officer
27 March 2017

Darren Bryant
Chief Financial Officer

Independent Auditor's Report to the Members of Card Factory plc only

OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

Overview		
Materiality: Group financial statements as a whole	£4.0m (2016:£4.0m) 5% (2016:5%) of group profit before tax excluding non-underlying items	
Risks of material misstatement	**vs 2016**	
Recurring risks	Existence and accuracy of the stock counts for store inventory and accuracy of the costing calculations for all inventory.	◀▶
	Foreign exchange hedge accounting	◀▶

1. OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of Card Factory plc for the year ended 31 January 2017 set out on pages 84 to 124. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 January 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows (unchanged from 2016):

	The risk	Our response
Existence and accuracy of the stock counts for store inventory and accuracy of the costing calculations for all inventory. (2017: £51.4m, 2016: £50.4m) *Refer to page 50 (Audit and Risk Committee Report), page 94 (accounting policy) and page 102 (financial disclosures).*	**Physical quantities of store stock** Controls around store inventory are manual in nature. Given the high volume and broad range of inventory held there is a risk that quantities of store inventory could be incorrectly recorded. **Calculation error** Elements of the inventory costing calculations across both store and warehouse stock are manual in nature. Given the high volume and broad range of inventory held there is a risk that cost could be incorrectly recorded.	Our procedures included: - **Count design and attendance:** Assessment of the design and implementation of store count procedures through attendance at a sample of store inventory counts; - **Test of operating effectiveness:** Review of central reconciliation process to ensure it had been performed. Specific aspects of the reconciliation were assessed as part of our substantive testing described below; - **Count versus system reconciliation:** Reconciliation of total store stock by comparison of the results of inventory counts, post provisioning and related adjustments, to store inventory book value in the accounting records. We obtained relevant supporting evidence for each input and critically assessed the shrinkage calculation through consideration of management's assumptions used;

	The risk	Our response
		- **Our sector experience:** Applied data analytics techniques to identify store outliers based on a number of factors including store size and nature of inventory. Where we found the level of stock was not in line with our expectations we evaluated the characteristics specific to the store to assess whether this supported the stock level held; - **Tests of details:** Tested the costing calculations for a sample of inventory lines. Review of invoices or other supporting documentation for cost inputs and re-performing standard cost calculations; and - **Assessing transparency:** We also considered the adequacy of the statutory accounts disclosure in relation to inventory.
Foreign exchange hedge accounting Refer to page 50 (Audit and Risk Committee Report), page 93 (accounting policy) and pages 109 to 110 (financial disclosures).	**Forecast-based presentation** The Group adopts hedge accounting where appropriate for a high proportion of its foreign currency inventory purchases. The amount of fair value movement recorded through equity is subject to prospective effectiveness testing. Hedge accounting is inherently complex and requires a degree of judgement in determining forecast cash flows.	Our procedures included: - **Control design**: Testing the operating effectiveness of controls around foreign exchange hedging to assess whether effectiveness testing has been performed prospectively and retrospectively on a monthly basis; - **Control observation:** Inspection of hedge documentation prepared at the inception for all existing foreign exchange contracts to assess whether the criteria for hedging has been appropriately met; - **Assessing methodology:** Assessing the accuracy of management's prospective and retrospective hedge effectiveness testing by agreeing the inputs to contracts, budgets and valuations and through re-performing the calculation for foreign exchange contracts outstanding at the year end and reviewing the accuracy of the prospective testing performed in the prior year; - **Historical comparisons:** Consideration of the accuracy of historical forecast foreign currency purchases to assess the Group's forecasting reliability; and - **Assessing transparency:** We also considered the adequacy of the statutory accounts disclosure in relation to financial instruments.

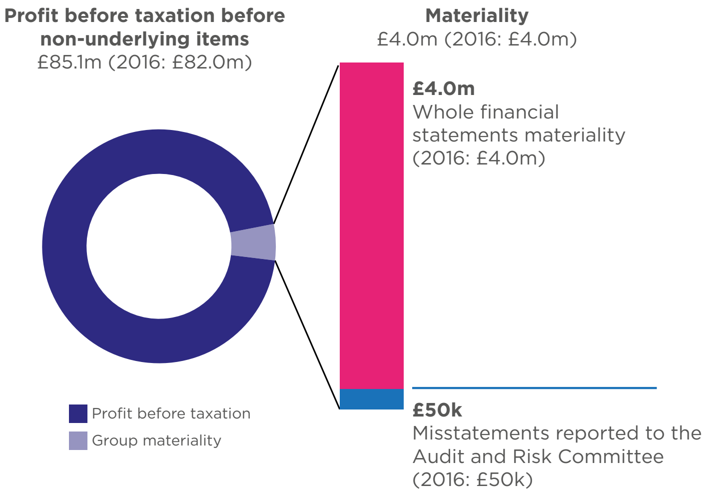
Independent auditor's report to the members of Card Factory plc only continued

3. OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The materiality for the Group financial statements as a whole has been set at £4.0m determined by reference to a benchmark of Group profit before tax, normalised to exclude non-underlying items of £2.3m as disclosed in note 3, of £85.1m of which it represents 5%.

We report to the Audit and Risk Committee any corrected and uncorrected identified misstatements exceeding £50,000 in addition to other identified misstatements that warrant reporting on qualitative grounds.

Of the Group's three reporting components we subjected one to an audit for Group reporting purposes. The other two were not individually financially significant enough to require an audit for Group reporting purposes and neither presented specific individual risks that needed to be addressed. On those two components we conducted reviews of financial information including enquiry which provided further coverage of the Group's results. These procedures covered 100% of total Group revenue (2016: 100%), 100% of Group profit before taxation (2016: 100%) and 100% of total Group assets (2016: 100%).



4. OUR OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 IS UNMODIFIED

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 45 to 46 in the Corporate Governance Report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report, the Directors' Report and the Corporate Governance Statement:

- we have not identified material misstatements in the Strategic Report, the Directors' Report, or the specified Corporate Governance information;
- in our opinion, the Strategic Report and the Directors' Report have been prepared in accordance with the Companies Act 2006; and
- in our opinion, the Corporate Governance Statement has been prepared in accordance with rules 7.2.2, 7.2.3, 7.2.5, 7.2.6 and 7.2.7 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority.

5. WE HAVE NOTHING TO REPORT ON THE DISCLOSURES OF PRINCIPAL RISKS

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' statement of longer-term viability statement on page 77, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the Group continuing in operation over the three years to 2020; or

- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6. WE HAVE NOTHING TO REPORT IN RESPECT OF THE MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit and Risk Committee Report does not appropriately address matters communicated by us to the Audit and Risk Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statements, set out on pages 76 and 77, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 38 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

SCOPE AND RESPONSIBILITIES

As explained more fully in the Directors' Responsibilities Statement set out on page 79, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Nicola Quayle (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

27 March 2017

Consolidated Income Statement

FOR THE YEAR ENDED 31 JANUARY 2017

	Note	2017 Underlying £'m	2017 Non-underlying (note 3) £'m	2017 Total £'m	2016 Underlying £'m	2016 Non-underlying (note 3) £'m	2016 Total £'m
Revenue		**398.2**	**–**	**398.2**	381.6	–	381.6
Cost of sales		**(271.6)**	**(0.6)**	**(272.2)**	(259.2)	3.9	(255.3)
Gross profit/(loss)		**126.6**	**(0.6)**	**126.0**	122.4	3.9	126.3
Operating expenses		**(38.8)**	**(1.5)**	**(40.3)**	(37.1)	(0.3)	(37.4)
Operating profit/(loss)	4	**87.8**	**(2.1)**	**85.7**	85.3	3.6	88.9
Financial income	7	**0.1**	**–**	**0.1**	0.3	–	0.3
Financial expense	7	**(2.8)**	**(0.2)**	**(3.0)**	(3.6)	(1.9)	(5.5)
Net financing expense		**(2.7)**	**(0.2)**	**(2.9)**	(3.3)	(1.9)	(5.2)
Profit/(loss) before tax		**85.1**	**(2.3)**	**82.8**	82.0	1.7	83.7
Taxation	8	**(17.6)**	**0.5**	**(17.1)**	(17.0)	(0.3)	(17.3)
Profit/(loss) for the year		**67.5**	**(1.8)**	**65.7**	65.0	1.4	66.4

Earnings per share		**pence**		**pence**	pence		pence
– Basic and diluted	10	**19.8**		**19.3**	19.1		19.5

All activities relate to continuing operations.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 JANUARY 2017

	2017 £'m	2016 £'m
Profit for the year	**65.7**	66.4
Items that are or may be recycled subsequently into profit or loss:		
Effective portion of changes in fair value of cash flow hedges	**3.8**	0.7
Net change in fair value of cash flow hedges recycled to profit or loss	**(5.1)**	(3.1)
Tax relating to components of other comprehensive income (note 13)	**0.2**	0.5
Other comprehensive expense for the period, net of income tax	**(1.1)**	(1.9)
Total comprehensive income for the period attributable to equity shareholders of the parent	**64.6**	64.5

Consolidated Statement of Financial Position

AS AT 31 JANUARY 2017

	Note	2017 £'m	2016 £'m
Non-current assets			
Intangible assets	11	**330.2**	331.0
Property, plant and equipment	12	**39.1**	39.9
Deferred tax assets	13	**0.6**	0.2
Other receivables	15	**0.8**	1.0
Derivative financial instruments	24	**0.6**	1.8
		371.3	373.9
Current assets			
Inventories	14	**51.4**	50.4
Trade and other receivables	15	**16.6**	17.0
Derivative financial instruments	24	**3.5**	3.5
Cash and cash equivalents	16	**3.0**	11.3
		74.5	82.2
Total assets		**445.8**	456.1
Current liabilities			
Borrowings	17	**(8.8)**	(0.1)
Trade and other payables	18	**(37.4)**	(35.8)
Tax payable		**(8.7)**	(8.8)
Derivative financial instruments	24	**(0.7)**	(0.2)
		(55.6)	(44.9)
Non-current liabilities			
Borrowings	17	**(129.3)**	(134.1)
Trade and other payables	18	**(11.2)**	(11.4)
Derivative financial instruments	24	**(0.2)**	–
		(140.7)	(145.5)
Total liabilities		**(196.3)**	(190.4)
Net assets		**249.5**	265.7
Equity			
Share capital	19	**3.4**	3.4
Share premium	19	**201.9**	201.6
Hedging reserve		**2.0**	3.1
Reverse acquisition reserve		**(0.5)**	(0.5)
Merger reserve		**2.7**	2.7
Retained earnings		**40.0**	55.4
Equity attributable to equity holders of the parent		**249.5**	265.7

The financial statements on pages 84 to 113 were approved by the Board of Directors on 27 March 2017 and were signed on its behalf by:

Darren Bryant
Chief Financial Officer

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 JANUARY 2017

	Share capital £'m	Share premium £'m	Hedging reserve £'m	Reverse acquisition reserve £'m	Merger reserve £'m	Retained earnings £'m	Total equity £'m
At 1 February 2015	3.4	201.6	5.0	(0.5)	2.7	70.7	282.9
Total comprehensive income for the year							
Profit or loss	–	–	–	–	–	66.4	66.4
Other comprehensive income	–	–	(1.9)	–	–	–	(1.9)
	–	–	(1.9)	–	–	66.4	64.5
Transactions with owners, recorded directly in equity							
Share based payment charges (note 25)	–	–	–	–	–	1.3	1.3
Taxation on share based payments recognised in equity (note 13)	–	–	–	–	–	0.1	0.1
Dividends (note 9)	–	–	–	–	–	(83.1)	(83.1)
Total contributions by and distributions to owners	–	–	–	–	–	(81.7)	(81.7)
At 31 January 2016	3.4	201.6	3.1	(0.5)	2.7	55.4	265.7
Total comprehensive income for the year							
Profit or loss	–	–	–	–	–	65.7	65.7
Other comprehensive income	–	–	(1.1)	–	–	–	(1.1)
	–	–	(1.1)	–	–	65.7	64.6
Transactions with owners, recorded directly in equity							
Issue of shares (note 19)	–	0.3	–	–	–	–	0.3
Share based payment charges (note 25)	–	–	–	–	–	0.2	0.2
Taxation on share based payments recognised in equity (note 13)	–	–	–	–	–	(0.1)	(0.1)
Dividends (note 9)	–	–	–	–	–	(81.2)	(81.2)
Total contributions by and distributions to owners	–	0.3	–	–	–	(81.1)	(80.8)
At 31 January 2017	3.4	201.9	2.0	(0.5)	2.7	40.0	249.5

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 JANUARY 2017

	Note	2017 £'m	2016 £'m
Cash inflow from operating activities	20	**99.4**	92.2
Corporation tax paid		**(17.6)**	(13.0)
Net cash inflow from operating activities		**81.8**	79.2
Cash flows from investing activities			
Purchase of property, plant and equipment	12	**(8.6)**	(10.5)
Purchase of intangible assets	11	**(1.8)**	(1.1)
Payment of deferred consideration		**–**	(0.8)
Proceeds from sale of property, plant and equipment		**–**	0.1
Interest received		**0.1**	0.3
Net cash outflow from investing activities		**(10.3)**	(12.0)
Cash flows from financing activities			
Proceeds from bank borrowings		**–**	144.2
Purchase of interest rate derivatives		**(0.1)**	(0.5)
Interest paid		**(2.6)**	(3.3)
Repayment of borrowings		**(5.0)**	(182.5)
Proceeds from new shares issued		**0.3**	–
Dividends paid		**(81.1)**	(82.8)
Net cash outflow from financing activities		**(88.5)**	(124.9)
Net decrease in cash and cash equivalents		**(17.0)**	(57.7)
Cash and cash equivalents at the beginning of the year		**11.3**	69.0
Closing cash and cash equivalents	16	**(5.7)**	11.3

Notes to the Financial Statements

1 ACCOUNTING POLICIES

General information

Card Factory plc ('the Company') is a public limited company incorporated in the United Kingdom. The Company is domiciled in the United Kingdom and its registered office is Century House, Brunel Road, 41 Industrial Estate, Wakefield WF2 0XG.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group').

Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('EU IFRS') and with those parts of the Companies Act 2006 applicable to companies reporting under EU IFRS.

The financial statements have been prepared on a going concern basis under the historical cost convention, as modified for the subsequent measurement of derivative financial instruments.

Significant judgements and estimates

The preparation of financial statements in conformity with EU IFRS requires the use of judgements, estimates and assumptions that affect the application of the Group's accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Areas subject to significant judgement, assumption or estimation are detailed below:

Inventory
The Group holds significant volumes, and a broad range of inventory. Certain of the Group's inventory procedures are manual in nature. The Group provides against the carrying value of inventories where it is anticipated the amount realised may be below the cost recognised. The provision is calculated based on historical experience.

Foreign currency hedge accounting
Where appropriate, hedge accounting is adopted by the Group. Due to the degree of judgement in determining forecast cash flows there is a risk that the assumptions made in the effectiveness testing are inappropriate.

Going concern

Taking into account current and anticipated trading performance, current and anticipated levels of borrowings and the availability of borrowing facilities and exposures to and management of the financial risks detailed in the Strategic Report on pages 2 to 26, the Board is of the opinion that, at the time of approval of these financial statements, there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the period outlined in the viability statement on page 77. Accordingly, the financial statements continue to be prepared on a going concern basis.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Financial Officer's Review on pages 18 to 22. In addition, notes 23 and 24 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Principal accounting policies

The principal accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

Notes to the Financial Statements continued

1 ACCOUNTING POLICIES CONTINUED

EU Endorsed International Financial Reporting Standards effective in the year
The following new and amended standards, adopted in the current financial year, had no significant impact on the financial statements.

- Clarification of acceptable methods of depreciation (Amendments to IAS 16 and IAS 38)
- Accounting for acquisitions of interest in joint operations (Amendments to IFRS 11)
- Annual Improvements to IFRSs 2012 – 2014 cycle
- Equity method in separate financial statements (Amendments to IAS 27)
- Investment entities: Applying the consolidation exception (Amendments to IAS 28, IFRS 10 and IFRS 12)
- Disclosure Initiative (Amendments to IAS 1)

EU Endorsed International Financial Reporting Standards in issue but not yet effective
The Directors considered the impact on the Group of EU endorsed, new and revised accounting standards, interpretations or amendments. The following new and revised accounting standards are currently endorsed but not yet effective.

- IFRS 15 Revenue from contracts
- IFRS 9 Financial instruments

IFRS 15 'revenue from contracts' introduces principles to recognise revenue by allocation of the transaction price to performance obligations and is effective for accounting periods commencing on or after 1 January 2018. Adoption of the standard is not expected to have a material impact on the financial statements.

IFRS 9 'Financial instruments' will supersede IAS 39 and is effective for accounting periods commencing on or after 1 January 2018. The Group is assessing the impact on the classification and measurement of financial instruments and hedge accounting.

On adoption of IFRS 9 the Group would require an amendment to the accounting policy in respect of cash flow hedge accounting. Gains or losses recognised in other comprehensive income in respect of a cash flow hedge of a forecast transaction that results in the recognition of a non-financial asset or liability would be required to be included in the initial measurement of the asset or liability. The current accounting policy recognises such gains or losses in profit or loss in the same period or periods during which the hedged forecast transaction, or a resulting asset or liability affects profit or loss, but does not recognise the gain or loss in the initial measurement of a resulting asset or liability. If the amended accounting policy was to be applied at 31 January 2017 the impact would be a £2.7 million decrease in the value of inventory and a corresponding adjustment to the hedging reserve with no impact on profit or loss.

International Financial Reporting Standards in issue but not yet effective and not EU endorsed
The future impact on the financial statements of new standards and amendments awaiting EU endorsement is currently being assessed. New standards awaiting EU endorsement include IFRS 16 'Leases', which is effective for annual periods beginning on or after 1 January 2019. The standard replaces IAS 17, and will require entities to apply a single lessee accounting model, with lessees recognising right of use assets and lease liabilities on balance sheet for all applicable leases. The Group anticipates that the adoption of IFRS 16 will have a material impact on the financial statements.

Basis of consolidation
Subsidiaries
Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to direct the activities that affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Intercompany transactions and balances between Group companies are eliminated upon consolidation.

Business combinations
Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred less the fair value of identifiable assets acquired and liabilities assumed. Any contingent consideration payable is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss. Costs related to the acquisition are expensed to the income statement as incurred.

Acquisitions prior to 1 February 2011 (date of transition to IFRS)
IFRS 1 grants certain exemptions from the full requirements of IFRS in the transition period. The Group and Company elected not to restate business combinations that took place prior to 1 February 2011. In respect of acquisitions prior to the transition date, goodwill is included at 1 February 2011 on the basis of its deemed cost at that date, which represents the amount recorded under UK GAAP.

Revenue

Revenue represents the fair value of amounts receivable for goods sold to customers and is stated net of value added tax and returns. Revenue is recognised at the point goods are sold or delivered and the risks and rewards are deemed to have been transferred to the customer. Revenue is attributable to the retail sale of cards, dressings and gifts in the UK.

Financing income and expense

Finance expense comprises interest charges and losses on interest rate derivative financial instruments. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset.

Finance income comprises interest income and gains on interest rate derivative financial instruments.

Interest income and interest charges are recognised in profit or loss as it accrues, using the effective interest method. The effective interest method takes into account fees, commissions or other incremental transaction costs integral to the yield.

Foreign currencies

Functional and presentation currency
The consolidated financial statements are presented in pounds Sterling, which is the functional currency of the Company and all subsidiary entities.

Transactions and balances
Transactions in foreign currencies are recorded at the exchange rate on the transaction date. All foreign currency transactions relate to inventory purchases. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement within cost of sales, except when deferred in other comprehensive income as qualifying cash flow hedges. Foreign currency gains and losses are reported on a net basis.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or through other comprehensive income, in which case it is recognised in equity or other comprehensive income respectively.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1 ACCOUNTING POLICIES CONTINUED

Underlying profit and earnings

The Group has chosen to present an underlying profit and earnings measure. The Group believes that underlying profit and earnings provides additional useful information for shareholders. Underlying earnings is not a recognised profit measure under EU IFRS and may not be directly comparable with 'adjusted' profit measures reported by other companies. The reported non-underlying adjustments are as follows:

Net fair value remeasurement gains and losses on derivative financial instruments
The Group utilises foreign currency derivative contracts to manage the foreign exchange risk on US Dollar denominated purchases and interest rate derivative contracts to manage the risk on floating interest rate bank borrowings. Fair value gains and losses on such instruments are recognised in the income statement to the extent they are not hedge accounted under IAS 39. Such gains and losses relate to future cash flows. In accordance with the commercial reasoning for entering into the agreements, these gains/losses are deemed not representative of the underlying financial performance in the year and presented as non-underlying items. Any gains or losses on maturity of such instruments are presented within underlying profit to the extent the gain or loss is not recognised in the hedging reserve.

EPOS asset disposals and accelerated depreciation
Electronic point of sale ('EPOS') software implemented over recent years is to be upgraded with a replacement system offering enhanced capabilities. The resulting loss on disposal of redundant assets and accelerated depreciation arising on assets to be replaced in advance of their original estimated useful economic life are considered a one-off event and not representative of underlying performance for the year. As such they are presented as a non-underlying item.

Other non-underlying operating expenses
In January 2016, Card Factory plc announced the retirement and succession of the Chief Executive Officer. Costs attributable to the recruitment of the new CEO and dual remuneration costs during the handover period are presented as a non-underlying item. In January 2017, Card Factory plc announced the retirement and succession of the Chief Financial Officer. Costs attributable to the recruitment of a new CFO are presented as a non-underlying item.

Refinanced debt issue cost amortisation
Debt issue costs totalling £1.8 million were expensed to the income statement in the prior period on completion of an amended and extended borrowing facility on 26 June 2015. This expense relates to costs that were not yet amortised in relation to the 30 May 2014 refinancing and is presented as a non-underlying item.

Dividends

Dividends are recognised as a liability in the period in which they are approved such that the Company is obliged to pay the dividend.

Financial instruments

Financial assets
The Group classifies all its non-derivative financial assets as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group has no intention of trading these loans and receivables. Subsequent to initial recognition at fair value less transaction costs, these assets are carried at amortised cost using the effective interest method, subject to impairment.

Derivative financial assets are categorised as fair value through profit or loss ('FVTPL') and classified as held for trading, unless accounted for as an effective hedging instrument.

Financial liabilities
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Non-derivative financial liabilities are initially recognised at fair value, less any transaction costs and subsequently stated at amortised cost using the effective interest method except for derivatives and contingent consideration. Derivatives are categorised as FVTPL and classified as held for trading, unless accounted for as an effective hedging instrument.

Non-derivative financial instruments
Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, borrowings and trade and other payables.

Trade and other receivables
Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, at bank and on short term deposit of less than three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Trade and other payables
Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Borrowings
Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost using the effective interest method.

Impairment of financial assets
Financial assets are assessed for objective evidence of impairment at the balance sheet date. Where there is objective evidence that an impairment loss exists, impairment provisions are made to reduce the carrying value of financial assets to the present value of estimated future cash flows.

Derivative financial instruments
The Group utilises foreign currency derivative contracts and US Dollar denominated cash balances to manage the foreign exchange risk on US Dollar denominated purchases and interest rate derivative contracts to manage the risk on floating interest rate bank borrowings.

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately within profit or loss except to the extent the instrument has been designated an effective hedging arrangement. Gains and losses in respect of foreign currency derivative contracts are recognised within cost of sales. Gains and losses in respect of interest rate derivative contracts are recognised within finance income or expense.

Cash flow hedges
In accordance with IAS 39 Financial Instruments: Recognition and Measurement, derivative financial instruments are eligible for cash flow hedge accounting where the following conditions are met:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge;
- the hedge is expected to be highly effective in achieving offsetting changes in cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy;
- the forecast transaction that is the subject of the hedge is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- the effectiveness of the hedge can be reliably measured; and
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in profit or loss. Foreign currency cash held in the short period between derivative maturity and payment of the hedged cash flow is designated as part of the hedging relationship whereby gains and losses on retranslation of the foreign currency cash are recognised in the hedging reserve.

Notes to the Financial Statements continued

1 ACCOUNTING POLICIES CONTINUED

The cumulative gain or loss is removed from other comprehensive income ('OCI') and recognised in profit or loss in the same period or periods during which the hedged forecast transaction, or a resulting asset or liability affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in OCI and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in OCI is recognised in profit or loss immediately.

Fair value estimation

The techniques applied in determining the fair values of financial assets and liabilities are disclosed in note 24.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives as follows:

- buildings — 25 – 50 years
- leasehold improvements — shorter of 5 years and lease term
- plant and equipment — 3 – 10 years
- fixtures and fittings — 5 years
- motor vehicles — 4 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Software

Computer software is carried at cost less accumulated amortisation and any provision for impairment. Costs relating to development of computer software are capitalised if the recognition criteria of IAS38 'Intangible Assets' are met or expensed as incurred otherwise.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful life of software is 3-5 years.

Impairment of non-financial assets

The carrying values of non-financial assets are reviewed for impairment where there is an indication of impairment. If an impairment loss arises, the asset value is adjusted to its estimated recoverable amount and the impairment loss is recognised in the income statement. Goodwill is reviewed for impairment at the balance sheet date and whenever an indication of impairment is identified.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production costs and other costs in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Merger reserve
On 30 April 2014 Card Factory plc acquired 100% of the share capital of CF Topco Limited in a share for share exchange, thereby inserting Card Factory plc as the Parent Company of the Group. The shareholders of CF Topco Limited became 100% owners of the enlarged share capital of Card Factory plc. The premium arising on the issue of shares is recognised in the merger reserve.

Share based payments
The Company issues equity-settled share based payments to employees through the Card Factory Long Term Incentive Plan (‘LTIP’) and the Card Factory SAYE Scheme (‘SAYE’), see note 25 for further details. The cost of equity-settled share awards is measured as the fair value of the award at the grant date using the Black-Scholes model.

The cost of the awards is expensed to the income statement, together with a corresponding adjustment to equity, on a straight line basis over the vesting period of the award. The total income statement charge is based on the Group’s estimate of the number of share awards that will eventually vest in accordance with the vesting conditions. The awards do not include market-based vesting conditions. At each balance sheet date, the Group revises its estimate of the number of awards that are expected to vest. Any revision to estimates is recognised in the income statement, with a corresponding adjustment to equity.

Operating leases
Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives are recognised in the income statement over the term of the lease as an integral part of the total lease expense.

2 SEGMENTAL REPORTING
The Group has two operating segments trading under the names Card Factory and Getting Personal. Card Factory retails greeting cards, dressing and gifts in the UK principally through an extensive store network. Getting Personal is an online retailer of personalised cards and gifts. Getting Personal does not meet the quantitative thresholds of a reportable segment as defined in IFRS 8. Consequently the results of the Group are presented as a single reportable segment. Revenues outside of the UK are not significant at less than £0.1 million.

The Chief Operating Decision Maker is the Board of Directors. Internal management reports are reviewed by the Board of Directors on a monthly basis. Performance of segments is assessed based on a number of financial and non-financial KPIs including EBITDA as defined in note 5 of the financial statements and profit before tax.

Major customers
Group revenue is derived from high volume, low value retail sales and is therefore not dependent on any major customer.

Notes to the Financial Statements continued

3 NON-UNDERLYING ITEMS

	2017 £'m	2016 £'m
Cost of sales		
(Loss)/profit on foreign currency derivative financial instruments not designated as a hedge (note 24)	**(0.6)**	3.9
Operating expenses		
Loss on disposal of redundant EPOS assets	**(0.9)**	–
Accelerated depreciation on EPOS assets	**(0.2)**	–
Other non-underlying operating expenses	**(0.4)**	(0.3)
	(1.5)	(0.3)
Net finance expense		
Refinanced debt issue cost amortisation (note 7)	**–**	(1.8)
Loss on interest rate derivative financial instruments not designated as a hedge (note 24)	**(0.2)**	(0.1)
	(0.2)	(1.9)

Further details of the non-underlying items are included in the principal accounting policies (note 1).

4 OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following items:

	2017 £'m	2016 £'m
Staff costs (note 6)	**98.5**	91.1
Depreciation expense (note 12)		
– owned fixed assets	**9.2**	8.6
Amortisation expense (note 11)	**1.7**	1.1
Operating lease rentals:		
– land and buildings	**38.9**	36.0
– plant, equipment and vehicles	**0.5**	0.4
Loss on disposal of fixed assets	**1.1**	0.1
Foreign exchange gain	**(2.6)**	(4.0)

Non-underlying items included in the above are detailed in note 3.

The total fees payable by the Group to KPMG LLP and their associates during the period was as follows:

	2017 £'000	2016 £'000
Audit of the Company's and the consolidated financial statements	**18**	11
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**89**	89
Half year review	**7**	7
Audit-related assurance services	**1**	–
Taxation compliance services	**5**	13
Other tax advisory services	**15**	6
Other assurance services	**8**	10
Total fees	**143**	136

5 UNDERLYING EBITDA

Underlying earnings before interest, tax, depreciation and amortisation ('EBITDA') represents underlying profit for the period before net finance expense, taxation, depreciation and amortisation.

	2017 £'m	2016 £'m
Underlying operating profit	**87.8**	85.3
Underlying depreciation and amortisation*	**10.7**	9.7
Underlying EBITDA	**98.5**	95.0

* Underlying depreciation and amortisation excludes £0.2m accelerated depreciation on EPOS assets (see note 3).

6 STAFF NUMBERS AND COSTS

The average number of people employed by the Group (including Directors) during the year, analysed by category, was as follows:

	2017 Number	2016 Number
Management and administration	**357**	321
Operations	**9,571**	9,220
	9,928	9,541

The aggregate payroll costs of all employees including Directors were as follows:

	2017 £'m	2016 £'m
Employee wages and salaries	**89.4**	81.1
Equity-settled share based payment expense	**0.2**	1.3
Social security costs	**4.6**	4.5
Defined contribution pension costs	**0.4**	0.3
Total employee costs	**94.6**	87.2
Agency labour costs	**3.9**	3.9
Total staff costs	**98.5**	91.1

Key management personnel

The key management personnel of the Group comprise the Card Factory plc Board of Directors and the Operational Board. Key management personnel compensation is as follows:

	2017 £'m	2016 £'m
Salaries and short-term benefits	**2.8**	3.4
Equity-settled share based payment expense	**(0.1)**	0.9
Social security costs	**0.3**	0.6
Defined contribution pension costs	**0.1**	–
	3.1	4.9

Further details of Director's remuneration are disclosed in the Directors' Remuneration Report on pages 53 to 71.

Notes to the Financial Statements continued

7 FINANCE INCOME AND EXPENSE

	2017 £'m	2016 £'m
Finance income		
Bank interest received	**(0.1)**	(0.3)
Finance expense		
Interest on bank loans and overdrafts	**2.6**	3.3
Amortisation of loan issue costs	**0.2**	2.1
Fair value loss on interest rate derivative contracts	**0.2**	0.1
	3.0	5.5
Net finance expense	**2.9**	5.2

Amortisation of loan issue costs in the prior period included £1.8 million in relation to previous loan facilities, expensed to the income statement on completion of an amended and extended borrowing facility on 26 June 2015 and presented as non-underlying, see note 3. Fair value losses on interest rate derivative contracts are presented as non-underlying items, see note 3.

8 TAXATION

Recognised in the income statement

	2017 £'m	2016 £'m
Current tax expense		
Current year	**17.4**	16.8
Adjustments in respect of prior periods	**–**	(0.1)
	17.4	16.7
Deferred tax (credit)/charge		
Origination and reversal of temporary differences	**(0.3)**	0.5
Adjustments in respect of prior periods	**(0.1)**	0.1
Effect of change in tax rate	**0.1**	–
	(0.3)	0.6
Total income tax expense	**17.1**	17.3

The effective tax rate of 20.7% (2016: 20.7%) is higher than the standard rate of corporation tax in the UK. The tax charge is reconciled to the standard rate of UK corporation tax as follows:

	2017 £'m	2016 £'m
Profit before tax	**82.8**	83.7
Tax at the standard UK corporation tax rate of 20.00% (2016: 20.16%)	**16.6**	16.9
Tax effects of:		
Expenses not deductible for tax purposes	**0.5**	0.4
Adjustments in respect of prior periods	**(0.1)**	–
Effect of change in tax rate	**0.1**	–
Total income tax expense	**17.1**	17.3

9 DIVIDENDS

The Board is recommending a final dividend in respect of the financial year ended 31 January 2017 of 6.3 pence per share (2016: 6.0 pence per share), resulting in a total final dividend of £21.5 million (2016: £20.4 million). The dividend will, subject to shareholders' approval at the Annual General Meeting on 25 May 2017, be paid on 9 June 2017 to shareholders on the register at the close of business on 5 May 2017. No liability is recorded in the financial statements in respect of this final dividend as it was not approved at the balance sheet date.

Dividends paid in the year:	Pence per share	**2017 £'m**	2016 £'m
Special dividend for the year ended 31 January 2017	15.0p	**51.1**	–
Interim dividend for the year ended 31 January 2017	2.8p	**9.6**	–
Final dividend for the year ended 31 January 2016	6.0p	**20.4**	–
Special dividend for the year ended 31 January 2016	15.0p	**–**	51.1
Interim dividend for the year ended 31 January 2016	2.5p	**–**	8.5
Final dividend for the year ended 31 January 2015	4.5p	**–**	15.4
Interim dividend for the year ended 31 January 2015	2.3p	**–**	7.8
		81.1	82.8

Dividends totalling £81.1 million (2016: £82.8 million) were paid in the year with a further £0.1 million (2016: £0.3 million) accrued in relation to share based long term incentive schemes.

10 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share is based on the weighted average number of shares in issue for the period, adjusted for the dilutive effect of potential ordinary shares. Potential ordinary shares represent employee share incentive awards and save as you earn share options.

The Group has chosen to present an alternative earnings per share measure, with profit adjusted for non-underlying items to reflect the Group's underlying profit for the year. Underlying earnings is not a recognised profit measure under IFRS and may not be directly comparable with 'adjusted' profit measures used by other companies.

	2017 (Number)	2016 (Number)
Weighted average number of shares in issue	**340,798,812**	340,696,235
Weighted average number of dilutive share options	**171,016**	478,006
Weighted average number of shares for diluted earnings per share	**340,969,828**	341,174,241

	£'m	£'m
Profit for the financial year	**65.7**	66.4
Non-underlying items	**1.8**	(1.4)
Total underlying profit for underlying earnings per share	**67.5**	65.0

	pence	pence
Basic earnings per share	**19.3**	19.5
Diluted earnings per share	**19.3**	19.5
Underlying basic earnings per share	**19.8**	19.1
Underlying diluted earnings per share	**19.8**	19.1

Notes to the Financial Statements continued

11 INTANGIBLE ASSETS

	Goodwill £'m	Software £'m	Total £'m
Cost			
At 1 February 2016	328.2	7.3	335.5
Additions	–	1.8	1.8
Disposals	–	(2.7)	(2.7)
At 31 January 2017	328.2	6.4	334.6
Amortisation			
At 1 February 2016	–	4.5	4.5
Provided in the period	–	1.7	1.7
Disposals	–	(1.8)	(1.8)
At 31 January 2017	–	4.4	4.4
Net book value			
At 31 January 2017	**328.2**	**2.0**	**330.2**
At 31 January 2016	328.2	2.8	331.0

	Goodwill £'m	Software £'m	Total £'m
Cost			
At 1 February 2015	328.2	6.3	334.5
Additions	–	1.1	1.1
Disposals	–	(0.1)	(0.1)
At 31 January 2016	328.2	7.3	335.5
Amortisation			
At 1 February 2015	–	3.5	3.5
Provided in the period	–	1.1	1.1
Disposals	–	(0.1)	(0.1)
At 31 January 2016	–	4.5	4.5
Net book value			
At 31 January 2016	328.2	2.8	331.0
At 31 January 2015	328.2	2.8	331.0

Impairment testing

For the purposes of impairment testing, goodwill has been allocated to the Group's CGUs as follows:

	2017 £'m	2016 £'m
Card Factory	**313.8**	313.8
Getting Personal	**14.4**	14.4

The recoverable amount has been determined based on value-in-use calculations. Value-in-use calculations are based on five year management forecasts and operating cash flows with a 2% (2016: 2%) terminal growth rate applied thereafter, representing management's estimate of the long term growth rate of the sector. The key assumptions on which operating cash flows are based include sales growth and operating costs. The values assigned to each of these assumptions were determined based on historical performance of the Group and expected future trends. The forecast cash flows are discounted at a pre-tax discount rate of 10% (2016: 10%). No impairment loss was identified in the current year (2016: £nil). The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions would not result in an impairment of the related goodwill.

12 PROPERTY, PLANT AND EQUIPMENT

	Freehold property £'m	Leasehold improvements £'m	Plant, equipment, fixtures & vehicles £'m	Total £'m
Cost				
At 1 February 2016	17.3	28.8	43.7	89.8
Additions	0.1	3.8	4.7	8.6
Disposals	–	(0.5)	(1.3)	(1.8)
At 31 January 2017	17.4	32.1	47.1	96.6
Depreciation				
At 1 February 2016	1.9	20.7	27.3	49.9
Provided in the period	0.4	3.1	5.7	9.2
Disposals	–	(0.5)	(1.1)	(1.6)
At 31 January 2017	2.3	23.3	31.9	57.5
Net book value				
At 31 January 2017	**15.1**	**8.8**	**15.2**	**39.1**
At 31 January 2016	15.4	8.1	16.4	39.9

	Freehold property £'m	Leasehold improvements £'m	Plant, equipment, fixtures & vehicles £'m	Total £'m
Cost				
At 1 February 2015	17.0	29.0	41.4	87.4
Additions	0.3	3.9	6.3	10.5
Disposals	–	(4.1)	(4.0)	(8.1)
At 31 January 2016	17.3	28.8	43.7	89.8
Depreciation				
At 1 February 2015	1.6	21.8	25.8	49.2
Provided in the period	0.3	2.9	5.4	8.6
Disposals	–	(4.0)	(3.9)	(7.9)
At 31 January 2016	1.9	20.7	27.3	49.9
Net book value				
At 31 January 2016	15.4	8.1	16.4	39.9
At 31 January 2015	15.4	7.2	15.6	38.2

Disposals in the prior period include £6.9 million cost and accumulated depreciation relating to assets at £nil net book value which had been previously disposed, identified following a review of the fixed asset register. There was no net financial impact of this review.

13 DEFERRED TAX ASSETS AND LIABILITIES

Movement in deferred tax during the year:

	Fixed assets £'m	Share based payments £'m	Derivative financial instruments and hedge accounting £'m	Leases £'m	Other timing differences £'m	Total £'m
At 1 February 2015	0.3	0.2	(1.1)	0.9	(0.1)	0.2
(Charge)/credit to income statement	(0.3)	0.3	(0.1)	(0.9)	0.4	(0.6)
Credit to other comprehensive income	–	–	0.5	–	–	0.5
Credit to equity	–	0.1	–	–	–	0.1
At 31 January 2016	–	0.6	(0.7)	–	0.3	0.2
(Charge)/credit to income statement	0.2	(0.1)	–	0.2	–	0.3
Credit to other comprehensive income	–	–	0.2	–	–	0.2
Charge to equity	–	(0.1)	–	–	–	(0.1)
At 31 January 2017	**0.2**	**0.4**	**(0.5)**	**0.2**	**0.3**	**0.6**

Deferred tax assets and liabilities are offset to the extent they are levied by the same tax authority and the Group has a legally enforceable right to make or receive a single payment. Deferred tax assets and liabilities are offset as follows:

	2017 £'m	2016 £'m
Deferred tax assets	**1.1**	0.8
Deferred tax liabilities	**(0.5)**	(0.6)
Net deferred tax asset	**0.6**	0.2

Reductions in the corporation tax rate to 19% from 1 April 2017 and 17% from 1 April 2020 were substantively enacted on 26 October 2015 and 6 September 2016. Deferred tax assets in respect of timing differences are expected to be recoverable against future taxable profits and are recognised according to the rate when the timing differences are expected to reverse.

14 INVENTORIES

	2017 £'m	2016 £'m
Finished goods	**50.9**	50.0
Work in progress	**0.5**	0.4
	51.4	50.4

The cost of inventories recognised as an expense and charged to cost of sales in the year was £108.0 million (2016: £105.1 million).

15 TRADE AND OTHER RECEIVABLES

	2017 £'m	2016 £'m
Current		
Trade receivables	**0.2**	0.3
Other receivables	**1.2**	0.9
Prepaid property costs	**12.6**	13.0
Other prepayments and accrued income	**2.6**	2.8
	16.6	17.0
Non-current		
Prepaid property costs	**0.8**	1.0

Non-current prepaid property costs relate to lease premiums and fees released to the income statement over the period of the lease.

Other receivables include £0.9 million (2016: £0.5 million) US Dollar denominated deposits paid on inventory purchases.

16 CASH AND CASH EQUIVALENTS

	2017 £'m	2016 £'m
Cash at bank and in hand	**3.0**	11.3
Unsecured bank overdraft (note 17)	**(8.7)**	–
Net cash and cash equivalents	**(5.7)**	11.3

The Group's cash and cash equivalents are denominated in the following currencies:

	2017 £'m	2016 £'m
Sterling	**(6.6)**	2.8
US Dollars	**0.9**	8.5
	(5.7)	11.3

17 BORROWINGS

	2017 £'m	2016 £'m
Current liabilities		
Unsecured bank loans and accrued interest	**0.1**	0.1
Unsecured bank overdraft	**8.7**	–
	8.8	0.1
Non-current liabilities		
Unsecured bank loans	**129.3**	134.1

17 BORROWINGS CONTINUED

Bank loans

Bank borrowings are summarised as follows:

	Liability £'m	Interest rate %	Interest margin ratchet range %	Repayment terms
31 January 2017				
Unsecured bank loan	130.0	1.00 + LIBOR	1.00 – 2.00	£200m RCF
Accrued interest	0.1			The facility terminates in June 2020
Debt issue costs	(0.7)			
	129.4			
31 January 2016				
Unsecured bank loan	135.0	1.00 + LIBOR	1.00 – 2.00	£200m RCF
Accrued interest	0.1			The facility terminates in June 2020
Debt issue costs	(0.9)			
	134.2			

Group borrowing facilities consist of a £200 million revolving credit facility ('RCF') terminating 26 June 2020 with an additional £100 million accordion. Borrowings under the facility attract interest at LIBOR plus a margin in the range 1.0% to 2.0%, subject to a leverage ratchet (LIBOR plus 1.00% at 31 January 2017). The facilities are subject to financial covenants typical to an arrangement of this nature.

At the balance sheet date the Group had utilised a further £0.5 million (2016: £0.3 million) of the RCF in relation to letters of credit. The Group utilises letters of credit to facilitate contracts with certain third party suppliers.

Contractual cash flows of financial liabilities are disclosed in note 23.

18 TRADE AND OTHER PAYABLES

	2017 £'m	2016 £'m
Current		
Trade payables	**13.9**	13.6
Other taxation and social security	**3.8**	3.1
Property accruals and deferred income	**7.0**	6.0
Other accruals and deferred income	**12.7**	13.1
	37.4	35.8
Non-current		
Property accruals and deferred income	**11.2**	11.4

Property deferred income relates to lease incentives recognised in the income statement over the period of the lease.

The Group has net US Dollar denominated trade and other payables of £5.8 million (2016: £4.0 million).

19 SHARE CAPITAL AND SHARE PREMIUM

	2017 (Number)	2016 (Number)
Share capital		
Allotted, called up and fully paid ordinary shares of one pence:		
At the start of the period	**340,696,235**	340,696,235
Issued in the period (note 25)	**148,629**	–
At the end of the period	**340,844,864**	340,696,235

	£'m	£'m
Share capital		
At the start of the period	**3.4**	3.4
Issued in the period (note 25)	**–**	–
At the end of the period	**3.4**	3.4

	£'m	£'m
Share premium		
At the start of the period	**201.6**	201.6
Issued in the period (note 25)	**0.3**	–
At the end of the period	**201.9**	201.6

20 NOTES TO THE CASH FLOW STATEMENT

Reconciliation of operating profit to cash generated from operations:

	2017 £'m	2016 £'m
Profit before tax	**82.8**	83.7
Net finance expense	**2.9**	5.2
Operating profit	**85.7**	88.9
Adjusted for:		
Depreciation and amortisation	**10.9**	9.7
Loss on disposal of fixed assets	**1.1**	0.1
Cash flow hedging foreign currency movements	**(0.2)**	2.4
Share based payments charge	**0.2**	1.3
Operating cash flows before changes in working capital	**97.7**	102.4
Decrease/(increase) in receivables	**1.1**	(3.0)
Increase in inventories	**(1.0)**	(8.9)
Increase in payables	**1.6**	1.7
Cash inflow from operating activities	**99.4**	92.2

21 ANALYSIS OF NET DEBT

	At 1 February 2016 £'m	Cash flow £'m	Non-cash changes £'m	**At 31 January 2017 £'m**
Unsecured bank loans and accrued interest (note 17)	(134.2)	5.0	(0.2)	**(129.4)**
Cash and cash equivalents (note 16)	11.3	(17.0)	–	**(5.7)**
Total net debt	(122.9)	(12.0)	(0.2)	**(135.1)**

	At 1 February 2015 £'m	Cash flow £'m	Non-cash changes £'m	At 31 January 2016 £'m
Unsecured bank loans and accrued interest (note 17)	(170.4)	38.3	(2.1)	(134.2)
Cash and cash equivalents (note 16)	69.0	(57.7)	–	11.3
Total net debt	(101.4)	(19.4)	(2.1)	(122.9)

22 OPERATING LEASE COMMITMENTS

Future minimum rentals payable under non-cancellable operating leases:

	2017 £'m	2016 £'m
Aggregate future minimum lease payments:		
Within one year	**40.0**	38.0
Within one to two years	**35.5**	34.6
Within two to three years	**30.0**	29.6
Within three to four year	**23.6**	23.9
Within four to five years	**16.3**	17.6
Within five to ten years	**23.7**	27.6
Within eleven to fifteen years	**0.5**	0.8
	169.6	172.1

The Group enters into non-cancellable operating leases, primarily in respect of retail stores. The majority of the Group's operating leases provide for their renewal by mutual agreement at the expiry of the lease term. Certain leases have a break clause, enforceable at the discretion of the Group. The Group also leases the majority of its motor vehicle fleet, a small amount of equipment and an element of its warehousing requirements.

23 FINANCIAL RISK MANAGEMENT

The principal financial risks faced by the Group are liquidity, foreign currency, interest rate and counterparty credit risk.

The Board have overall responsibility for managing risks and uncertainties across the Group. The principal financial risks and uncertainties and the actions taken to mitigate them are reviewed on an on-going basis. Further details of the Group's approach to managing risk are included in the Principal Risks and Uncertainties section of the Strategic Report on pages 23 to 26 and in the Corporate Governance Report on page 45.

Liquidity risk

The Group generates significant operational cash inflows and can draw down on immediate request against a £200 million revolving credit facility. At the balance sheet date the Group had undrawn RCF facilities of £59.7 million (2016: £70.2 million). Cash flow forecasts are prepared to assist management in identifying future liquidity requirements.

Long term bank funding is subject to certain agreed financial covenants. The risk of a breach of these covenants is mitigated by regular financial forecasting, detailed covenant modelling and monitoring of covenant compliance. As at 31 January 2017, the Group had adequate headroom against all of its financial covenants. Further details on Group borrowings are set out in note 17 of the financial statements.

The table below analyses the contractual cash flows of the Group's non-derivative financial liabilities as at the balance sheet date. The amounts disclosed in the tables are the contractual undiscounted cash flows, inclusive of interest, stated at balance sheet date interest rates in respect of floating interest rate liabilities.

	Less than one year £'m	One to two years £'m	Two to five years £'m	More than five years £'m	Total £'m
At 31 January 2017					
Unsecured bank loans	**0.1**	**–**	**130.0**	**–**	**130.1**
Unsecured bank overdraft	**8.7**	**–**	**–**	**–**	**8.7**
Trade and other payables	**34.2**	**–**	**–**	**–**	**34.2**
	43.0	**–**	**130.0**	**–**	**173.0**
At 31 January 2016					
Unsecured bank loans	0.1	–	135.0	–	135.1
Trade and other payables	32.7	–	–	–	32.7
	32.8	–	135.0	–	167.8

The table below analyses the contractual cash flows of the Group's derivative financial instruments as at the balance sheet date. The amounts disclosed represent the total contractual undiscounted cash flows at the balance sheet date exchange and interest rates.

	Less than one year £'m	One to two years £'m	Two to five years £'m	More than five years £'m	Total £'m
At 31 January 2017					
Foreign exchange contracts					
– Inflow	**78.8**	**23.9**	**–**	**–**	**102.7**
– Outflow	**(72.9)**	**(22.1)**	**–**	**–**	**(95.0)**
Interest rate contracts					
– Outflow	**–**	**(0.1)**	**–**	**–**	**(0.1)**
At 31 January 2016					
Foreign exchange contracts					
– Inflow	47.0	29.5	7.0	–	83.5
– Outflow	(41.8)	(25.9)	(6.1)	–	(73.8)
Interest rate contracts					
– Outflow	(0.2)	(0.1)	(0.1)	–	(0.4)

Foreign currency risk

A significant proportion of the Group's retail products are procured from overseas suppliers denominated in US Dollars. Current Group policy requires forward cover of between 50% and 100% of the next 12 months rolling US Dollar requirement using foreign exchange derivative contracts and US Dollar denominated cash balances and up to 75% forward cover for the period 12 to 24 months. The policy permits a proportion of each year's US Dollar requirement to be covered by structured options and similar instruments.

The table below analyses the sensitivity of the Group's US Dollar denominated financial instruments to a 10 cent movement in the USD to GBP exchange rate at the balance sheet date, holding all other assumptions constant.

	2017		2016	
	Impact on profit after tax £'m	**Impact on cash flow hedging reserve £'m**	Impact on profit after tax £'m	Impact on cash flow hedging reserve £'m
10 cent increase	**(2.0)**	**(2.2)**	(3.4)	(1.0)
10 cent decrease	**(1.3)**	**2.6**	3.7	1.2

23 FINANCIAL RISK MANAGEMENT CONTINUED

Interest rate risk

The Group's principal interest rate risk arises from long term borrowings. Bank borrowings are denominated in Sterling and are borrowed at floating interest rates. The Group utilises interest rate derivative financial instruments to mitigate the interest rate risk on an element of these borrowing costs. Current Group policy requires between 25% and 75% of forecast floating interest rate borrowings to be hedged for the next 24 months using interest rate derivative contracts.

The table below shows the impact on the reported results of a 50 basis point increase or decrease in the interest rate for the year.

	2017		2016	
	Impact on profit after tax £'m	**Impact on cash flow hedging reserve £'m**	Impact on profit after tax £'m	Impact on cash flow hedging reserve £'m
50 basis point interest rate increase	**(0.3)**	**0.1**	–	0.1
50 basis point interest rate decrease	**0.4**	**(0.1)**	0.1	(0.1)

Counterparty credit risk

The Group is exposed to counterparty credit risk on its holdings of cash and cash equivalents and derivative financial assets. To mitigate the risk, counterparties are limited to high credit-quality financial institutions and exposures are monitored on a monthly basis. Under the revised borrowing facility, Sterling cash balances are maintained at near zero to minimise interest expense on the RCF, thereby reducing counterparty credit risk on cash balances.

The Group is also exposed to counterparty credit risk in relation to payments in advance of goods to overseas suppliers. At 31 January 2017 this exposure amounted to £0.9 million (2016: £0.5 million). The Group utilises letters of credit for certain overseas suppliers, thereby reducing the total exposure to advance payments.

As a retail business the Group has minimal exposure to credit risk on trade receivables.

Capital management

The Group's capital risk management policy is to maintain a capital structure that is conservative yet efficient in terms of providing long term returns to shareholders.

The Group defines capital as equity attributable to the equity holders of the parent plus net debt. Net debt is shown in note 21.

The Group has a continued focus on free cash flow generation. The Board monitors a range of financial metrics together with banking covenant ratios, maintaining suitable headroom to ensure that the Group's financing requirements continue to be serviceable.

24 FINANCIAL INSTRUMENTS

Fair value

Financial instruments carried at fair value are measured by reference to the following fair value hierarchy:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Derivative financial instruments are carried at fair value and measured under a level 2 valuation method.

Derivative financial instruments

The balance sheet date fair value of derivative financial instruments is as follows:

	2017 £'m	2016 £'m
Derivative assets		
Non-current		
Interest rate contracts	**0.1**	0.3
Foreign exchange contracts	**0.5**	1.5
	0.6	1.8
Current		
Foreign exchange contracts	**3.5**	3.5
Derivative liabilities		
Current		
Interest rate contracts	**(0.1)**	(0.2)
Foreign exchange contracts	**(0.6)**	–
	(0.7)	(0.2)
Non-current		
Foreign exchange contracts	**(0.2)**	–

Interest rate contracts

At 31 January 2017 the Group held fixed for floating interest rate swaps and interest rate caps to hedge a portion of the variable interest rate risk on bank borrowings. Notional principal amounts for interest hedges total £60.0 million for the period to October 2017, increasing to £80.0 million for the period to October 2018 then reducing to £60.0 million for the period to October 2019 (2016: £60.0 million for the period to October 2018, reducing to £20.0 million to October 2019. Fair value movements of £0.2 million (2016: £0.1 million) were expensed to the income statement as a non-underlying item within financial expense.

Foreign exchange contracts

At 31 January 2017 the Group held a portfolio of foreign currency derivative contracts with notional principal amounts totalling £95.0 million (2016: £73.8 million) to mitigate the exchange risk on future US Dollar denominated trade purchases. Foreign currency derivative contracts with a notional value of £53.2 million (2016: £61.8 million) were not designated as hedging relationships. Fair value movements in foreign currency derivatives are recognised in other comprehensive income to the extent the contract is part of an effective hedging relationship. Fair value movements of £0.6 million that do not form part of an effective hedging relationship have been charged to the income statement (2016: £3.9 million credited) as a non-underlying item within cost of sales (see note 3).

24 FINANCIAL INSTRUMENTS CONTINUED

Classification of financial instruments

The table below shows the classification of financial assets and liabilities at the balance sheet date.

	Held for trading £'m	Cash flow hedging instruments £'m	Loans and receivables £'m	Other financial liabilities £'m
At 31 January 2017				
Financial assets measured at fair value				
Derivative financial instruments	**3.3**	**0.8**	**–**	**–**
Financial assets not measured at fair value				
Trade and other receivables	**–**	**–**	**1.4**	**–**
Cash and cash equivalents	**–**	**–**	**3.0**	**–**
Financial liabilities measured at fair value				
Derivative financial instruments	**(0.2)**	**(0.7)**	**–**	**–**
Financial liabilities not measured at fair value				
Unsecured bank loans	**–**	**–**	**–**	**(129.4)**
Unsecured bank overdrafts	**–**	**–**	**–**	**(8.7)**
Trade and other payables	**–**	**–**	**–**	**(34.2)**
	3.1	**0.1**	**4.4**	**(172.3)**
At 31 January 2016				
Financial assets measured at fair value				
Derivative financial instruments	3.7	1.6	–	–
Financial assets not measured at fair value				
Trade and other receivables	–	–	1.2	–
Cash and cash equivalents	–	–	11.3	–
Financial liabilities measured at fair value				
Derivative financial instruments	–	(0.2)	–	–
Financial liabilities not measured at fair value				
Unsecured bank loans	–	–	–	(134.2)
Trade and other payables	–	–	–	(32.7)
	3.7	1.4	12.5	(166.9)

The fair values of financial instruments have been assessed as approximating to their carrying values.

Derivative financial instruments are utilised to mitigate foreign exchange risk on the requisition of inventory and interest rate risk on borrowings. The Group does not trade in derivative financial instruments. However, certain derivatives not designated as a hedging relationship are classified as held for trading for accounting purposes.

Strategic Report Governance Financials

25 EQUITY SETTLED SHARE BASED PAYMENT ARRANGEMENTS

Card Factory Long Term Incentive Plan ('LTIP')

The Company grants awards of shares to the Executive Directors, members of the senior management team and senior employees under the terms of the LTIP. Grants are made annually under the scheme subject to approval by the Board. The award comprises a right to receive free shares or nil cost options. The shares will be issued within 30 days, or as soon as practicable, after the vesting date. The grants awarded in favour of senior employees are subject to a three year vesting period. The grants awarded in favour of the Executive Directors and members of the senior management team are subject to a three year vesting period and include performance conditions. Further details on Executive Director LTIP awards are provided in the Remuneration Report on pages 53 to 71. All shares received on vesting of Executive Director and senior management awards are subject to a two year holding period (sale of shares is permitted to cover personal tax and social security contributions arising on the awards).

Card Factory SAYE Scheme ('SAYE')

The SAYE scheme is open to all staff with eligible length of service. Grants are made annually under the scheme subject to approval by the Board. Options may be exercised under the scheme within six months of the completion of the three year savings contract. There is provision for early exercise in certain circumstances such as death, disability, redundancy and retirement.

Other options awarded

Under his terms of appointment dated 30 April 2014, Geoff Cooper, the Company's Non-Executive Chairman, was granted the option to purchase £330,000 of ordinary shares as part of, or alongside, the IPO at the offer price (£2.25), £330,000 of ordinary shares at the offer price (£2.25) on the date falling two years after the date of admission to the London Stock Exchange and £330,000 at the offer price (£2.25) on the date falling three years after the date of admission. The entitlement to make such purchases is conditional upon and subject to Mr Cooper remaining as Chairman of the Company on such date. On 24 May 2016 Mr Cooper exercised the option to purchase £330,000 of ordinary shares at £2.25 resulting in a gain of £214,132 based on the share price at that date.

Under the terms of the Card Factory Directors' Remuneration Policy, one third of any bonus payment to participants that have not met the relevant shareholding requirement will be deferred in shares for three years. As Karen Hubbard does not currently meet this requirement, one third of her bonus entitlement in respect of the financial year will be deferred in shares for three years. The shares have no vesting conditions and Karen will be entitled to receive them in three years. The share price will be determined at the date the bonus award is made. The outstanding awards shown below include an estimated number of shares based on the share price at 31 January 2017.

Reconciliation of outstanding awards

	LTIP		SAYE		Other options/shares awarded	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at 1 February 2015	1,025,555	£0.00	–	–	293,332	£2.25
Granted during the year	895,747	£0.00	793,961	£2.90	–	–
Exercised during the year	–	–	–	–	–	–
Forfeited during the year	(54,015)	£0.00	(47,697)	£2.90	–	–
Outstanding at 31 January 2016	1,867,287	£0.00	746,264	£2.90	293,332	£2.25
Granted during the year	723,998	£0.00	281,978	£2.91	12,582*	£2.50
Exercised during the year	–	–	(1,963)	–	(146,666)	£2.25
Forfeited during the year	(371,263)	£0.00	(190,525)	£2.90	–	–
Outstanding at 31 January 2017	**2,220,022**	**£0.00**	**835,754**	**£2.90**	**159,248**	**£2.27**

9,298 options were exercisable under the SAYE scheme at 31 January 2017.

* Estimated number of shares in respect of CEO bonus entitlement to be deferred in shares for three years. The award was yet to be granted at 31 January 2017.

Notes to the Financial Statements continued

25 EQUITY SETTLED SHARE BASED PAYMENT ARRANGEMENTS CONTINUED

Fair value of awards

The fair value of awards granted during the year has been measured using the Black-Scholes model assuming the inputs below.

	2017		2016	
	LTIP	SAYE	LTIP	SAYE
Fair value at grant date	£3.07	£0.53	£3.08	£0.53
Share price at grant date	£3.07	£3.20	£3.08	£3.27
Exercise price	£0.00	£2.91	£0.00	£2.90
Expected volatility	30%	30%	30%	30%
Expected term	3 years	3 years	3 years	3 years
Expected dividend yield	N/A*	7.5%	N/A*	6.0%
Risk free interest rate	0.11%	0.21%	0.67%	0.92%

* LTIP awards have a £nil exercise price and accrue dividend equivalents over the vesting period, consequently the fair value at grant date is equal to the grant date share price.

The CEO bonus award will accrue dividend equivalents and consequently the fair value at grant date will be equal to the grant date share price.

The expected volatility is based on historical volatility of a peer group of companies over a relevant period prior to the awards and is comparable to the volatility of Card Factory shares over the available period from May 2014 to the grant date.

Impact on the income statement

The total expense recognised in the income statement arising from share-based payments is as follows:

	2017 £'m	2016 £'m
Card Factory LTIP	0.1	1.2
SAYE	0.1	0.1
	0.2	1.3

The amounts disclosed above do not include employer's national insurance costs.

26 CAPITAL COMMITMENTS

There were capital commitments of £0.6 million at 31 January 2017 (2016: £0.6 million).

27 CONTINGENT LIABILITIES

There were no material contingent liabilities at 31 January 2017 (2016: £nil).

28 RELATED PARTY TRANSACTIONS

The Group has taken advantage of the exemptions contained within IAS 24 'Related Party Disclosures' from the requirement to disclose transactions between Group companies as these have been eliminated on consolidation.

Transactions with key management personnel

The key management personnel of the Group comprise the Card Factory plc Board of Directors and the Operational Board. Disclosures relating to remuneration of key management personnel are included in note 6 of the financial statements. Further details of Directors' remuneration are set out in the Directors' Remuneration Report on pages 53 to 71. Directors of the Company and their immediate families control 1.78% of the ordinary shares of the Company.

There were no other related party transactions in the year.

29 SUBSIDIARY UNDERTAKINGS

At 31 January 2017 the Group controlled 100% of the issued ordinary share capital of the following subsidiaries, all of which are registered in England and Wales, and all of which are included in the consolidated financial statements.

Subsidiary undertaking	Nature of business	Registered office
CF Bidco Limited *	Intermediate holding company	Same as the Company
Sportswift Limited	Sale of greeting cards and gifts	Same as the Company
Printcraft Limited	Printers	Same as the Company
Getting Personal Limited	Online sale of personalised products and gifts	**
CF Topco Limited *	Dormant	Same as the Company
CF Interco Limited	Dormant	Same as the Company
Short Rhyme Limited	Dormant	Same as the Company
Heavy Distance Limited	Dormant	Same as the Company
Getting Personal Group Limited	Dormant	**
Getting Personal (UK) Limited	Dormant	**
Lupfaw 221 Limited	Dormant	Same as the Company
Sportswift Properties Limited	Dormant	Same as the Company
CF Midco Limited	Dormant	Same as the Company
Century Cards Limited	Dormant	Same as the Company
Rose Card Limited	Dormant	Same as the Company
Celebration Cards Limited	Dormant	Same as the Company
Sportswift Trading Limited	Dormant	Same as the Company
CF Newco Limited	Dormant	Same as the Company
321 Cards Limited	Dormant	Same as the Company
Card Concepts Limited	Dormant	Same as the Company
Excelsior Graphics Limited	Dormant	Same as the Company
Card Factory Stores Limited	Dormant	Same as the Company
Card Factory Retail Limited	Dormant	Same as the Company
Card Factory Online Limited	Dormant	Same as the Company
Card Factory Greetings Limited	Dormant	Same as the Company

* Shares held directly. All other subsidiaries shares are held indirectly through subsidiary undertakings.
** 1st Floor, Southmoor House Southmoor Industrial Estate, Southmoor Road, Manchester, M23 9XD.

Parent Company Balance Sheet

AS AT 31 JANUARY 2017

	Note	2017 £'m	2016 £'m
Non-current assets			
Investments	4	**316.2**	116.2
Deferred tax	5	**0.2**	0.3
		316.4	116.5
Current assets			
Trade and other receivables	6	**0.4**	162.6
Total assets		**316.8**	279.1
Current liabilities			
Trade and other payables	7	**(1.9)**	(1.5)
Net assets		**314.9**	277.6
Equity			
Share capital	8	**3.4**	3.4
Share premium	8	**201.9**	201.6
Merger reserve		**2.7**	2.7
Retained earnings		**106.9**	69.9
Equity attributable to equity holders of the parent		**314.9**	277.6

The financial statements on pages 114 to 124 were approved by the Board of Directors on 27 March 2017 and were signed on its behalf by:

Darren Bryant
Chief Financial Officer

Company number 09002747

Parent Company Statement of Changes in Equity

FOR THE YEAR ENDED 31 JANUARY 2017

	Share capital £'m	Share premium £'m	Merger reserve £'m	Retained earnings £'m	Total equity £'m
At 1 February 2015	3.4	201.6	2.7	114.9	322.6
Total comprehensive income for the year					
Profit or loss	–	–	–	36.7	36.7
Transactions with owners, recorded directly in equity					
Share based payments	–	–	–	1.3	1.3
Taxation on share based payments recognised in equity	–	–	–	0.1	0.1
Dividends	–	–	–	(83.1)	(83.1)
	–	–	–	(81.7)	(81.7)
At 31 January 2016	3.4	201.6	2.7	69.9	277.6
Total comprehensive income for the year					
Profit or loss	–	–	–	117.9	117.9
Transactions with owners, recorded directly in equity					
Issue of shares (note 8)	–	0.3	–	–	0.3
Share based payments	–	–	–	0.2	0.2
Taxation on share based payments recognised in equity	–	–	–	–	–
Dividends	–	–	–	(81.1)	(81.1)
	–	0.3	–	(80.9)	(80.6)
At 31 January 2017	**3.4**	**201.9**	**2.7**	**106.9**	**314.9**

Parent Company Cash Flow Statement

FOR THE YEAR ENDED 31 JANUARY 2017

	Note	2017 £'m	2016 £'m
Cash (outflow)/inflow from operating activities	12	**(0.8)**	0.4
Corporation tax paid		**–**	–
Net cash (outflow)/inflow from operating activities		**(0.8)**	0.4
Cash flows from investing activities			
Dividends received		**117.0**	32.8
Repayment of loans by Group undertakings		**163.1**	156.4
Interest received from Group undertakings		**1.5**	4.3
Investments in subsidiary undertakings		**(200.0)**	(111.1)
Net cash inflow from investing activities		**81.6**	82.4
Cash flows from financing activities			
Proceeds from new shares issued		**0.3**	–
Dividends paid		**(81.1)**	(82.8)
Net cash outflow from financing activities		**(80.8)**	(82.8)
Net increase in cash and cash equivalents		**–**	–
Cash and cash equivalents at the beginning of the year		**–**	–
Closing cash and cash equivalents		**–**	–

Notes to the Parent Company Financial Statements

1 ACCOUNTING POLICIES

Basis of preparation

The Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('EU IFRS') and with those parts of the Companies Act 2006 applicable to companies reporting under EU IFRS.

The financial statements have been prepared under the historical cost convention.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Principal accounting policies

The principal accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Income statement

The Company made a profit after tax of £117.9 million for the year ended 31 January 2017 (2016: £36.7 million), including £117.0 million dividends received from subsidiary undertakings (2016: £32.8 million). As permitted by section 408 of the Companies Act 2006, the income statement of the Company is not presented as part of the financial statements.

Investments

Investments in subsidiary undertakings are held at cost less any provision for impairment.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Merger reserve

On 30 April 2014 Card Factory plc acquired 100% of the share capital of CF Topco Limited in a share for share exchange, thereby inserting Card Factory plc as the Parent Company of the Group. The shareholders of CF Topco Limited became 100% owners of the enlarged share capital of Card Factory plc. The premium arising on the issue of shares is recognised in the merger reserve.

Share based payments

The Company issues equity-settled share based payments to employees through the Card Factory Long Term Incentive Plan ('LTIP') and the Card Factory SAYE Scheme ('SAYE'), see note 9 for further details. The cost of equity-settled share awards is measured as the fair value of the award at the grant date using the Black-Scholes model.

The cost of awards to employees of the Company is expensed to the income statement, together with a corresponding adjustment to equity, on a straight line basis over the vesting period of the award. The cost of awards to employees of subsidiary undertakings is recognised as a capital contribution, immediately reimbursed by the subsidiary. The total cost of the awards is based on the Group's estimate of the number of share awards that will eventually vest in accordance with the vesting conditions. The awards do not include market-based vesting conditions. At each balance sheet date, the Group revises its estimate of the number of awards that are expected to vest. Any revision to estimates is recognised in the income statement, with a corresponding adjustment to equity. The expense recognised in the Company income statement is subsequently charged to subsidiary entities to the extent that management services are provided to those subsidiary entities.

Notes to the Parent Company Financial Statements continued

1 ACCOUNTING POLICIES CONTINUED

Dividends

Dividends are recognised as a liability in the period in which they are approved such that the Company is obliged to pay the dividend.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or through other comprehensive income, in which case it is recognised in equity or other comprehensive income respectively.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

New standards and interpretations

EU Endorsed International Financial Reporting Standards effective in the year
The following new and amended standards, adopted in the current financial year, had no significant impact on the financial statements.

- Clarification of acceptable methods of depreciation (Amendments to IAS 16 and IAS 38)
- Accounting for acquisitions of interest in joint operations (Amendments to IFRS 11)
- Annual Improvements to IFRSs 2012 – 2014 cycle
- Equity method in separate financial statements (Amendments to IAS 27)
- Investment entities: Applying the consolidation exception (Amendments to IAS 28, IFRS 10 and IFRS 12)
- Disclosure Initiative (Amendments to IAS 1)

EU Endorsed International Financial Reporting Standards in issue but not yet effective
The Directors considered the impact on the Company of EU endorsed, new and revised accounting standards, interpretations or amendments. The following new and revised accounting standards are currently endorsed but not yet effective.

- IFRS 15 Revenue from contracts
- IFRS 9 Financial instruments

IFRS 15 'revenue from contracts' introduces principles to recognise revenue by allocation of the transaction price to performance obligations and is effective for accounting periods commencing on or after 1 January 2018 . Adoption of the standard is not expected to have a material impact on the financial statements of the Company.

IFRS 9 'Financial instruments' will supersede IAS 39 and is effective for accounting periods commencing on or after 1 January 2018. The Group is assessing the impact on the classification and measurement of financial instruments.

International Financial Reporting Standards in issue but not yet effective and not EU endorsed

The future impact on the financial statements of new standards and amendments awaiting EU endorsement is currently being assessed. New standards awaiting EU endorsement include IFRS 16 'Leases', which is effective for annual periods beginning on or after 1 January 2019. The standard replaces IAS 17, and will require entities to apply a single lessee accounting model, with lessees recognising right of use assets and lease liabilities on balance sheet for all applicable leases. Adoption of the standard is not expected to have a material impact on the financial statements of the Company.

2 EMPLOYEE COSTS

The Company has no employees other than the Board of Directors. Full details of Directors' remuneration are set out in the Directors' Remuneration Report on pages 53 to 71.

3 DIVIDENDS

The Board is recommending a final dividend in respect of the financial year ended 31 January 2017 of 6.3 pence per share (2016: 6.0 pence per share), resulting in a total final dividend of £21.5 million (2016: £20.4 million). The dividend will, subject to shareholders' approval at the Annual General Meeting on 25 May 2017, be paid on 9 June 2017 to shareholders on the register at the close of business on 5 May 2017. No liability is recorded in the financial statements in respect of this final dividend as it was not approved at the balance sheet date.

Dividends paid in the year:

	Pence per share	**2017 £'m**	2016 £'m
Special dividend for the year ended 31 January 2017	15.0p	**51.1**	–
Interim dividend for the year ended 31 January 2017	2.8p	**9.6**	–
Final dividend for the year ended 31 January 2016	6.0p	**20.4**	–
Special dividend for the year ended 31 January 2016	15.0p	**–**	51.1
Interim dividend for the year ended 31 January 2016	2.5p	**–**	8.5
Final dividend for the year ended 31 January 2015	4.5p	**–**	15.4
Interim dividend for the year ended 31 January 2015	2.3p	**–**	7.8
		81.1	82.8

Dividends totalling £81.1 million (2016: £82.8 million) were paid in the year with a further £0.1 million (2016: £0.3 million) accrued in relation to share based long term incentive schemes.

4 INVESTMENTS IN SUBSIDIARIES

	£'m
At 31 January 2015	5.1
Additions	111.1
At 31 January 2016	116.2
Additions	200.0
At 31 January 2017	**316.2**

Additions in the year comprise a further £200.0 million investment in CF Bidco Limited. Additions in the prior year comprise the acquisition of 100% of the issued ordinary share capital of CF Bidco Limited from CF Interco Limited, both 100% owned subsidiary entities, as part of a simplification of the Group structure.

The Directors' are satisfied that there is no indication of an impairment of the investment in subsidiaries.

Notes to the Parent Company Financial Statements continued

4 INVESTMENTS IN SUBSIDIARIES CONTINUED

Subsidiary undertakings

At 31 January 2017 the Company controlled 100% of the issued ordinary share capital of the following subsidiaries, all of which are registered in England and Wales, and all of which are included in the consolidated financial statements.

Subsidiary undertaking	Nature of business	Registered office
CF Bidco Limited *	Intermediate holding company	Same as the Company
Sportswift Limited	Sale of greeting cards and gifts	Same as the Company
Printcraft Limited	Printers	Same as the Company
Getting Personal Limited	Online sale of personalised products and gifts	**
CF Topco Limited *	Dormant	Same as the Company
CF Interco Limited	Dormant	Same as the Company
Short Rhyme Limited	Dormant	Same as the Company
Heavy Distance Limited	Dormant	Same as the Company
Getting Personal Group Limited	Dormant	**
Getting Personal (UK) Limited	Dormant	**
Lupfaw 221 Limited	Dormant	Same as the Company
Sportswift Properties Limited	Dormant	Same as the Company
CF Midco Limited	Dormant	Same as the Company
Century Cards Limited	Dormant	Same as the Company
Rose Card Limited	Dormant	Same as the Company
Celebration Cards Limited	Dormant	Same as the Company
Sportswift Trading Limited	Dormant	Same as the Company
CF Newco Limited	Dormant	Same as the Company
321 Cards Limited	Dormant	Same as the Company
Card Concepts Limited	Dormant	Same as the Company
Excelsior Graphics Limited	Dormant	Same as the Company
Card Factory Stores Limited	Dormant	Same as the Company
Card Factory Retail Limited	Dormant	Same as the Company
Card Factory Online Limited	Dormant	Same as the Company
Card Factory Greetings Limited	Dormant	Same as the Company

* Shares held directly. All other subsidiaries shares are held indirectly through subsidiary undertakings.
** 1st Floor, Southmoor House Southmoor Industrial Estate, Southmoor Road, Manchester, M23 9XD.

5 DEFERRED TAX ASSET

	2017 £'m	2016 £'m
Deferred tax assets in relation to share based payments	**0.2**	0.3

6 TRADE AND OTHER RECEIVABLES

	2017 £'m	2016 £'m
Amounts owed by Group undertakings	**0.3**	162.5
Prepayments and other debtors	**0.1**	0.1
	0.4	162.6

7 TRADE AND OTHER PAYABLES

	2017 £'m	2016 £'m
Amounts owed to Group undertakings	**0.8**	–
Trade creditors	**0.2**	–
Accruals	**0.9**	1.5
	1.9	1.5

8 SHARE CAPITAL AND SHARE PREMIUM

	2017 (Number)	2016 (Number)
Share capital		
Allotted, called up and fully paid ordinary shares of one pence:		
At the start of the period	**340,696,235**	340,696,235
Shares issued in the year*	**148,629**	–
At the end of the period	**340,844,864**	340,696,235

	£'m	£'m
Share capital		
At the start of the period	**3.4**	3.4
Shares issued in the year*	**–**	–
At the end of the period	**3.4**	3.4

	£'m	£'m
Share premium		
At the start of the period	**201.6**	201.6
Shares issued in the year*	**0.3**	–
At the end of the period	**201.9**	201.6

* Shares issued in the year relate to share incentive schemes. See note 9 for further details.

9 EQUITY SETTLED SHARE BASED PAYMENT ARRANGEMENTS

Card Factory Long Term Incentive Plan ('LTIP')

The Company grants awards of shares to the Executive Directors, members of the senior management team and senior employees under the terms of the LTIP. Grants are made annually under the scheme subject to approval by the Board. The award comprises a right to receive free shares or nil cost options. The shares will be issued within 30 days, or as soon as practicable, after the vesting date. The grants awarded in favour of senior employees are subject to a three year vesting period. The grants awarded in favour of the Executive Directors and members of the senior management team are subject to a three year vesting period and include performance conditions. Further details on Executive Director LTIP awards are provided in the Remuneration Report on pages 53 to 71. All shares received on vesting of Executive Director and senior management awards are subject to a two year holding period (sale of shares is permitted to cover personal tax and social security contributions arising on the awards).

Card Factory SAYE Scheme ('SAYE')

The SAYE scheme, established during the year, is open to all staff with eligible length of service. Grants are made annually under the scheme subject to approval by the Board. Options may be exercised under the scheme within six months of the completion of the three year savings contract. There is provision for early exercise in certain circumstances such as death, disability, redundancy and retirement.

9 EQUITY SETTLED SHARE BASED PAYMENT ARRANGEMENTS CONTINUED

Other options awarded

Under his terms of appointment dated 30 April 2014, Geoff Cooper, the Company's Non-Executive Chairman, was granted the option to purchase £330,000 of ordinary shares as part of, or alongside, the IPO at the offer price (£2.25), £330,000 of ordinary shares at the offer price (£2.25) on the date falling two years after the date of admission to the London Stock Exchange and £330,000 at the offer price (£2.25) on the date falling three years after the date of admission. The entitlement to make such purchases is conditional upon and subject to Mr Cooper remaining as Chairman of the Company on such date. On 24 May 2016 Mr Cooper exercised the option to purchase £330,000 of ordinary shares at £2.25 resulting in a gain of £214,132 based on the share price at that date.

Under the terms of the Card Factory Directors' Remuneration Policy, one third of any bonus payment to participants that have not met the relevant shareholding requirement will be deferred in shares for three years. As Karen Hubbard does not currently meet this requirement, one third of her bonus entitlement in respect of the financial year will be deferred in shares for three years. The shares have no vesting conditions and Karen will be entitled to receive them in three years. The share price will be determined at the date the bonus award is made. The outstanding awards shown below include an estimated number of shares based on the share price at 31 January 2017.

Reconciliation of outstanding awards

	LTIP		SAYE		Other options/shares awarded	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at 1 February 2015	1,025,555	£0.00	–	–	293,332	£2.25
Granted during the year	895,747	£0.00	793,961	£2.90	–	–
Exercised during the year	–	–	–	–	–	–
Forfeited during the year	(54,015)	£0.00	(47,697)	£2.90	–	–
Outstanding at 31 January 2016	1,867,287	£0.00	746,264	£2.90	293,332	£2.25
Granted during the year	723,998	£0.00	281,978	£2.91	12,582*	£2.50
Exercised during the year	–	–	(1,963)	–	(146,666)	£2.25
Forfeited during the year	(371,263)	£0.00	(190,525)	£2.90	–	–
Outstanding at 31 January 2017	**2,220,022**	**£0.00**	**835,754**	**£2.90**	**159,248**	**£2.27**

9,298 options were exercisable under the SAYE scheme at 31 January 2017.

* Estimated number of shares in respect of CEO bonus entitlement to be deferred in shares for three years. The award was yet to be granted at 31 January 2017.

Fair value of awards

The fair value of awards granted during the year has been measured using the Black-Scholes model assuming the inputs below.

	2017		2016	
	LTIP	**SAYE**	LTIP	SAYE
Fair value at grant date	**£3.07**	**£0.53**	£3.08	£0.53
Share price at grant date	**£3.07**	**£3.20**	£3.08	£3.27
Exercise price	**£0.00**	**£2.91**	£0.00	£2.90
Expected volatility	**30%**	**30%**	30%	30%
Expected term	**3 years**	**3 years**	3 years	3 years
Expected dividend yield	**N/A ***	**7.5%**	N/A*	6.0%
Risk free interest rate	**0.11%**	**0.21%**	0.67%	0.92%

* LTIP awards have a £nil exercise price and accrue dividend equivalents over the vesting period, consequently the fair value at grant date is equal to the grant date share price.

The CEO bonus award will accrue dividend equivalents and consequently the fair value at grant date will be equal to the grant date share price.

The expected volatility is based on historical volatility of a peer group of companies over a relevant period prior to the awards and is comparable to the volatility of Card Factory shares over the available period from May 2014 to the grant date.

Impact on the income statement

The total expense recognised in the income statement arising from share-based payments is as follows:

	2017 £'m	2016 £'m
Expense recognised in the Company income statement		
Card Factory LTIP	–	0.7
Expense recognised in subsidiary income statements		
Card Factory LTIP	**0.1**	0.5
SAYE	**0.1**	0.1
	0.2	0.6
Total expense recognised in the Group income statement	**0.2**	1.3

The amounts disclosed above do not include employer's national insurance costs.

10 FINANCIAL RISK MANAGEMENT

The financial risk management strategy of the Company is consistent with the Group strategy detailed in note 23 of the Group financial statements. The Company is not exposed to foreign currency risk other than to the extent it impacts the trade of its subsidiary investments. Trade and other receivables principally comprise amounts due from Group undertakings and consequently credit risk is limited. Interest income and expense relate solely to amounts due to or from Group undertakings and interest rates are set by reference to Group borrowing costs.

11 FINANCIAL INSTRUMENTS

Classification of financial instruments

Financial assets have all been classified as loans and receivables. Financial liabilities have all been classified as other financial liabilities.

Maturity analysis

All financial instrument assets and liabilities fall due in less than one year.

Fair values

The fair values of financial instruments have been assessed as approximating to their carrying values.

12 NOTES TO THE CASH FLOW STATEMENT

	2017 £'m	2016 £'m
Profit before tax	**118.1**	36.7
Dividends received	**(117.0)**	(32.8)
Net finance income	**(1.5)**	(4.3)
Operating loss	**(0.4)**	(0.4)
Adjusted for:		
Share based payment charge	–	0.7
Operating cash flows before changes in working capital	**(0.4)**	0.3
Increase in receivables	–	(0.1)
(Decrease)/increase in payables	**(0.4)**	0.2
Cash (outflow)/inflow from operating activities	**(0.8)**	0.4

Notes to the Parent Company Financial Statements continued

13 RELATED PARTY TRANSACTIONS

Amounts due to and from Group undertakings are set out in notes 6 and 7 of the financial statements. Transactions between the Company and its subsidiaries were as follows:

	2017 £'m	2016 £'m
Management services	**1.6**	3.2
Interest receivable	**1.5**	4.3
Dividends received from Group undertakings	**117.0**	32.8
Repayment of loans due from Group undertakings	**163.1**	156.4
Investments in Group undertakings	**(200.0)**	(111.1)

Transactions with key management personnel

The key management personnel of the Company comprise the Card Factory plc Board of Directors. Disclosures relating to Directors' remuneration are set out in the Remuneration Report on pages 53 to 71. Directors of the Company control 1.78% of the ordinary shares of the Company.

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