# Card Factory

## Annual Report and Accounts


quality and value for all life's moments

# Company Overview

## Welcome to

# Card Factory

## Card Factory is 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, in addition to offering customers a range of complementary products associated with card giving occasions.

Card Factory's mission is to help customers celebrate their life moments by providing a range of quality cards, wrap, dressings, party and gifting products at value prices. The Group principally operates through its nationwide chain of over 900 Card Factory stores, as well as through its transactional web sites: 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.

## Four pillars of growth

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

**Consistently delivering strong cash generation and shareholder returns**

# Financial Highlights

**GROUP REVENUE**
**£422.1m**
Increase of +6.0%

**NET NEW STORE OPENINGS**
**50**
Total UK store estate 915

**LIKE-FOR-LIKE STORE SALES[1]**
**+2.6%**
Positive LFLs every year since formation

**TOTAL CARD FACTORY LIKE-FOR-LIKE SALES[1]**
**+2.9%**
Increase of +2.3%

**ONLINE REVENUE**
**£20.4m**
FY17: £19.3m

**UNDERLYING EBITDA[2]**
**£94.0m**
Decrease of 4.6%

**UNDERLYING EBITDA MARGIN**
**22.3%**
FY17: 24.7%

**UNDERLYING PROFIT BEFORE TAX**
**£80.5m**
FY17: £85.1m

**STATUTORY PROFIT BEFORE TAX[3]**
**£72.6m**
FY17: £82.8m

**LEVERAGE[4]**
**1.72x**
FY17: 1.38x

**TOTAL ORDINARY DIVIDEND[5]**
**9.3p**
Increase of 2.2%

**SPECIAL DIVIDEND**
**15.0p**
FY17: 15.0p

**UNDERLYING BASIC EPS**
**18.9p**
FY17: 19.8p

**BASIC EPS**
**17.1p**
FY17: 19.3p

Notes
1. See page 12 for definition of like-for-like sales.
2. As defined in note 5 to the financial statements on page 91.
3. See note 3 to the financial statements on page 90 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 6.4p, subject to AGM approval.

# Contents

# 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, approximately 2.8% 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).

### Complementary non-card items

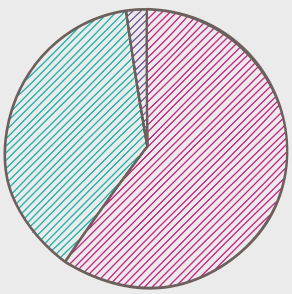
'Complementary Non-card' items refers to a wide variety of adjacent product categories that customers have a high propensity to purchase on the same occasions as greeting cards, including:

- **Gift dressings** (eg gift wrap, gift bags, gift boxes, gift tags, bows and ribbons);
- **Small gifts** (eg soft toys, ceramics, glassware, candles, picture frames and homewares);
- **Party products** (eg balloons and banners, badges and candles); and
- **Other complementary non-card products** (eg calendars, diaries and 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 FY18 revenue



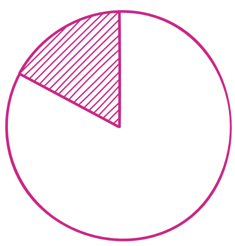
**53.7%**
Single cards

**44.0%**
Complementary non-card

**2.3%**
Christmas boxed cards

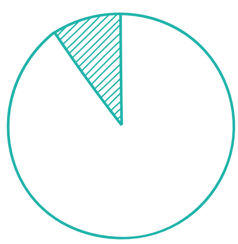
### Estimated Card Factory market share by value

**18.2%**
Single cards



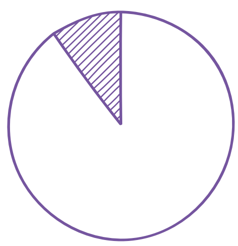
£1.3 billion
UK market value

Less than **10%**
Complementary non-card items



£2-3 billion
UK market value

**13.6%**
Christmas Boxed cards



£0.1 billion
UK market value

Note: Card Factory value share excludes online and is based on OC&C estimate of market size in 2017.

## Market trends

There is an ingrained culture of sending greeting cards in the UK, with estimates suggesting an average of approximately 24 cards sent per person each year, of which on average 17 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 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 across generations but with an increase in the number of cards purchased by 18 to 34 year olds. This, when combined with both a growing and ageing UK population, is an encouraging indication of the ongoing sustainability of the card market in the UK and is something we will continue to monitor.

## 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 in slight decline during this period, with only a 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);

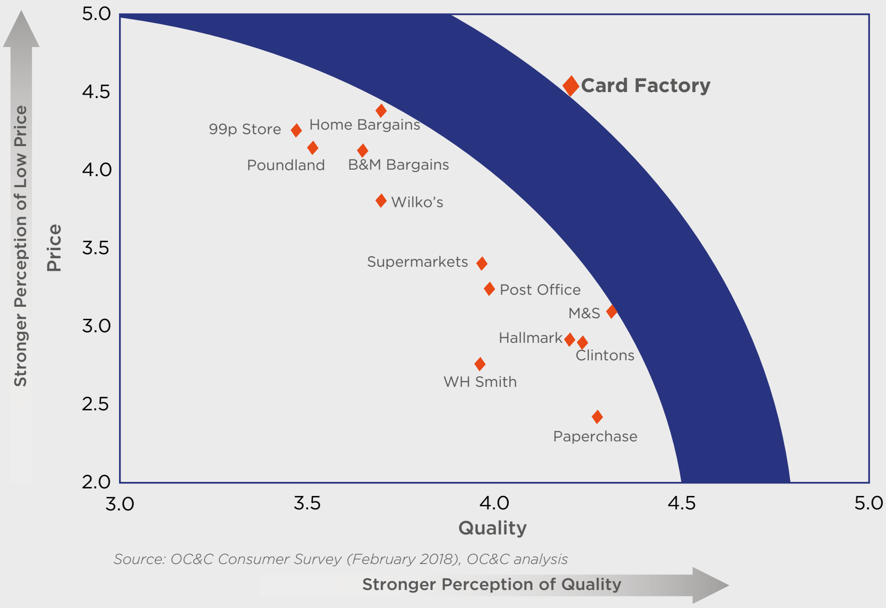
**Grocers:** Primarily capture convenience and distressed purchases (eg ASDA, Tesco and Sainsbury's);

**Others:** Including generalists (eg WH Smith and M&S), stationers, discount chains (eg B&M, Poundland, Home Bargains and Wilkinsons), the Post Office and hundreds of small independent retailers.

Card Factory's positioning within the market has been sustained with clear blue water between us and our competitors, in terms of consumers' perception of the price and quality of our cards. In addition, the independent OC&C Retail Proposition Index, which evaluates value for money across retailers, has Card Factory positioned as number 1 for the third year running.

### Consumer Perceptions of Greeting Cards Value for Money - 2018

Average Rating On Scale 1-5




*Source: OC&C Consumer Survey (February 2018), OC&C analysis*

### OC&C Retail Proposition Index Results – Value for Money

| | 2017 |
|---|---|
| **1** | **Card Factory (87.7)** |
| 2 | Home Bargains (86.5) |
| 3 | Aldi (85.9) |
| 4 | Lidl (85.4) |
| 5 | 99p Store (85.0) |
| 6 | Primark (84.1) |
| 7 | Farm Foods (83.6) |
| 8 | Wilko (82.7) |
| 9 | Poundworld (82.6) |
| 10 | Poundstretcher (82.5) |

# 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 over the past decade 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 external costs and adding value to customers in terms of both price and quality, underpinning the Group's Mission:

> "Quality and value for all life's moments"

## Key competitive strengths

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

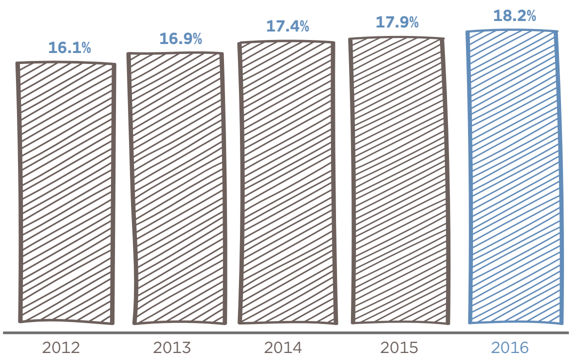
- enabling Card Factory to offer its clearly differentiated value proposition of quality products at affordable prices while maintaining strong margins;
- providing Card Factory with control over the quality, design and merchandising of its products, with the ability to act directly on customer preferences;
- 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, staff 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.

Card Factory has 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 2016 calendar year, Card Factory is the market leader in terms of both value (18.2%) and volume (31.7%) for single greeting cards.

### UK card market value share

**18.2%**

+0.3%

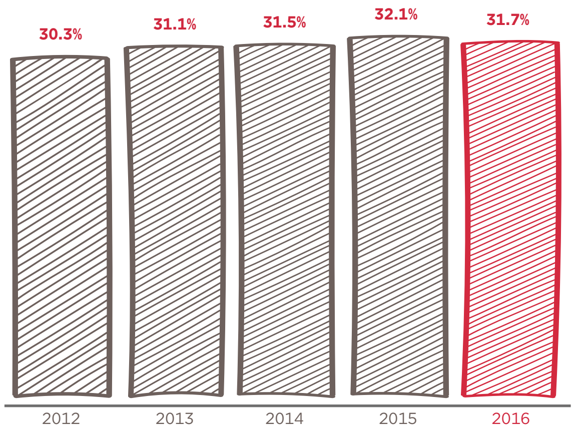



Source: OC&C March 2018

### UK card market volume share

**31.7%**

-0.4%




Source: OC&C March 2018





**The customers' choice for cards, gifts, party and wrap, in-store and online**

## Unwrapping our business

During the year, the Group's mission, vision and values have been defined by and communicated to our colleagues. They illustrate why the business has been so successful to date, the aspirations we have in terms of being the 'customers' choice' and the characteristics all our colleagues display in supporting our continued success.

### Our Mission

“Trusted for quality and value to help celebrate everyone's life moments”

### Our Vision

“The customers' choice for cards, gifts, party and wrap, in-store and online”

### Our Values

“We're part of the story”

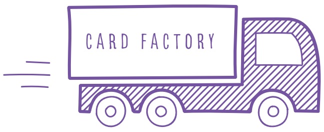
“We're loyal”

“We're grafters”

“We're a little bit mad”

“We lead the way”


WE'RE PART OF THE
STORY
WE'RE
LOYAL
WE'RE
GRAFTERS
We're
A little
bit Mad
WE
LEAD
THE WAY




## 1992
Business started

## 1997
First store opens


## 2005
All creative design brought in-house

STUDIO 41

CARD FACTORY 200

Over 200 Card Factory stores are now open

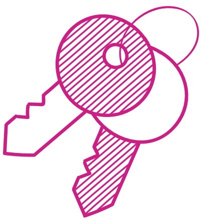
## 2009
Acquired print facility 'Printcraft'

Printcraft Limited
NEW TECHNOLOGIES AND TRADITIONAL SKILLS

CARD FACTORY 400

We now operate from over 400 stores across the UK

## 2013
Moved into Century House



CARD FACTORY 650

Over 650 stores across the UK

## 2014

London Stock Exchange

Company floated on Stock Exchange

£3 million donated to charity


WE ARE MACMILLAN. CANCER SUPPORT

## 2003

Ventured into Scotland, Wales and the South of England


Acquired warehouse facility

## 2010

Handed reins over to management team


## 2011

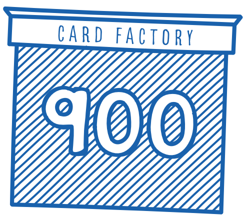
Purchased gettingpersonal.co.uk



Over 550 stores

## 2017

Over 900 stores across the UK


Story to be continued...

# 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 complementary 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 complementary non-card products
- Close links with in-house design team to optimise margins
- Long-standing relationships with many third-party manufacturers, particularly in the Far East

Internal quality control function supported by third-party supplier audits

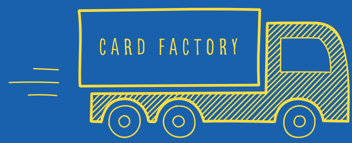
## Printing

- Existing supplier acquired in 2009 and relocated to larger premises in 2011
- Well-invested, scalable facility based in Shipley, Yorkshire
- 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

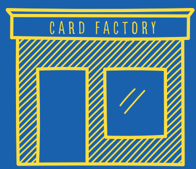

## Warehousing

- 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 900 stores, principally built from individual openings rather than acquisition
- High quality estate with only c1% 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 complementary 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 complementary 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 offer customers more choice, particularly for those occasions when they wish to spend more, whilst maintaining the quality and value of our offering; 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 complementary 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.

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).

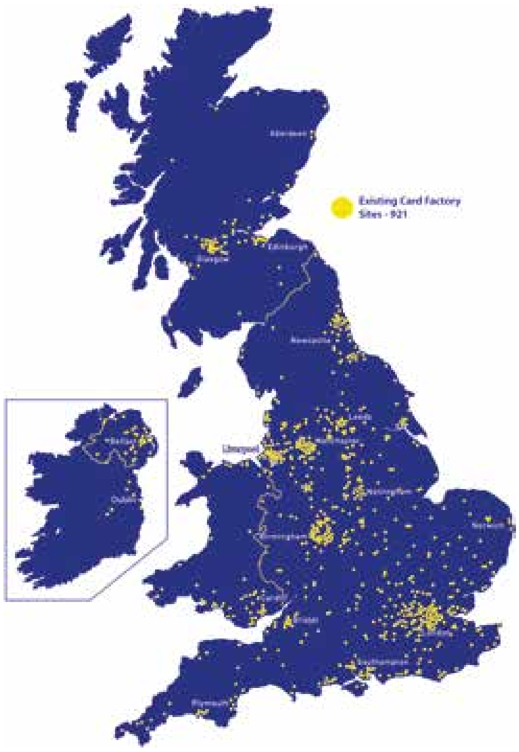
Card Factory stores are included in the reported LFL figures for each week of trading completed after having been open for a full 52 weeks, as compared to the same relevant week in the previous period.

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, including 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 c 50 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 consistently delivered 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 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.

In anticipation of planned long-term growth, the Group has, over a number of years, invested heavily in its infrastructure, including:

- an EPOS system and contactless payment across all of our stores that will both improve the speed of service and customer experience and provide more granular sales data that will help us develop our proposition and grow sales;
- expansion of Printcraft as part of a 10-year capital expenditure plan following its relocation to larger premises;
- the relocation of Getting Personal's personalised gift production facility to Printcraft; and
- investment in the central distribution centre and Group support centre completed.

The Group will continue to leverage the benefits of these significant investments over the medium-term as well as continually evaluating the benefit of further investment to support the long-term strategy of the business. The CEO's review on pages 18 and 19 outlines some of the additional investments the Group is currently considering.

## Online development

The Group's online operations currently comprise Card Factory's transactional website and Getting Personal (acquired in 2011).

Significant investment was made during the year in creating a dedicated Card Factory online team to support its future development and growth. We continue to enhance, test, evolve and evaluate our online platform, proposition and product offering and have, during the year, introduced a much wider selection of personalised cards and gifts as well as enhancing the selection of non-personalised products that customers would usually have to go to one of our stores to purchase.

Sales of personalised gifts represent the vast majority of the revenue generated from Getting Personal's 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 5.9% of the total single cards market, by value, and 2.2%, by volume, in 2016, the Directors believe it provides an opportunity for growth.

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

# Chairman's Statement

> "Card Factory performed well in FY18 with strong like-for-like sales growth, whilst profits were impacted by the prevailing headwinds from foreign exchange and national living wage"

**Geoff Cooper**
Chairman

Card Factory performed well in FY18 with strong like-for-like sales growth, whilst profits were impacted by the prevailing headwinds from foreign exchange and national living wage.

Whilst this year marks the fourth anniversary of our IPO, it is also the 20th anniversary of the Company's formation. Having started life as a local family owned discounter, the Group has developed into a market leading, high margin, national, value retailer with over 900 stores and two transactional websites. In the year we also opened our first stores in the Republic of Ireland. During the last 20 years the Group has demonstrated an ability to grow sales and profit, notwithstanding recent cost headwinds, 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 remains focused on its successful four pillar growth strategy, underpinned by its unique vertically integrated model which provides significant competitive advantage, particularly in challenging retail environments, as seen in 2017. 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 is exploring to further improve an already very successful business.

In April 2017 we announced the appointment of our new Chief Financial Officer, Kris Lee, following the retirement of Darren Bryant. With Kris' extensive experience in senior financial and commercial roles in the retail sector, his energy, drive and entrepreneurial mindset fits well with the Card Factory culture and will be invaluable to the Group as we move forward with our growth strategy.

The Board has increased the total ordinary dividend for the year by 2.2% to 9.3p 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 December 2017. In line with our stated capital policy, we currently expect to make a further return of surplus cash to shareholders towards the end of the current financial year, and further information is included in our CFO's review.

**Geoff Cooper**
Chairman

9 April 2018

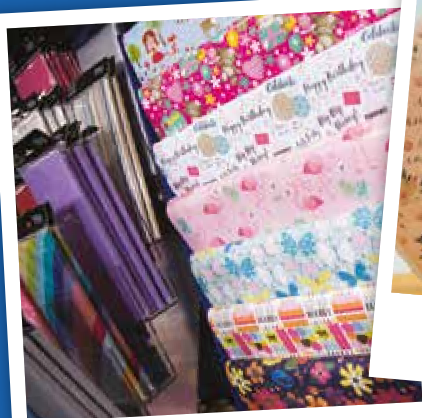


"FANTASTIC GIFTS"

"SOMETHING FOR EVERYONE"


> "During the last 20 years the Group has demonstrated an ability to grow sales and profit, notwithstanding recent cost headwinds, increase market share and generate significant returns for shareholders"

"FANTASTIC NEW RANGES"



"ONLINE SALES ARE VERY PROMISING"

"DESTINATION FOR ALL CARDS"

# Chief Executive Officer's Review

> Card Factory performed well in FY18 despite the difficult UK retail backdrop, with strong like-for-like sales growth and our highest ever sales day in Card Factory's history during the Christmas trading period

**Karen Hubbard**
Chief Executive Officer

## OVERVIEW

I am pleased to report that Card Factory performed well in FY18 despite the difficult UK retail backdrop, with strong like-for-like sales growth and our highest ever sales day in Card Factory's history during the Christmas trading period.

This was delivered in part through recent operational enhancements, particularly the introduction of EPOS and contactless payment, which are now installed throughout all stores in our estate, enabling us to serve a greater number of customers during peak trading periods. It is notable that this was the 20th consecutive year of like-for-like sales growth for the business.

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 always find good value quality cards to say exactly what they wish to say at a price that is affordable for them.

Throughout the year we continued to provide a compelling offer to our customers with extensive ranges and designs across our cards, party products, dressings and gifts, both in-store and online. Our ranges continue to resonate well with our customers who recognise the quality and value that we offer, seeing Card Factory as their retailer of choice for celebrating their life moments. Once again our independent research shows that, despite increased competition for card sales, we are the UK's preferred card retailer with 64% of the nation's card buyers having shopped at Card Factory in the last 12 months; 50% of all visits to Card Factory were planned and the main reason for the shopping trip.

Since the year-end, we have been recognised by our retail industry peers for our specialist position in the market having been awarded Retail Week's 'Best Specialty Retailer' at their 2018 awards.

We have also strengthened and further innovated our offering, adding product line extensions in both card and complementary non-card and new successful seasonal ranges, as well as including the introduction of gift cards which has been made possible by the roll out of EPOS across our estate. Our product line extensions have also provided our customers with further choice for those extra special occasions such as engagements and weddings.

The completion of the EPOS rollout in October 2017 has enabled us to analyse category performance more accurately and to review the efficiency of our stock replenishment processes. Whilst still in its infancy, we expect to deliver real benefits from the improved information available to us to ensure we can fulfil our customers' needs more efficiently than ever before, tailoring the ranges and space in stores to maximise sales performance.

Whilst margins were impacted by the prevailing foreign exchange and national living wage headwinds already identified and by the margin mix impact as a result of the strong performance of complementary non-card products, we continue to deliver best in class EBITDA margins and have developed a robust programme of business efficiencies to ensure we maintain these.

I remain confident that our existing, proven four pillar strategy is the right one to ensure future business growth.

## MARKET UPDATE

The latest independent research, produced by OC&C in March 2018, 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, despite a slight decline in volume as expected, with initial indications showing an increase in the number of cards purchased by 18–34 year olds. Whilst this will need to be monitored over a longer time period, it is an encouraging trend for the ongoing sustainability of the market;

- the sending of physical greeting cards is deeply ingrained in UK culture with high levels of emotional attachment and research shows that this remains stable;
- there continues to be no meaningful shift to digital greeting cards, with fewer customers than ever suggesting that they are replacing a physical card with a digital greeting;
- there has been significant growth in other seasonal events such as Valentine's Day and Thank You Teacher;
- the online personalised and non-personalised card segment remains an attractive niche for Card Factory where we have made good progress and delivered growth, albeit this still represents a relatively small proportion of the market; and
- Card Factory has maintained significant clear blue water versus its competitors in terms of the consumer's perception of value (see chart on page 3 of the Strategic Report); and consumer ratings demonstrate that our value for money, low price, quality, design and style of cards all exceed that of Supermarkets and Discounters.

Card Factory has, for the third year in a row, won the 'Value for Money' OC&C retail award, with a further improved rating.

## STRATEGIC PERFORMANCE

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

### 1. Like-for-like ('LFL') sales growth

Card Factory stores delivered strong like-for-like growth in the year of +2.6% (FY17: +0.4%) notwithstanding lower levels of footfall experienced across the general retail market. Including cardfactory.co.uk, LFL sales growth from the Card Factory fascia was +2.9% (FY17: +0.6%).

Looking forward, we intend to maximise LFL growth through: (i) ensuring we leverage our Design Studio to continue to innovate across both our card ranges and complementary non-card ranges; and (ii) focusing on retail disciplines, with improved availability, better space and merchandising planning and a greater focus on customer service, operational standards and the removal of tasks from store colleagues to enable them to focus on helping our customers.

In card, we continued to focus on introducing new styles and designs, whilst preserving 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. Our focus remains on maintaining the gaps in both price and quality compared to the competition.

As we enter and celebrate our 21st year as a leading specialist greeting card retailer, we maintain our long-standing 29p and 59p entry price points for cards, which enable us to help our customers celebrate their life moments with a card that offers both quality and value. In addition, we have increased the range of cards for those occasions when customers choose to spend more, offering choice, quality and value at significantly lower prices than other card specialists, with further ranges being launched in FY19.

In complementary non-card, our design and buying teams developed a number of new ranges with a more premium offering for customers who are looking for an extra special card, 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 and is reflected in Card Factory's transaction volumes outperforming the footfall declines seen on the High Street. For the year as a whole, the proportion of sales from complementary non-card items increased to 44.0% (FY17: 42.3%). Our complementary non-card ranges continue to perform strongly as incremental purchases to our card ranges, seeing a further increase in our average basket value.

Complementary non-card performance has been driven by:

- continuous development of our non-card offering with new ranges in dressings, wrap and gifting associated with card giving;
- improved sell through of aged stock to make way for new lines; and
- the introduction of new product lines including gift cards and stamps, which have enabled us to provide additional services to our customers in-store.

We continue to make good progress with our Card Factory website, cardfactory.co.uk, having performed strongly during the year with strong online key performance indicators. We remain confident that further progress within the online market is possible with selective further tactical investment.

### 2. New store roll out

Our internal property team has yet again enabled us to achieve our target net new store openings for this year and operate new stores efficiently and in a cost-effective manner. We continue to be successful in identifying new locations, whilst exploring opportunities for co-locations, relocations and openings within new retail parks.

We opened 50 net new UK stores in FY18 across a variety of retail locations including high streets, shopping centres and retail parks, providing the opportunity for more customers to experience the proposition in new locations. In total we had 915 UK stores at the end of the financial year (31 January 2017: 865), with a further six trial stores opened in the Republic of Ireland. The quality of our estate remains very strong: of our stores open for over one year, only c1% were loss making.

Looking forward, we 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; however there will continue to be a blended mix of different retail locations. We expect to add a further 50 net new stores to our estate in the current financial year, with good progress made to date.

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.

As at the year-end we had opened six trial stores in the Republic of Ireland around the Dublin area. Whilst this is still being trialled, we are looking to assess the store locations and store types identified to provide an indication of the potential size of the opportunity.

Across both geographies, we continue to target a cost-effective estate of 1,200 stores, capable of driving strong returns whilst maintaining the quality inherent in the Card Factory brand.

### 3. Business efficiencies

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

As identified in last year's preliminary and at this year's interim results announcements, we anticipated some significant cost pressures in the year, in particular foreign exchange and national living wage costs. To mitigate these we have introduced a range of cost efficiency programmes and believe further opportunities to mitigate costs exist with improved data intelligence from our recent implementation of EPOS. There is also further potential to enhance our competitive advantage by virtue of our vertically integrated model and the resulting superior operating margins. We will remain conscious of our customers' trust in our value proposition, ensuring that we are delivering the right offer to retain and grow our market share.

Our business efficiency programmes also focus on more efficient product sourcing, further vertical integration, more efficient supply chain management and improved store productivity through the removal of task. Furthermore, our Loss Prevention team, who are now well established in the business, have continued to reduce the level of loss, through cash and stock theft, within the business.

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;
- improving operational productivity;
- the removal of tasks from stores by simplifying how we operate; and
- continuing to target net rent savings across the property portfolio at the next available break clause or lease renewal.

### 4. Online development

We have two transactional websites – cardfactory.co.uk and gettingpersonal.co.uk.

The cardfactory.co.uk offer has continued to mature over the last year. The new team delivered sales growth of 67% (FY17: c50%), through four key areas – product design, range growth, improving the customer experience and growing our customer base.

Both new and existing customers have responded well to new designs in personalised cards and an increased range of products available during key seasonal events. We now offer a larger and balanced range of cards, gifts, wrap and party products across all seasonal and everyday occasions. We were especially pleased with our launches of new propositions and we see continued growth in product innovation. Our recent customer review for product quality and value was measured at 4.5/5.

We have been making it easier for our customers too, improving our same day dispatch for all cards to 6pm (previously 2pm) and the website experience, catering for the various shipping methods and devices that our customers are using. The improvement in experience, both in terms of website usability and shipping, has been recognised by our customers, with customer reviews again in excess of 4.5/5.

As outlined, we have strong growth aspirations for the Card Factory online business and will continue to develop this to offer a multi-channel offer for card and associated gifts for customers.

We continue to target further growth for gettingpersonal.co.uk, which is focused on personalised gifts. Whilst this remains a relatively small part of the Group in terms of both sales and profit contribution, its financial performance in the year was disappointing with sales increasing by 0.5%. Given lower conversion rates and a mixed third party marketing performance, which is being addressed, the EBITDA performance of £2.9m (FY17: £2.8m) was below our expectations, having had a relatively poor year previously. The market has seen some deep discounting this year and especially over the Christmas trading period, when we made the decision to only follow profitable sales to maintain our margins.

Looking ahead, the key focus across both online channels will be implementing a new and better digital marketing approach; improving the experience on our websites; and further innovating our personalised and non-personalised product ranges.

## OTHER STRATEGIC PRIORITIES

Alongside a continued focus on the 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

We have continued to invest in our infrastructure to support the long-term strategy of the business where we can see opportunity for the business to grow sales further, improve product margins or be more cost-efficient. We have successfully rolled out EPOS and contactless payment across all of our stores, improving the speed of service and customer experience. EPOS has also supported the sale, since October 2017, of third party gift cards which have proved popular with customers and are complementary to our other ranges.

By the end of FY19, all stores will be on the same EPOS platform, PCMS, and we are now looking at how best to use this data to make more informed commercial decisions. Furthermore, in FY19 we are implementing a low cost data warehouse to support more detailed analysis of product performance and stock management.

We continue to evaluate investment which can improve store productivity and generate supply chain efficiencies, including an element of automation in stock replenishment. Further development in our vertically integrated model remains an important part of our investment strategy and will support more in-house production, margin retention and greater control over our supply chain.

As identified in our last Annual Report, we have invested in our online businesses, marketing team and various support centre functions to ensure that we have the right infrastructure, talent and capacity to drive strategic priorities and growth and the initial benefits of this are being seen in the online sales performance and the improved in-store navigation which we have been able to deliver with the new digital marketing team.

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 provide strong returns to our shareholders over the medium term.

### RETAIL COLLEAGUES AND PERFORMANCE CULTURE

In the year we invested in developing our organisational capability, with the introduction of leadership and management development programmes and the nationwide expansion of our 'Retail ACardemy'. We have also reviewed how best we can use the Apprenticeship Levy to support the development of our support centre and retail colleagues. We are also in the process of reviewing our current HR systems in terms of how effectively they support our productivity and efficiency initiatives.

Our aim is to create a performance culture with focussed objectives that not only support the delivery of our strategy but develop our colleagues and provide a pipeline of future leaders from within the business. Greater employee engagement will help us reduce our store colleague turnover and vacancy rates, whilst growing our brand recognition and making us an employer of choice with prospective colleagues. Achieving these development ambitions will ensure that all of our teams remain trained and motivated to continue to deliver quality and value to our customers and the best possible service and experience in-store.

### CUSTOMER ENGAGEMENT AND EXPERIENCE

All of our executive management team and many of our support centre colleagues worked within our stores serving customers in the busiest week during the Christmas trading period. This not only supported our store colleagues but also helped us to develop our understanding of what our customers want and where we have an opportunity to improve our offer in a way that will resonate with our customers and improve our average basket value. We remain known for leading the way in providing great quality and value for our customers and staying close to them in this way ensures we listen and respond to their changing needs.

As part of this commitment, we have evolved our product offering to provide a broader choice for extra special occasions, such as engagements and weddings, by introducing our 'Exquisite' card range. This is helping us to capture new customers, whilst also appealing to existing ones and all whilst maintaining our entry level prices. We are already working hard on new ranges for the new financial year where we now see further opportunity in enhancing the perception of not just the value, but also the quality of our offering in both card and complementary non-card products. We are also taking further steps to tailor the product offering for individual stores.

As well as range improvements, we have also improved navigational signage, making our stores easier to shop. The speed of service in-store has also improved with the roll out of EPOS and contactless payment in all of our stores; however we recognise that at key trading times there is more we can do to improve the service we deliver to our customers. In support of this, we are evaluating how we can make things simpler for our store colleagues by removing tasks from stores, giving them more time to provide great customer service.

### SUMMARY & OUTLOOK

The greetings card market remains resilient and robust and I am confident in our ability to continue to grow our market leading position. We continue to innovate and create new and unique product ranges designed within Card Factory that keep to our promise to provide quality and value for our customers. We will continue to increase the proportion of both our complementary non-card products and online sales as we further improve our offering in these areas, whilst maintaining focus on card redesigns within our Studio.

This year, our specific focus will be on improving our store productivity and supply chain efficiency, whilst further exploring vertical integration opportunities to continue improving our competitive advantage. This focus will ensure that we can mitigate a high proportion of the external pressures faced across the UK retail sector to maintain our margins, however, as previously stated, any underlying EBITDA growth for the current year is likely to be limited.

We have a strong brand and recognition as a market leader. Our talented teams across the business continue to deliver for our customers in-store and online and we have invested in our teams to ensure we have the capacity and capability to deliver our strategy.

Whilst the new financial year is just two months old, we are satisfied with the start we have made and particularly pleased with the record seasonal performances from Valentine's Day, Mother's Day and Easter, and being recognised by our peer group as Specialist Retailer of the Year at the recent Retail Week annual awards. I look forward to providing a further trading update at our AGM in May.

The Board, having considered, inter alia, the current debt position of the Company and trading and investment expectations for the year ahead, currently expects to declare a special dividend at the time of the Company's interim results in the range of 5 to 10p per ordinary share. Any such dividend will be paid together with the interim dividend for the year and will be dependent on trading and other developments in the period from now until the time of the interim results.

**Karen Hubbard**
Chief Executive Officer

9 April 2018

# Chief Financial Officer's Review

"Subject to trading performance, the Board currently expects to declare a special dividend at the time of the Company's interim results in the range of 5 to 10p per ordinary share"

**Kris Lee**
Chief Financial Officer

The 'FY18' accounting period refers to the year ended 31 January 2018 and the comparative period 'FY17' refers to the year ended 31 January 2017.

### REVENUE

Total Group revenue during the year grew by 6.0% to £422.1m (FY17: £398.2m), driven by growth in the Card Factory store network:

| | FY18 £'m | FY17 £'m | Increase/ (Decrease) |
|---|---|---|---|
| Card Factory | **404.3** | 380.5 | +6.3% |
| Getting Personal | **17.8** | 17.7 | +0.5% |
| Group | **422.1** | 398.2 | +6.0% |

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, 50 net new UK stores were opened (FY17: 51), bringing the total UK estate to 915 stores, with a further six trial stores opened in the Republic of Ireland at the year-end.

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

| | FY18 | FY17 |
|---|---|---|
| Card Factory stores | **+2.6%** | +0.4% |
| Card Factory online | **+67.5%** | +49.4% |
| Card Factory combined | **+2.9%** | +0.6% |
| Getting Personal | **0.3%** | -2.4% |
| Total online combined | **+5.9%** | +0.5% |

As expected, the ongoing improvements to the depth, quality and merchandising of our complementary non-card product offering led to a continuation of the mix shift to this category, a trend we have seen for a number of years. The full year mix for FY18 was 53.7% single cards (FY17: 55.3%), 44.0% complementary non-card (FY17: 42.3%) and 2.3% Christmas Box Cards (FY17: 2.4%). We expect some continuation in this trend as we further improve our complementary non-card offering to drive incremental sales.

Revenue from the Card Factory transactional website grew by 67% (FY17: 50%).

As previously announced, the FY18 performance at Getting Personal was disappointing, with the sector impacted by heavy discounting and promotional activity. We continue to target revenue growth at Getting Personal in the year ahead, but recognise the ongoing pressures in its market. Further details are included in the CEO report.

## COST OF SALES AND OPERATING EXPENSES

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

| | FY18 | | FY17 | | |
|---|---|---|---|---|---|
| | £'m | % of revenue | £'m | % of revenue | Increase/ (Decrease) |
| Cost of goods sold | **138.0** | **32.7%** | 119.7 | 30.1% | 15.4% |
| Store wages | **74.9** | **17.7%** | 68.9 | 17.3% | 8.7% |
| Store property costs | **65.5** | **15.5%** | 64.8 | 16.3% | 1.1% |
| Other direct expenses | **18.6** | **4.4%** | 18.2 | 4.5% | 2.1% |
| **Cost of sales** | **297.0** | **70.3%** | 271.6 | 68.2% | 9.4% |
| **Operating expenses*** | **31.1** | **7.4%** | 28.1 | 7.1% | 10.8% |

* excluding depreciation and amortisation.

The overall ratio of cost of sales to revenue has increased to 70.3% on an underlying basis (FY17: 68.2%) 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 increase in this cost ratio, as also seen in the first half of the year, principally reflects the impact of foreign exchange headwinds and an element of margin impact from the strong performance of our complementary non-card range, partly offset by business efficiencies. The effective exchange rate for FY18 was c$1.38 compared to c$1.64 for FY17. The rate for FY19 is anticipated to be c$1.34, though this remains subject to any significant shift in Sterling impacting the structured trades that form part of the hedging portfolio. The additional foreign exchange headwinds for FY19 are expected to be significantly mitigated by further business efficiency initiatives. Foreign exchange headwinds are then expected to ease for FY20 with a substantial proportion of hedging in place at slightly favourable rates compared to FY19.
- 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 national living wage.
- Store property costs: consists principally of store rents (net of rental incentives), business rates and service charges. As reported at the interim stage, this cost has increased in absolute terms as new stores have been opened but as a ratio of revenue has reduced due to rent reductions achieved on lease renewals and the benefit of rates reassessments following the business rates review. We continue to target improvements in our overall rent roll as we reach break points or expiries on existing leases and expect further rates savings of c£0.6m in FY19.
- 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 decreased slightly from 4.5% to 4.4% reflecting ongoing business efficiency initiatives. The Board anticipate some additional cost pressures for FY19 arising from higher electricity prices and transaction costs from an increasing proportion of debit/credit card payments.
- Operating expenses (excluding depreciation and amortisation) include items such as support centre 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 planned growth and operational improvements; whilst this investment in infrastructure is largely complete there will be an element of cost annualisation in FY19. Total operating expenses (excluding depreciation and amortisation) increased by 10.8% to £31.1m (FY17: £28.1m) representing an increase from 7.1% to 7.4% as a percentage of revenue.
- Within the year we resolved a historic national minimum wage position with HMRC. A payment of c£1m was agreed, for which provision had already been made, and therefore had no impact on the FY18 EBITDA result.

Depreciation and amortisation remained broadly in line with prior year at £10.6m (FY17: £10.7m).

## 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 FY19 US Dollar cash requirement with approximately two-thirds covered by vanilla forwards and the balance under structured options. The effective P&L rate for FY19 is anticipated to be c$1.34 (FY18: c$1.38), though this remains subject to any significant shift in Sterling impacting the structured trades that form part of the hedging portfolio. Cover is in place for approximately two thirds of the anticipated FY20 US Dollar requirement at an average rate of $1.37, predominantly through vanilla forwards with a lower proportion of structured options.

## UNDERLYING EBITDA

The underlying EBITDA margin of the Group decreased to 22.3% (FY17: 24.7%) reflecting the cost headwinds and strong performance of complementary non-card ranges. We faced £14.6m of cost headwinds, of which we were able to offset £8.6m through various business efficiency initiatives:

| | FY18 £'m | FY17 £'m | Increase/ (Decrease) |
|---|---|---|---|
| **Underlying EBITDA** | | | |
| Card Factory | **91.1** | 95.7 | -4.8% |
| Getting Personal | **2.9** | 2.8 | +3.6% |
| Group | **94.0** | 98.5 | -4.6% |
| **Underlying EBITDA margin** | | | |
| Card Factory | **22.5%** | 25.2% | -2.7ppts |
| Getting Personal | **16.4%** | 16.0% | +0.4ppts |
| Group | **22.3%** | 24.7% | -2.4ppts |

The Group's underlying operating margin similarly decreased to 19.7% (FY17: 22.1%).

Looking forward to FY19, our sector continues to face well-publicised cost headwinds, in particular foreign exchange and national living wage. Accordingly, a number of further business efficiency initiatives are underway.

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 with the headwinds reducing in FY19 and reducing further in FY20, assuming a steady state of currency. The Board is prepared, if necessary, to invest a small element of our margins over the short-term to ensure our longer-term competitive positioning is further strengthened, particularly through the vertically integrated supply chain. Alongside the operational investment, which will annualise in FY19, 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 FY19, based on our revenue targets and subject to any significant product mix shift or significant exchange rate fluctuations, we anticipate that post mitigation our margins will be in the region of 120bps below the levels achieved in FY18.

## NET FINANCING EXPENSE

Net financing expense, excluding non-underlying items, increased by 6.9% to £2.9m (FY17: £2.7m).

## PROFIT BEFORE TAX

Underlying profit before tax for the financial year amounted to £80.5m (FY17: £85.1m), a decrease of 5.5%.

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

| | FY18 £'m | FY17 £'m |
|---|---|---|
| **Underlying profit before tax** | **80.5** | 85.1 |
| Non-underlying items: | | |
| Cost of sales | | |
| Loss on foreign currency derivative financial instruments not designated as a hedge | **(7.6)** | (0.6) |
| **Operating expenses** | | |
| Loss on disposal of redundant EPOS assets | **–** | (0.9) |
| Accelerated depreciation on EPOS assets | **–** | (0.2) |
| Other non-underlying operating expenses | **(0.3)** | (0.4) |
| | **(0.3)** | (1.5) |
| **Net finance expense** | | |
| Loss on interest rate derivative financial instruments not designated as a hedge | **–** | (0.2) |
| **Statutory profit before tax** | **72.6** | 82.8 |

Further detail on the non-underlying reconciling items is set out in note 3 of the financial statement on page 90.

## TAX

The tax charge for the year was 19.7% of profit before tax reflecting the reduction in the corporation tax rate to 19.0% in April 2017 (FY17: 20.7%).

## EARNINGS PER SHARE

Basic and diluted underlying earnings per share for the year were 18.9p (FY17: 19.8p), a decrease of 4.4%. After the non-underlying items described above, basic and diluted underlying earnings per share for the year were 17.1p (FY17: 19.3p), a decrease of 11.3%.

## CAPITAL EXPENDITURE

Capital expenditure in the year amounted to £13.1m (FY17: £10.4m), including strategic investments of £5.6m principally in relation to EPOS and LED lighting conversions.

The FY18 total was lower than the c£15m guidance principally due to the phasing of capex in relation to our vertically integrated supply chain. The Board anticipates capital expenditure for FY19 to be c£14m, including the migration of the balance of the store estate onto the PCMS EPOS platform and further investment in our vertically integrated supply chain.

## 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 underlying EBITDA less capex and underlying working capital movements divided by underlying EBITDA, decreased slightly to 85.3% (FY17: 90.4%). This decrease reflects slightly higher capex due to the investment in EPOS with a smaller element due to favourable working capital movements last year.

As at 31 January 2018, net debt (excluding debt issue costs of £0.4m) amounted to £161.3m, analysed as follows:

| | FY18 £'m | FY17 £'m |
|---|---|---|
| **Borrowings** | | |
| Current liabilities | **14.9** | 8.8 |
| Non-current liabilities | **149.6** | 129.3 |
| Total borrowings | **164.5** | 138.1 |
| Add: debt costs capitalised | **0.4** | 0.7 |
| Gross debt | **164.9** | 138.8 |
| Less cash | **(3.6)** | (3.0) |
| Net debt | **161.3** | 135.8 |

Net debt at the year-end represented 1.72 times underlying EBITDA (FY17: 1.38 times), reflecting the impact of the cost headwinds and payment of the special dividend.

## DIVIDENDS AND CAPITAL STRUCTURE

### Ordinary dividends

Since IPO, the Board has adopted a progressive ordinary dividend policy for the Company, reflecting its strong earnings potential and cash flow characteristics, while allowing it to retain sufficient capital to fund ongoing operating requirements and to invest in the Company's long-term growth.

It is the Board's intention, subject to, inter alia, available distributable profits, to pay annual ordinary dividends based on a targeted ordinary dividend cover of between 1.5 and 2.5 times (previously 2.0–3.0x) the Company's underlying consolidated post-tax profit. Over the short to medium term we expect to be at around the middle of the cover range.

Reflecting the Board's ongoing confidence in the Company's prospects, the Board is recommending to shareholders a final dividend of 6.4p per ordinary share, to give a total ordinary dividend for the year of 9.3p per ordinary share. Total dividends for FY17 and FY18 can be summarised as follows:

| | FY18 | FY17 |
|---|---|---|
| Interim dividend | **2.9p** | 2.8p |
| Final dividend | **6.4p** | 6.3p |
| Total ordinary dividend | **9.3p** | 9.1p |
| *Ordinary dividend cover* | **2.0x** | 2.2x |
| Special dividend | **15.0p** | 15.0p |
| Total dividend | **24.3p** | 24.1p |

### Capital structure and additional shareholder returns

As stated at the time of the IPO, the Board is focused on maintaining a capital structure that is conservative yet efficient in terms of providing long-term returns to shareholders. The Board has considered further the capital structure of the Group and continues to recognise the benefits of financial leverage, whilst also wanting to ensure that the Company has sufficient flexibility to invest in the growth of the business. The Board also notes the underlying leverage of the Group given its lease portfolio, although the Board believes that the Company's average break period for its portfolio is shorter than its peers.

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 EBITDA (excluding the impact of IFRS 16). It should be noted that net debt at the half and full year period ends is lower than intra year peaks, reflecting usual trading patterns and working capital movements.

In line with this, over the short to medium term the Board currently expects to target year-end net debt/underlying EBITDA of approximately 1.7 times (excluding the impact of IFRS 16). Reflecting the highly cash generative nature of the business, absent any material investments, the Board expects to generate surplus cash which it will return to shareholders; currently the Board expects to return surplus cash on an annual basis.

## SPECIAL DIVIDEND

In line with the above, the Board has considered, inter alia, the current debt position of the Company and trading and investment expectations for the year ahead. Taking these into account, the Board currently expects to declare a special dividend at the time of the Company's interim results in the range of 5 to 10p per ordinary share, with such dividend being paid together with the interim dividend for the year. Any such dividend will be dependent on trading and other developments in the period from now until the time of the interim results.

Including the impact of this special dividend, the Board currently expects year-end net debt/underlying EBITDA in the current financial year to be at around 1.7 times, in line with the above stated target.

**Kris Lee**
Chief Financial Officer

9 April 2018

# Principal Risks and Uncertainties

Good risk management is an integral part of business 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 and if they have changed since last year:

| Risk Type | Description | Mitigation |
|---|---|---|
| **Our market**<br><br>Since 2017<br><br>⟷ | The Group continues to generate almost all of its revenue from the sale of greeting cards, dressings and gifts.<br><br>Although the Group has a proven track record of understanding our customers, trends and tastes can change quickly and we may not be able to effectively predict and respond to this which could affect our sales, performance and reputation. | • Regular customer and market research.<br>• New experienced Commercial and Studio Directors will support product strategy and innovation and collaboration between design and buying teams.<br>• Dedicated card buyer recruited.<br>• Significant additional investment in marketing team to drive awareness and customer focus.<br>• Investment in online teams supporting development of multiple sales channels to respond to changing consumer demands.<br>• Strong focus on product innovation with designs regularly refreshed and new ranges introduced.<br>• EPOS sales data from all stores driving design and purchasing decisions.<br>• Weekly trading meetings driving better 'real-time' decision-making.<br>• Vertically integrated model helps the Group position itself to quickly respond to changes in its markets with further investment evaluated continuously. |
| **Competition**<br><br>Since 2017<br><br>↑ | Competition in our markets has intensified during the year particularly during key seasons with supermarkets and national value retailers at the forefront. Product choice and quality, store location and design, inventory, price and customer service remain key to differentiating our offering. As the quality, value and range we offer grows, our competitor group widens. Many of our significant competitors enjoy strong brand presence recognition, financial resources and purchasing economies of scale, any of which could give them a competitive advantage. | • All key elements of competitor activity are closely monitored with a business programme now dedicated to our strategic approach to competition.<br>• In-house design and print operations help innovate, differentiate and improve the quality and value of our offering.<br>• Regular evaluation of further investment in our vertically integrated model which underpins our competitive position.<br>• Significant additional investment in marketing team to drive awareness and customer focus.<br>• Rigorous store selection process and performance reviews.<br>• Continuous review of customer trends and behaviours supported by more targeted externally facilitated customer research. |

| Risk Type | Description | Mitigation |
|---|---|---|
| **Our brands**<br><br>Since 2017<br><br>⟷ | '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 if we fail to sustain our appeal to our customers, our reputation and our sales and future prospects could be jeopardised. | • Rigorous protection of our intellectual property, and guidance and education for our teams.<br>• Investment in developing our retail colleagues through our new ACardemy programme.<br>• Comprehensive review of our store estate and opportunities for improvement.<br>• Annual market research confirming current perception of our brand and development opportunities.<br>• All key elements of competitor activity are closely monitored with a business programme now in place dedicated to our strategic approach to competition.<br>• In-house design and print operations help innovate, differentiate and improve the quality and value of our offering.<br>• Further development and investment in processes that ensure product quality, safety and ethical production. |
| **Our strategy**<br><br>Since 2017<br><br>⟷ | 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 developed, communicated or delivered, performance could suffer. Strategy implementation requires careful prioritisation of resource to ensure a focus on those initiatives that drive long-term value. | • Implementation of, and performance against, strategy monitored both at Board and senior management team level.<br>• Annual Board and senior management team strategy review days.<br>• Business objectives, and how we prioritise and communicate these are set in the context of our four pillar strategy and aligned with our Mission, Vision and Values.<br>• Further significant investment in senior management team to ensure we have capacity and capability to deliver and develop our strategy.<br>• Competitor analysis, customer and market research and enhanced EPOS sales data used to drive development of our offer. |
| **Our supply chain**<br><br>Since 2017<br><br>⟷ | Third-parties, including many in the Far East, supply nearly all of our complementary non-card products, handcrafted greeting cards and certain raw materials. If they fail to satisfy orders it may affect the business or result in us having to find 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.<br>• Continuously diversifying supplier base providing greater flexibility and reducing reliance on individual suppliers.<br>• Periodic inspections and third-party facilitated technical and ethical audits of factories operated by major suppliers.<br>• Sedex membership ('the Supplier Ethics Data Exchange').<br>• Further development and investment in processes that ensure product quality, safety and ethical production. |
| **Culture and leadership**<br><br>Since 2017<br><br>NEW | As the Group has grown and transitioned from private equity ownership to being publicly owned, it has experienced significant leadership change across its senior management team and retaining and developing the culture and people which have been the foundation of its success to date is critical to the Group's future growth. | • The Group's Mission, Vision and Values have been defined by and communicated to our colleagues.<br>• The Group's organisational structure has been reviewed and restructured.<br>• The Group's leadership principles are being defined and will be cascaded throughout the business.<br>• Both talent and management development programmes are now in place. |

# Principal Risks and Uncertainties continued

| Risk Type | Description | Mitigation |
|---|---|---|
| **Key personnel**<br><br>Since 2017<br><br>↓ | The Group's strategy and long-term success depend on our ability to: implement succession plans for the senior management team; develop our colleagues; and invest in our teams to ensure we have the capacity and capability to grow. | • Kris Lee succeeded Darren Bryant as CFO and has been through an extensive tailored induction.<br>• Talent development programme instigated to support development of future leaders overseen by Group HR Director.<br>• Further development for senior management team.<br>• Leadership principles being defined and will be cascaded.<br>• Senior management team bolstered by recruitment of Commercial Director, Supply Chain Director, Design Studio Director, Multi-Channel and Customer Director and IT Director.<br>• The Group's remuneration policy (set out in the Directors' Remuneration Report on pages 51 to 66) is designed to ensure management incentives reflect the business, are aligned with its strategic objectives and support the long-term success of the Group for the benefit of all stakeholders. |
| **Managing change**<br><br>Since 2017<br><br>↓ | In the period since IPO, the Group has experienced significant change in its management team and in some of the systems and processes that will support its future growth and improve efficiency. The speed and management of these changes introduces a risk of management overload and 'business as usual' activities could be compromised. | • Organisational design reviewed and restructured by CEO.<br>• Alignment of key business programmes with strategic objectives within our Four Pillars.<br>• Board receives regular updates on key business programmes to support challenge at the start of and during these programmes.<br>• Additional Non-Executive Director recruited with significant experience of business change and transformation.<br>• Senior management team bolstered by recruitment of Commercial Director, Supply Chain Director, Design Studio Director, Multi-Channel and Customer Director and IT Director.<br>• Talent development programme instigated to support development of future leaders overseen by Group HR Director. |
| **Finance and treasury**<br><br>Since 2017<br><br>↔ | Our financing arrangements and the fact that we source a significant proportion of our products from 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 21 sets out in further detail the risk to the Group of exchange rate fluctuations. | • Adequacy of current financing and cash generation and their ability to support delivery of Group strategy are regularly monitored by the CFO.<br>• 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.<br>• Treasury strategy reviewed and approved annually by the Board with periodic consultation between the CFO and the Audit and Risk Committee Chairman.<br>• Foreign exchange and interest rate hedging contracts pre-approved directly by the CFO and communicated to the Board monthly.<br>• CFO undertaking comprehensive review of cost base as part of our Business Efficiencies strategic pillar.<br>• Further details of the Group's financial position are described in the CFO's Review on pages 20 to 23 and the Group's viability statement is on pages 70 and 71 of the Directors' Report. |
| **Business continuity**<br><br>Since 2017<br><br>↔ | Significant disruption to any part 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 and could force us to use third-parties which could be expensive and on onerous terms. | • The Group's crisis management arrangements continue to be developed with guidance from the Audit and Risk Committee.<br>• Multiple scenario crisis management exercise held during the year. Report and recommendations provided to the Audit and Risk Committee.<br>• Significant additional infrastructure investment in Printcraft mitigating power surge and fire risk.<br>• Stock held across multiple locations to mitigate the risk of a catastrophic event at any one of our storage facilities.<br>• Group IT systems are subject to specific disaster recovery arrangements.<br>• The Group also maintains appropriate business interruption insurance cover. |

| Risk Type | Description | Mitigation |
|---|---|---|
| **Compliance**<br><br>Since 2017<br><br>⟷ | The number and complexity of legal and regulatory compliance requirements impacting the business continues to grow including: Modern Slavery Act, GDPR, Gender Pay Gap Reporting, Payment Practices and National Living and Minimum Wage. Compliance is time intensive and costly and failure to comply could lead to claims, penalties, damages, fines or reputational damage which, in some cases, are very material and could significantly impact the financial performance of the business. | • 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.<br>• Key legislation trackers are in place with the Board receiving regular updates.<br>• Additional investment in the Group's legal team.<br>• Cross Group team supporting the Group's preparation for GDPR.<br>• Senior management team members manage compliance of the Group's key operational teams with escalation and disciplinary action where needed.<br>• Policies and procedures governing behaviours in all key areas, some addressing mandatory requirements and others adopted voluntarily. |
| **Information technology**<br><br>Since 2017<br><br>⟷ | Reliable, efficient and resilient IT systems across the Group, and particularly those supporting our retail operations and our vertically integrated model are critical to our success.<br><br>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 and could render us liable to significant fines and reputational damage. | • EPOS and contactless payment now in place across all of our stores.<br>• New Group IT Director developing Group IT strategy.<br>• Formal IT governance process adopted managed by IT steering group that has jurisdiction over all material IT projects.<br>• Significant investment in IT infrastructure enhancing cyber security measures following a review and recommendations from Deloitte LLP.<br>• Key IT risks are documented and agreed service levels for recovery of key business systems are in place. |
| **Online**<br><br>Since 2017<br><br>⟷ | The Group's transactional websites, www.cardfactory.co.uk and www.gettingpersonal.co.uk remain relatively new and developing parts of the business but are critically one of our four strategic pillars.<br>They operate in very competitive markets with relatively low barriers to entry. If they do not evolve to meet customers' expectations they may not deliver the anticipated revenue growth. This may also affect our reputation and customer perception of our brands. | • Multi-Channel and Customer Director recruited to drive growth of **www.cardfactory.co.uk**<br>• Significant investment in the Card Factory online team.<br>• SLAs in place and monitored for fulfilment of orders.<br>• Development in www.cardfactory.co.uk product ranges, choice and service.<br>• Focus on leveraging Design Studio online team that will drive differentiation and product innovation.<br>• Improvement in operations with a focus on customer service.<br>• Factoring in device shift by consumers in development of our websites.<br>• Monitoring consumer online behaviours and sentiment. |

# 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
- Colleagues
- Community

## CUSTOMERS

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

Key achievements during the year were:

- rolling out EPOS and contactless payment across all of our stores helping us to serve customers faster and improve customer experience;
- increased focus and investment on customer insight through increased customer research ensuring we continue to listen to our customers and develop our service and proposition;
- investments in fixtures and fittings across our store estate to improve merchandising and customer experience;
- introducing LiveChat to enhance our customer's ability to interact with our Getting Personal customer service team on a one-to-one basis;
- focusing on our customer's online journey making it easier and quicker to shop, add to their basket and checkout;
- introduction of a multi variant testing system whereby our customer's click choice shapes our future website development;
- launching over 2000 new designs across cards, gifting and dressings online to give our customers greater choice;
- continued investment in our social media presence and direct dialogue with our customers online via Instagram and Facebook, aided with the use of influencers enables our customers to interact with us instantly on their channel of choice; and
- enabling customer reviews for our Card Factory online businesses allowing our customers to tell us directly what they think about the service they have received and the quality and value of the products they purchase.

The continued development of our products and service, both of which contribute to our retail proposition and customer experience and 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 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.

We do not place purchase orders with any new suppliers until they have satisfied our onboarding process and we have received satisfactory audit results. Except in very exceptional circumstances, where existing suppliers are outside of the EU and our purchases from them in the last financial year exceeded £50,000, we require separate ethical and technical audits commissioned by us to have been completed before we make any further order.

#### Ethical audits

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 buying 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.

#### Technical audits

The technical audits we commission focus on a supplier's capacity to produce the number 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 75%, 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.

### Trading companies

We continue to use trading companies in the Far East who source certain products on our behalf but retain the commercial relationship with their manufacturers. We are continuing to develop our audit programme to ensure we have greater transparency over this part of our supply chain and have begun to commission confidential audits of the manufacturers our trading companies use. These audits preserve the identity of the manufacturers but provide us with assurance they operate ethically and are capable of producing safe, high quality products in the quantities we require. Through this process we aim to minimise the number of relationships we have with trading companies, simplify our supply chain and improve transparency.

We ask all of our suppliers to comply with our supplier compliance manual 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.

In July 2017, we published our first annual compliance statement in accordance with the Modern Slavery Act 2015. In it we outlined the processes we currently have in place and the steps we intended to take during the following twelve months to develop our supply chain management procedures and to give assurance to our stakeholders that we take our commitment seriously. A copy of the statement is available on our transactional website (www.cardfactory.co.uk) and on our investor relations website (www.cardfactoryinvestors.com).

### 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.

Our main trading subsidiary, Sportswift Limited (which trades as 'Card Factory'), and our UK manufacturing operation, Printcraft Limited, are both FSC (Forest Stewardship Council) certified. 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 in 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.

Operationally, we have continued to focus on:

#### Monitoring electricity usage

During the year we continued to invest in installing smart meters into our existing and new stores to allow us to measure electricity usage on a half-hourly basis. Although we've not quite achieved our aim of having these in place across the whole estate, we do hope to achieve this during the current year.

We will continue to use the energy usage data we receive to support our store colleagues in reducing energy waste and consumption. In addition, we'll continue to review and perform electrical audits to ensure the equipment we use or inherit is energy efficient.

### Completing the installation of LED lighting in our stores

During the year, we completed the installation of energy-efficient LED lighting across our existing stores. All of the new stores we open in the future will have LED lighting installed. 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, 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.

We are currently assessing whether LED lighting would similarly benefit other areas of our business where it is not currently installed.

### 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). During the year, we implemented some of the recommendations for energy efficiency savings and continue to look for other opportunities to make the Group more energy efficient.

### Voltage Optimisation at Printcraft

At our print facility, Printcraft, we invested a significant sum in a voltage optimisation unit and a new transformer for the facility. As a manufacturing facility, Printcraft consumes a lot of energy and requires high voltages to operate. The optimisation unit regulates the voltages coming into the facility and ensures that excess voltages, which occur naturally in all supplies, are sent back to the supplier. This reduces consumption, reduces the safety risks associated with excess voltages and helps lengthen the life span of all electrical powered equipment at Printcraft. Typically a voltage optimisation unit in a facility like Printcraft will save 9.9% of the annual electricity consumption which equates to an estimated £40,000 per annum. For Printcraft, this saving has been guaranteed by the installation company.

### Greenhouse Gas ('GHG') emissions

#### Greenhouse Gas Statement for the Group

GHG emissions for the Group for the year ended 31 January 2018, in tonnes of carbon dioxide equivalent ('$tCO_2e$'), were:

| Source | $tCO_2e$ | % |
|---|---|---|
| Fuel combustion (stationary) | 66.4 | 0.4% |
| Fuel combustion (mobile) | 1,258.8 | 7.8% |
| Fugitive emissions (F-gas) | 203.8 | 1.3% |
| Purchased electricity | 14,541.5 | 90.5% |
| **TOTAL** | **16,070.6** | |

#### Annual comparison and emissions intensity

| $tCO_2e$ | 2017-18 | 2016-17 | Reduction |
|---|---|---|---|
| Total emissions | 16,071 | 19,604 | 18% |
| Emissions intensity* | 38.1 | 49.2 | 23% |

* 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 colleagues 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 teams. These have been restructured to better fit the business. The Compliance and Safety (Retail) Team now report to the Retail Director and the Compliance and Safety (Warehouse and Support Centre) Team report to the Supply Chain Director. These changes have allowed the opportunity to build stronger relationships with the teams they support. Both teams continue to liaise with line managers in all parts of the business to ensure compliance with our policies and that all colleagues receive appropriate training. The two teams continue to work together using their collective knowledge and expertise to ensure our operations remain safe.

Compliance and safety meetings are held 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, colleagues and visitors alike.

The compliance and safety team also analyses trends and takes a proactive 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 and developments during the year included:

- teams restructured and now reporting into relevant operational areas;
- the creation of a role dedicated to dealing with health and safety related transport claims, meaning that claims are now given focused attention, reports produced and trends highlighted;
- Health and Safety training – both the annual and new starter Retail health and safety training has been updated to make it more user friendly. The new format is a booklet with positive feedback to date from our store colleagues;

- Investigations – a change to the accident, incident and near miss investigation process now enables consistent formatting of investigations whilst ensuring all details are logged.

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

**COLLEAGUES**
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 investment in colleagues with the introduction of a talent mapping and career development programme for our support centre colleagues and our ACardemy programme for our store colleagues. Our ACardemy programme allows the Group to home grow our next Assistant Store Managers and Store Managers by providing crucial learning and development to shape their futures within our stores.

Following its launch, our candidate management system, which was introduced to support recruitment of seasonal colleagues, has simplified our recruitment process giving back crucial time to our store and support centre colleagues. It has also allowed us to onboard new colleagues to our teams in stores more quickly.

Other key activities during the last year have been:

- the launch of the Group's Mission, Vision and Values;
- the definition and launch of our apprenticeship strategy;
- the introduction of a more structured definition of job roles and levels across the Group that will provide greater transparency over future development, progression and reward;
- the launch of 'mycardfactory' which offers discounts and rewards to all of our colleagues in the Group across a variety of retailers and leisure activities; and
- our Executive Board and senior business leaders working in stores on our busiest trading day of the year to support our colleagues over the Christmas season.

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 colleagues across the Group was as follows:

| | % Male | | % Female | |
|---|---|---|---|---|
| | **FY18** | FY17 | **FY18** | FY17 |
| Board | **71** | 67 | **29** | 33 |
| Senior management team | **62** | 78 | **38** | 22 |
| All employees | **21** | 21 | **79** | 79 |

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

- our employee engagement survey and employee focus groups (which include periodic listening groups with our CEO);
- Tell Karen' 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;
- regular retail news bulletins, providing operational instructions to all of our stores;
- weekly internal communications providing colleagues with news of events, new starters and celebrations across the Group;
- 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 our support centre to discuss and review Card Factory's retail proposition;
- Board and senior management team members regularly visiting stores to assess the retail proposition and get feedback from colleagues and customers, particularly during key trading periods; and
- visits to our Mock Shop, a representative Card Factory store at our support centre 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 colleagues 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 and honoured to receive The Extraordinary Commitment Award.

Colleagues 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 colleagues from across our business have also competed in the Great North Run attracting sponsorship from colleagues, friends and relatives.

During the year we raised £589,564 for Macmillan which is an incredible achievement and one of which all our colleagues should be proud.

We have raised over £5,000,000 for Macmillan and 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 £192,804 each 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.

We also introduced 'Make A Wish' as our charity partner to our Republic of Ireland stores.



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


We have raised over

# £5 million!*


## An incredible partnership!

"On behalf of everyone at Macmillan Cancer Support, I just wanted to say an enormous thank you to all of the staff and customers of Card Factory for reaching an incredible £5m milestone. We want to reach and improve the lives of everyone living with cancer and we couldn't do this without your continued support. Thank you"

Sharon Cottam – Partnership Manger, Macmillan Cancer Support

WE ARE MACMILLAN. CANCER SUPPORT

Card Factory

*Total raised to date: £5,243,162

# 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.

**External appointments:**
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. 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.

**External appointments:**
None.

## Kris Lee

**Chief Financial Officer**

Kris was appointed to the Board of Card Factory plc with effect from 3 July 2017. Kris has more than 20 years' finance experience and, immediately before joining the Group, Kris served as Finance Director of the Edinburgh Woollen Mill Group (EWM). In addition to being responsible for EWM's finance team, Kris oversaw EWM's significant M&A programme including the acquisitions of the Edinburgh Woollen Mill, Peacocks, Austin Reed, Country Casuals, Viyella and Jaeger brands. Prior to EWM, Kris held senior finance roles in a number of businesses including Brighthouse, Phones4U, JD Sports, all:sports, BMI Healthcare, 20:20 Mobile Logistics, Barclays and 3663 Distribution. Kris is a Chartered Accountant and holds a BA (Hons) in Accountancy Studies.

**External appointments:**
None.

## Octavia Morley

**Senior Independent Non-Executive Director**

Octavia joined the Board as Senior Independent Non-Executive Director in April 2014. Octavia has extensive 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.

**External appointments:**
Independent Non-Executive Director of Crest Nicholson Holdings plc, Chairman of The Spicers-Officeteam Group Limited and 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 and a Non-Executive Director of Majestic Wine 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.

**External appointments:**
Non-Executive Director of Majestic Wine plc, Senior Independent Non-Executive Director of Joules Group plc and Honorary Member of Council, University of Birmingham.

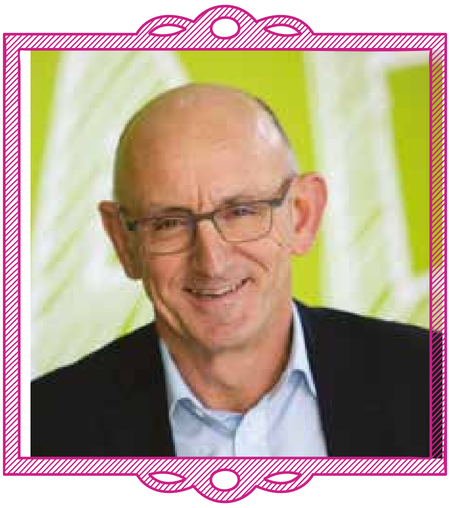
## Paul McCrudden

**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. Prior to this, Paul was a board director at advertising agency AMV BBDO, and spent his earlier career at Imagination and Accenture specialising in innovation and new technologies. Paul also served as Chairman of the board of trustees at Hoipolloi, an arts organisation funded by the Arts Council England.

**External appointments:**
Global Head of Live Marketing at Twitter.

# Directors and Officers

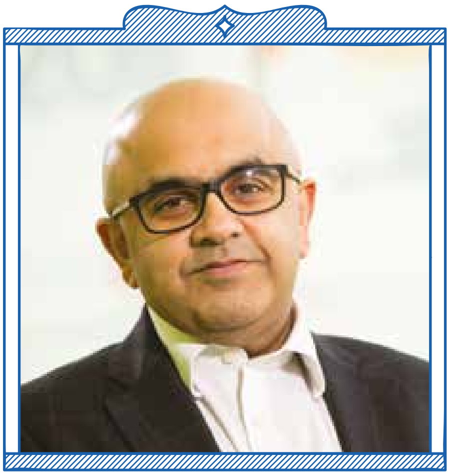


## Roger Whiteside

**Independent Non-Executive Director**

Roger joined the Board as an Independent Non-Executive Director in December 2017. Roger is currently Chief Executive of Greggs plc, the UK's leading bakery food-on-the-go retailer. Prior to this, Roger served as Chief Executive of both the Thresher Group off-licence chain and Punch Taverns as well as having been a founding member and Joint Managing Director of Ocado. These roles followed a 20 year career with Marks and Spencer where he ultimately led its food business.

**External appointments:**
Chief Executive Officer of Greggs plc and member of the Women's Business Council.



## 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 international law firm Womble 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.

**External appointments:**
None.

### 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 |
| Roger Whiteside | Paul McCrudden | Paul McCrudden |
| | Roger Whiteside | |

# Chairman's Letter – Corporate Governance

## Geoff Cooper
**Chairman**

Dear Shareholder

During the last year, the Board has continued to focus on supporting the business through a period of management change which has seen Kris Lee succeed Darren Bryant as CFO, Roger Whiteside join the Board as an additional Independent Non-Executive Director as well as various other changes to the Group's senior management team.

Our CEO, Karen Hubbard, working closely with the Board and the senior management team has continued to seek out opportunities to develop and build on the Group's established four pillar strategy to ensure each element takes into account both current business performance and the current market dynamics relevant to each pillar.

The retail environment remains challenging with pressure on consumers' disposal income given lower than inflation wage growth. Maintaining our competitive position and retaining the trust and confidence of our customers has been central to the Board's decisions. This has proved challenging in light of the significant cost headwinds the business is facing and has been set against a backdrop of continuing uncertainty driven by a lack of clarity and progress on the Brexit process.

In what has been a challenging year, the Board remains committed to high standards of governance and to continuous reflection on its own performance. As part of this commitment, we carried out our first externally facilitated Board review in 2017. We asked Lorna Parker, an independent and experienced Board evaluation specialist, to evaluate our Board. The review concluded that we are a collegiate and collaborative Board that engages in open and rigorous debate. Importantly the review identified that the Board should commit more time to the Group's longer-term strategy beyond the current four pillar strategy and this forms an important part of the Board's programme in the current year. Further details of the review and the actions that were agreed are set out in the report below.

From a legal and regulatory perspective, significant new challenges have continued to present themselves throughout the year with the FRC's comprehensive review and now consultation on a new Corporate Governance Code being the most significant.

We will continue to look for opportunities to improve while continuing to operate with our belief that pragmatic application of corporate governance principles and guidelines in a way that enhances or protects the value of the business should be the core component of the Board's decision making processes.

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

9 April 2018

# 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 Financial Officer, Kristian (Kris) Lee, who formally succeeded Darren Bryant on 1 August 2017;
- appointing Roger Whiteside as an additional Independent Non-Executive Director;
- continuing to support our Chief Executive Officer, Karen Hubbard, in both her development of the Group's longer-term strategy and her reflection and refinement of the Group's current strategy taking into account the opportunities, risks and challenges the Group faces over the short to medium term. This included capturing Darren Bryant's reflections on his time with the business prior to his retirement in July;
- through the Nomination Committee, supporting Karen and Kris with the changes in and the development of the wider management team and the introduction of a new structure for identifying and developing future leaders from within the Group;
- supporting the management team with their roll out of the Group's mission, vision and values which underpin the Group's culture and strategy and will support its future development and growth;
- reviewing the Group's people strategy for the next three years;
- carrying out our first externally facilitated Board evaluation;
- reviewing the objectives and performance of the business in each of the four pillars of its growth strategy and monitoring progress with the key business projects implemented during the year, including entry into the Republic of Ireland and the introduction of new point of sale software in all the Group's stores;
- reviewing the Group's treasury policy in light of the Group's financial position and performance and the continuing uncertainty over the UK's future relationship with the European Union;
- regularly evaluating the Board's current agenda during the year as well as planning for the year ahead; and
- 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.

## 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 2016 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 facilitates the development and growth of the Group over the long-term in the interests of its shareholders. We believe this requires the Company to recognise the importance of our duties to colleagues, customers, the community in which we operate and the interests of our other stakeholders.

## BOARD COMPOSITION, BALANCE AND INDEPENDENCE

The Board currently comprises seven 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 Kris Lee's appointment to the Board, as Chief Financial Officer Designate, on 3 July 2017 and Darren Bryant's retirement from the Board and the Group at the end of July 2017, 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 Kris Lee following his appointment.

Roger Whiteside was appointed to the Board as an additional Independent Non-Executive Director with effect from 4 December 2017. Roger's appointment supports the Board's continuing commitment to ensure it has the appropriate balance of skills and experience to support its exercise of its duties and that succession planning extends to the Board itself.

The Board remains relatively small but is confident that, as currently constituted, it continues to be an effective and efficient decision-making body that supports the Group's strategy and growth. This is kept under constant review together with succession planning for the Board as a whole.

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.

### 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 and third anniversaries of the completion of the IPO, to make further investments on each occasion of £330,000 in the Company by purchasing a further 146,666 ordinary shares at the Offer Price. Geoff exercised these options in full in May 2016 and 2017.

Notwithstanding these options and his role as an adviser to Charterhouse Capital Partners LLP (who were the majority shareholder in the Company immediately prior to the Company's IPO in 2014), 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.

## BOARD ATTENDANCE

During the year, the Board held 11 scheduled meetings and various Board Committee meetings were also held with attendance as follows:

| Director | Role | Board Meetings (11 meetings) | Remuneration Committee (7 meetings) | Audit and Risk Committee (4 meetings) | Nomination Committee (3 meetings) |
|---|---|---|---|---|---|
| Geoff Cooper | Non-Executive Chairman and Chair of Nomination Committee | 11 | 7 | – | 3 |
| Octavia Morley | Senior Independent Director and Chair of Remuneration Committee | 11 | 7 | 4 | 3 |
| David Stead | Independent Non-Executive Director and Chair of Audit and Risk Committee | 11 | 7 | 4 | 3 |
| Paul McCrudden | Independent Non-Executive Director | 11 | 7 | 4 | 3 |
| Roger Whiteside | Independent Non-Executive Director | 2 | 2 | 1 | – |
| Karen Hubbard | Chief Executive Officer | 11 | – | – | – |
| Darren Bryant* | Chief Financial Officer | 5 | – | – | – |
| Kristian Lee | Chief Financial Officer | 6 | – | – | – |

* Darren Bryant retired from the Board on 31 July 2017. Kris Lee joined the Board on 3 July 2017. Roger Whiteside joined the Board on 4 December 2017. Unless otherwise noted, all Directors have attended all relevant Board and Committee meetings during their appointment.

## 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 topics reviewed 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 for the current financial year. As part of 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 updates on key business programmes and periodic presentations from senior management team members. These ensure that the Group's Non-Executive Directors remain informed of key developments within the Group. The Board regularly reflects on this rolling agenda to ensure it is responding to the strategic and operational challenges faced by the business.

# Corporate Governance Report Continued

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

| Strategy | Performance | Governance |
| --- | --- | --- |
| Strategic planning | Annual results | External Board evaluation |
| Group Budget | Interim results | Treasury policy |
| Key investment plans | Regular trading updates | Governance and legal updates |
| Pricing structure | Key project updates | New and retiring CFO reflections |
| Group people plan | Regularly tracking four pillars | CFO handover plan |
| Group talent review | EPOS implementation | Senior management reflection |
| Product initiatives | ROI performance | NED reports |
| Vertical integration initiatives | Competitor updates | Principal risks review |
| Group treasury policy | Property review | Investor relations updates |
| Brand review | | Board and Committee planner |
| Online strategy | | Modern Slavery Act statement |
| SAYE 2018 grant | | Health and safety review |
| | | Tracking Board actions |

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. As part of these papers, the Board also now receive progress updates on key business programmes together with a document which tracks progress within each of the four pillars of our strategy.

To aid efficient decision-making, we use a standard form Board decision paper for material matters requiring Board approval that includes management's clear recommendation on the decisions being taken.

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 actions accompanies the minutes for each Board meeting which enables the Board to regularly monitor the progress.

### External speakers

During the year, the Board continued to invite external speakers to our Board meetings as lunch guests. These sessions, whilst relatively informal, provided valuable business insights and experience from our guests together with 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 with a focus on insights that will support the Board's strategic planning.

### Board strategy day

The Board held its annual strategy day in July 2017, at which it reviewed each element of the Group's four growth pillars together with longer term strategic opportunities. Key actions from that day are reflected in management's planning for the business with the Board having the opportunity to review progress with key strategic projects throughout the year. This year, our newly appointed CFO, Kris Lee, also shared his initial insights with the Board, supported by his considerable retail experience.

## 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 joint corporate brokers, UBS and Investec, 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, the Company intends to periodically host corporate governance presentations for the Group's major investors following positive feedback on the inaugural presentation at the beginning of 2017.

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 69.

### NON-EXECUTIVE DIRECTOR MEETINGS
The Chairman and the other Non-Executive Directors met twice 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 support centre.

### 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, Paul McCrudden and Roger Whiteside. 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 47 to 50 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, Paul McCrudden and Roger Whiteside.

Given the review of the Company's Remuneration Policy during the year, the Remuneration Committee met seven times which is considerably more than in prior years. In future, it will meet not less than twice a year.

The Board and the Remuneration Committee have employed Korn Ferry Hay Group (Korn Ferry), a professional services business which specialises in executive remuneration, to advise and assist in connection with the Group's executive remuneration arrangements and its reporting obligations. Korn Ferry 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 51 to 53 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 three times 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 67 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, support centre, 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 July and December 2017 respectively, Kris Lee and Roger Whiteside have been through tailored induction plans. Details of Kris' induction are set out in the Nomination Committee Report on page 68.

Throughout the year, all of the Non-Executive Directors have continued to visit all of the Group's operations, both for scheduled Board meetings and informally with members of the senior management team. Feedback on visits is given at subsequent Board meetings.

Additionally, the Non-Executive Directors have continued their informal 'buddying up' visits with members of the senior management team to build on their day-to-day knowledge of specific areas of the business and support the team in sustaining and developing our 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 regularly 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

As required by the Code, the Board conducted its first externally facilitated Board evaluation during the year. This was led by the Chairman, facilitated by Lorna Parker and supported by the Company Secretary. Lorna is an independent consultant with significant experience of conducting board effectiveness reviews for UK listed companies. Prior to her engagement to facilitate this review Lorna had no other connection with the Company.

This detailed evaluation built upon the internal evaluations carried out during previous years and a summary is set out below.

**External Board Evaluation 2017**

| | |
|---|---|
| **How we did it – thoroughly, inclusively and conclusively** | |
| **The Backdrop** | Card Factory's first externally facilitated Board review since its IPO in May 2014.<br><br>A Board that, over time, has taken the business, through the transition from private equity backed business to public company.<br><br>A Board, senior management team and business that have been through a period of considerable change and increasingly challenging market conditions since the IPO in May 2014.<br><br>A Board that now has no significant pre-IPO experience of the business. |
| **When?** | August to November 2017 |
| **Facilitator?** | Lorna Parker, experienced board evaluator |
| **Groundwork?** | Review explored a broad range of topics covering strategy, operational priorities, the Board's role, its structure and balance, succession, risk management and governance.<br><br>These themes were developed into a full written set of questions to ensure that the objectives of the Board review were met. In addition to reviewing the responses by the Board and Company Secretary to these questions, the following elements formed part of the review:<br>• a review of the last 12 months' Board and Committee papers;<br>• one-to-one Interviews with Board members, the Company Secretary and two members of the senior management team;<br>• observing the October 2017 Board meeting; and<br>• the preparation and presentation of a detailed evaluation report for the Board in December 2017. |
| **The Board's strengths – collaborative, aligned and committed** | |
| **Collaborative and challenging** | A collegiate, supportive and collaborative Board that engages in open, rigorous, straightforward debate with a high degree of mutual trust and respect and which would pull together well in a crisis. |
| **Strategically aligned** | Clarity and alignment around strategic priorities, key challenges and risks. |
| **Structured and efficient** | Effective, efficient and thorough Board structures and processes. Chairman leads effective pre Board meeting preparation work. |
| **Recruitment** | Good processes around the recruitment of Kris Lee and Roger Whiteside. |
| **Committed NEDs** | Committed, hard-working and involved NEDs who all spend considerable time with the business, in addition to their Board responsibilities. |
| **Effective Committees** | Board Committees are well chaired, prepared and operate well. |
| **Helping the Board evolve and become more effective – strategy, engagement and culture** | |
| **Longer-term strategy** | Whilst there is clarity and alignment on the immediate strategic priorities, the Board should commit more time to the Group's longer-term strategy beyond the current Four Pillar strategy. |
| **Greater strategic focus** | As part of the Group's evolution from private equity ownership to FTSE 250 plc, the Board's agenda should evolve to become more strategic and less operational. |
| **Reporting** | Refining financial reporting to focus in on key financials and KPIs with appropriate commentary to support analysis and decision-making. |
| **Shareholder communication** | Build on the Board's current engagement with shareholders to ensure communication is constantly evolving and the Board builds on recent experience. |
| **Culture and values** | Greater understanding, discussion and support of the Group's heritage, culture and values and how these can support business performance and change. |

| External Board Evaluation 2017 continued | |
|---|---|
| **NED engagement** | Current NED commitment is acknowledged and valued but there is a need to re-evaluate the NEDs' role between Board meetings to get the most benefit from their engagement with the business and build greater rapport with the senior management team. |
| **Location of meetings** | The Board has committed to holding more meetings at the Company's key locations and to plan additional engagement with the business around these. |
| **NED succession** | The Board will consider Non-Executive Director succession well in advance of 2020 when four NEDs (including the Chairman) reach the end of their second three-year term with the business. Ensuring smooth succession and maintaining Board cohesion and collective knowledge is critical to the Board's ability to effectively govern. |
| **Board decision-making review** | Greater review and reflection on past Board decisions and how decision-making processes could be refined. |
| **What next?** | |
| **Develop and report** | The Board has committed to continuing to evolve and has carried out a review of the actions arising out of this externally facilitated evaluation. As part of our internal evaluation of the Board in the current financial year, we will review our progress with these actions and provide an update in our next Annual Report and Accounts. |

## 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 51 to 66. 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 election or re-election (as appropriate) 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 31 July 2017, Darren Bryant (former Chief Financial Officer) 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 2018 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.

## 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 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 49 and 50. 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 2018 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 69 to 71.

## SHARE DEALING CODE

The Company's share dealing code was adopted in 2016 and incorporates the requirements of the EU Market Abuse Regulation which came into force in 2016. The code adopted applies to the Directors, members of the senior management team and to other relevant employees of the Group.

## 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.

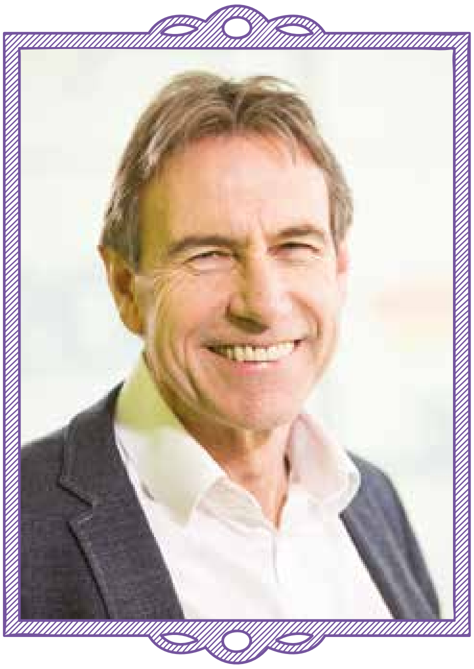
This report was reviewed and approved by the Board on 9 April 2018.

**Geoff Cooper**
Chairman

9 April 2018

# Chairman's Letter – Audit and Risk Committee





**David Stead**
Chairman of the
Audit and Risk Committee

Dear Shareholder

The Committee's activities during the year consolidated its work over previous years in developing and refining the structures and processes which ensure there is confidence and trust in the Group's internal controls, how it manages risk and in the integrity of its financial statements.

The Committee has clear terms of reference and a programme of activities that set the agenda for Committee discussions. Whilst these address the key topics the Committee should always be considering, the Committee retains sufficient flexibility to consider other issues when they arise.

The report that follows provides further detail on the Committee's activities during the year.

The Committee will continue to ensure 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. Roger Whiteside joined the Committee in December and his knowledge and experience will greatly support the Committee's future work.

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

Yours sincerely

**David Stead**
Chairman of the Audit and Risk Committee

9 April 2018

# 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 41. 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, Paul McCrudden and Roger Whiteside.

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 and that within the Committee as a whole there is significant experience of the retail sector in which the Group operates.

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 39.

## 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 2017, 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 2017, 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 2017;
- verifying the independence of the Group's auditor, approving their audit plan and audit fee and setting performance expectations;
- reviewing the findings of and the implementation of actions arising from, the internal audit projects undertaken by Deloitte LLP during the year and agreeing the projects they will undertake during the next 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;
- monitoring 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;
- reviewing the Group's risk register in March and September;
- reviewing the Group's legal horizon scanner which sets out key future legislative changes that will affect the Group and how these are being addressed within the business;
- monitoring the implementation of the Group's new point of sale software solution across its retail stores;
- 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; 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 April 2018 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 pages 70 and 71 ) including the time period assessed and the principal risks and combinations of risks modelled;
- the integrity of the draft financial statements for the year ended January 2018, 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 April 2018, 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 accuracy 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;
- conducting a central reconciliation of store and warehouse stock; 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 predominantly covered the following areas:

- processes and controls over payroll, including right to work checks – a comprehensive review of the design and operating effectiveness of controls governing Card Factory's right to work and payroll processes taking into account the Group's growth and development and the systems currently in place as well as current legal and regulatory requirements;
- a follow up review from the 2016 Cyber Security review – an update on the work undertaken by management in response to the findings raised in the 2016 Cyber Security review by Deloitte, which identified areas requiring development and investment to achieve greater maturity in the strength of cyber defences; and
- controls over the inbound supply chain – this review considered the design and operating effectiveness of controls governing Card Factory's inbound supply chain process, specifically in relation to supplier on-boarding and contract management arrangements. The review considered Card Factory's supply chain governance, the supplier due diligence it carries out and how it manages supplier performance on a day-to-day basis.

## LOSS PREVENTION

During the course of the last year, both the scope of the loss prevention team's activities and its influence across the Group's retail operations, have continued to develop and grow. This growth, and the depth and variety of the team's work, are reflected in well-established measures and performance indicators that are reported to the Committee, the senior management team and other key stakeholders. These focus on the type and number of investigations raised by the team and the outcomes eg staff dismissals, resignations, disciplinary action etc.

The loss prevention team has also continued to develop the investigative methods it deploys including its analysis of store transactions to identify anomalous behaviour and support appropriate interventions. Whilst the team's core activity remains fraud and theft detection, these are supplemented by a continuous programme of education, training and development. These activities, which support a holistic approach to loss prevention, are scheduled to grow over the next 12 months and will continue to be refined and developed to better meet Group needs, emerging crime risks and to engender a proactive approach to Group crime risk.

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

# Audit and Risk Committee Report Continued

**EXTERNAL AUDITOR**

KPMG LLP have conducted the statutory audit for the financial year ended 31 January 2018 and they attended all four of the Committee meetings held during that year as well as the one held in April 2018. 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 90.

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 seven 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, a new audit partner, Nicola Quayle, was appointed by KPMG LLP to manage the Group's audit process from 2016/17. Nicola has attended all of the Committee meetings during the year and has separately met with the Committee Chairman.

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.

**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 £11,000 (equivalent to 10% of the audit fee). This comprised an independent review of our half-year results. Full details are given in note 4 to the financial statements on page 90.

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.

A copy of our current policy regarding the use of audit firms for non-audit services, which was reviewed in light of the EU Audit Directive, is available on Card Factory's investor website (www.cardfactoryinvestors.com).

This report was reviewed and approved by the Committee on 9 April 2018.

**David Stead**
Chairman of the Audit and Risk Committee

9 April 2018

# Chairman's Letter – Remuneration Committee



## Octavia Morley
**Chairman of the Remuneration Committee**

Dear Shareholder

I am pleased to present our Directors' Remuneration Report for the financial year ended 31 January 2018.

During the year the Committee has conducted an extensive review of our remuneration policy to assess whether it remains appropriate in light of our business strategy and the retail environment in which we operate. As a result, and following a very productive shareholder consultation, the Committee concluded that, with the exception of the move to 'Restricted Shares' noted below, there should only be minor changes to our policy in respect of salary, annual bonus and benefits, which are summarised later.

The key change to our remuneration policy is to move away from granting share awards based on the achievement of specific three-year performance targets ('LTIP awards'), to a simpler approach where much lower awards of shares are granted annually, which vest over a longer timeframe. These provide a longer-term strategic focus and over time generate significant employee shareholdings which creates a more direct alignment of long-term interests between executives and shareholders. This move to 'Restricted Shares' will also lead to a reduction in maximum pay.

### STRATEGIC CONTEXT AND RATIONALE FOR A MOVE FROM LTIP TO RESTRICTED SHARES

As part of a strategic review, the Board has identified opportunities to strengthen the business both strategically and operationally. Our 'four pillars' strategy aims to deliver sustained growth, strong cash generation and shareholder returns through a focus on like-for-like sales growth, new store roll out, business efficiencies and online development. Additional strategic priorities of further targeted investment and greater engagement with colleagues and our customers have also been identified.

Our remuneration principles are to provide a simple and straightforward policy, with fixed pay at the lower end of the market and a higher weighting to variable performance pay.

We have a track record of setting stretching targets, rigorously scrutinising variable pay outcomes and not overpaying. The FY17 annual bonus and 2014 LTIP award (which vested during the year) paid out at 20% and 47% of maximum respectively and, most recently, there was a zero bonus for FY18.

The Committee believes that Restricted Shares, rather than LTIP awards with specific three-year performance targets, will better support our business strategy for the foreseeable future for the following reasons:

**1. Employee share ownership**

Management and wider employee share ownership is part of our cultural DNA and has created a strong performance culture up to and beyond IPO. The proposed policy for Restricted Shares will ensure that more direct share ownership will cascade through the senior management team and below, ensuring higher employee share ownership. We believe that this, more harmonised, approach will work well at Card Factory and is in line with current investor and market thinking in relation to executive pay.

**2. Right for our business strategy**

Our remuneration strategy needs to provide the management team with flexibility to focus on longer-term strategic priorities that may change over the course of a three-year policy period and beyond. Restricted Shares will provide a longer-term focus, while the shorter-term annual bonus will continue to provide a more direct performance counterbalance, as it focuses on stretching EBITDA targets and other strategic and operational objectives.

**3. Strong investor alignment**

The level of Restricted Shares is 50% less compared to the maximum LTIP award under our previous policy. Rather than the usual three-year vesting, Restricted Shares will vest in stages, over three, four and five years and vested shares may not be sold (other than to pay any taxes due) until after a five-year period.

### 4. Meaningful performance underpin
There is a performance underpin, which provides a clear focus on building long-term value and strengthening the business. If this is not achieved in the view of the Committee, the level of Restricted Shares vesting may be reduced, potentially to zero.

### 5. Simple and transparent
Restricted Shares are simple and easy to understand internally. There is an ongoing focus on share price and the drivers for long-term value rather than hitting specific targets every three years. Shareholders will have a much clearer view on remuneration, where the maximum level of pay will be reduced significantly and will fluctuate less.

The Committee is aware that the Company's updates during the second half of the year, which outlined a strong sales position but continuing cost and margin pressure, had an impact on the share price. However, the review of the Directors' remuneration policy and the decision by the Board to introduce Restricted Shares was made well before this time and the Committee continues to believe that this is the right policy for Card Factory over the long-term.

## OTHER POLICY CHANGES
Aside from a move to Restricted Shares, there are no material changes to the policy. However, having benefitted from the experience gained from our four years as a listed company, we have made the policy clearer and simpler to operate with three minor changes as follows:

- to provide a more conventionally expressed pension maximum under the policy as a percentage of salary, being 5% of salary, rather than a '£ value' amount (but no change to actual pension, which remains very low compared to peers);
- under the current policy at least 80% of bonus must be determined by financial metrics. In practice, currently 100% is determined by EBITDA. We propose to slightly amend our policy to allow greater flexibility in the selection of performance measures to support the business strategy, while ensuring a majority is always based on financial KPIs. Bonus payments will always be subject to the Remuneration Committee ensuring underlying performance of the business is acceptable; and
- the level of shareholding required to be built and maintained has increased from 200% and 150% of salary to 250% and 200% of salary for the Chief Executive and Chief Financial Officer, respectively.

## HOW WE INTEND TO APPLY THE POLICY IN FY18/19
- We are proposing a 5% increase in base salary for our CEO with effect from 1 May 2018 to recognise the low starting salary on her recruitment, her performance and increased experience in role. Our Chief Executive's current base salary is £454,000 and would increase to £477,000. No increase is proposed for our Chief Financial Officer who has recently been appointed on a salary of £315,000. The new salaries retain a lower quartile market positioning.
- Within the new policy limit of 5% of salary, the Chief Executive's and Chief Financial Officer's pension entitlement will remain at just over 3% of base salary.
- The annual bonus will remain capped at 125% and 100% of base salary, respectively, for the Chief Executive and Chief Financial Officer. 80% of the annual bonus will continue to be based on stretching EBITDA targets. The remaining 20% will be determined by strategic objectives which will be stretching, clearly defined, measurable and disclosed retrospectively in our Annual Report on Remuneration. The inclusion of a strategic element enables the Committee to highlight the importance of the current strategic focus and objectives of the business and to reward steps in achieving this.
- Restricted Shares will be granted worth 87.5% of salary and 75% of salary for the Chief Executive and Chief Financial Officer respectively, based on the face value of shares at the time of grant. In order for Restricted Shares to be capable of vesting, the Committee must be satisfied that business performance is robust and sustainable and that management has strengthened the business. In assessing performance, the Committee will consider financial and non-financial KPIs of the business as well as delivery against strategic priorities. To the extent it is not satisfied with performance the Committee may scale back the level of vested awards. There will be full Annual Report disclosure of the Committee's determination of the performance underpin.

## PAYMENTS FOR PERFORMANCE IN FY17/18
The EBITDA performance for the year fell short of the stretching minimum performance hurdle so no annual bonus is payable for performance for the year ended 31 January 2018. The Group has performed well since its IPO in 2014. However, in spite of strong like-for-like sales growth, this has been a tough year for the Group in terms of profitability with the impact of significant cost headwinds. It is therefore right, in line with our rigorous approach to pay for performance, that there is no incentive payment for this year.

LTIP awards were made in 2015 to our former CEO, Richard Hayes, and our former CFO, Darren Bryant. Both have subsequently retired from the business but their outstanding LTIP awards (having been scaled back pro rata for service) were capable of vesting subject to the achievement of performance conditions. However, based on EPS performance over the relevant period, none of these awards will vest.

As both Executive Directors have recently joined the business there are no outstanding LTIP awards that are capable of vesting by reference to the performance period ending 31 January 2018.

## FY18 LTIP AWARD
Our LTIP award for FY18 was made in the second half of our financial year to align with the timing of last year's grant, which had been delayed to allow a proper assessment of Brexit on the market and our business outlook. Our interim results for FY18 showed strong sales performance on both a total and a like-for-like basis, but also demonstrated the significant impact of various cost headwinds (in particular foreign exchange and wage rates). Against this outlook, the Committee set an EPS growth range of 1% to 6% pa CAGR for the three financial years to January 2020, which is viewed as appropriately stretching in the circumstances. 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.

### BOARD CHANGES

On 31 July 2017 Darren Bryant stepped down as CFO. There have been no contractual payments relating to his notice period and Darren was not eligible to receive a bonus or LTIP award for FY18. His outstanding LTIP awards will be scaled back pro rata for service and may vest subject to the achievement of the performance conditions. Following an extensive recruitment process, we were delighted to secure the appointment of Kris Lee as Darren's replacement. Kris has started on a base salary of £315,000, was eligible for a pro rata bonus for the period of the FY18 year worked and received a pro rata LTIP award for FY18. As part of his recruitment package, and in order that Kris was able to take up his position quickly, the Committee approved a like-for-like buyout of his forfeited bonus of £150,000.

With effect from 4 December 2017, Roger Whiteside joined the Board as an Independent Non-Executive Director and as a member of this Committee. Roger is Chief Executive of Greggs plc and has been on the Boards of several other companies. His wealth of corporate experience generally as well as on remuneration matters will be an asset to the Board and this Committee. Roger's fees are in line with our policy.

### SHAREHOLDER ENGAGEMENT

The proposed remuneration policy and its application for FY18/19 has been subject to an extensive consultation with our major shareholders, the majority of who indicated their support for our proposals subject to them reviewing the final policy ahead of the vote at our AGM in May. There has been a genuine dialogue with our major shareholders on the proposed changes, which has been incorporated into the final proposals presented here. I would like to thank those investors consulted for their time and the constructive feedback given.

More generally, the Remuneration Committee continues to keep all aspects of senior executive 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'). Taking all these factors into account, the Committee has developed the proposed remuneration policy, which it believes is appropriate and balanced, supports the Company's objective to deliver shareholder value and aligns executive and shareholder interests.

At the AGM, which will be held on 31 May 2018, our remuneration policy contained within this report will be subject to a binding shareholder vote which, if approved, will mean that the new policy would take effect from that date. The remainder of this report, containing this Statement and the Annual Report on Remuneration, which outlines the payments made in respect of the FY18 financial year and the implementation of our remuneration policy for the forthcoming financial year, will be subject to a separate advisory vote.

### CONCLUSION

We will carefully monitor the FRC's proposed amendments to the Code, which are likely to require a wider remit of the Committee beyond the most senior executive population and greater stakeholder engagement, including with employees. As a Board we welcome these developments and will be considering during 2018 how the changes can be implemented.

I will attend the AGM to answer any questions shareholders may have and I look forward to your support on both of the resolutions relating to remuneration.

**Octavia Morley**
Chairman of the Remuneration Committee

9 April 2018

# Directors' Remuneration Report

## INTRODUCTION

This Directors' Remuneration Report is divided into three sections, the Letter from the Chair of the Remuneration Committee, the Directors' Remuneration Policy and the Annual Report on Remuneration.

The Directors' Remuneration Policy section sets out the policy which will be put forward for shareholder approval at the AGM on 31 May 2018 and, if approved, the new policy will take effect from that date.

The Letter from the Chair of the Committee and the Annual Report on Remuneration will be put to shareholders for approval at the AGM on 31 May 2018, although the vote is advisory.

## DIRECTORS' REMUNERATION POLICY

This section on pages 55 to 60 inclusive describes Card Factory's Directors' Remuneration Policy ('the Policy') which will be put forward for shareholder approval under Resolution 10 at the AGM to be held on 31 May 2018.

Card Factory's policy for Executive Directors' remuneration aims to provide a competitive package of fixed and performance linked pay, which supports the long-term strategic objectives of the business.

Following a detailed review of the existing policy we propose to make the following changes:

- to replace LTIP awards with specific three-year targets with awards of Restricted Shares with a face value which is 50% lower than the LTIP awards with a longer vesting period and post vest holding period;
- to provide a more conventionally expressed pension maximum under the policy as a percentage of salary, rather than a '£ value' amount;
- under the current policy at least 80% of bonus must be determined by financial metrics. In practice, currently 100% is determined by EBITDA. We propose to slightly amend our policy to allow greater flexibility in selection of performance measures to support the business strategy, while ensuring a majority is always based on financial KPIs. Bonus payments will always be subject to the Remuneration Committee ensuring underlying performance of the business is acceptable; and
- the level of shareholding required to be built and maintained has increased from 200% and 150% to 250% and 200% of salary for the Chief Executive and Chief Financial Officer, respectively.

### 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**<br>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, inflation and salary increases across the Group<br><br>Increases will normally be effective 1 May | Whilst there is no maximum salary, Executive Directors' salary increases will normally be in line with the average percentage increase for the wider employee population<br><br>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**<br>To provide post-retirement benefits | Executive Directors may receive a company contribution into a pension plan or a cash allowance in lieu of pension | The maximum company contribution or cash allowance in lieu of pension is 5% of salary for current Directors | None |
| **Benefits**<br>To provide Executive Directors with a reasonable level of benefits | Benefits include private medical insurance, life insurance, income protection, and the provision of a car or car allowance<br><br>Where appropriate, other benefits may be offered, for example including, but not limited to, relocation allowances | There is no 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)<br><br>The cost of providing benefits for the year under review are disclosed in the Annual Report on Remuneration | |

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| Purpose and link to strategy | Operation | Maximum opportunity | Performance metrics |
|---|---|---|---|
| **VARIABLE PAY** | | | |
| **Annual bonus**<br>To focus executives on delivery of year-on-year financial and non-financial performance<br><br>The part of the bonus invested in shares helps towards achieving an appropriate balance between year-on-year financial performance and longer-term value creation and contributes to higher executive shareholdings | Bonus payments will be determined based on performance in a single financial year and payment may be made in cash or in shares<br><br>If participants have not met the minimum shareholding requirement, one third of any bonus (after payment of tax) must be used to acquire shares in the Company which must be held for three years<br><br>Robust clawback and malus provisions apply. The Committee has discretion to reduce the amount of any bonus potential, and require repayment of any bonus paid within two years of payment, in the event of material misstatement, error, misconduct or reputational damage | 125% of salary | Performance measures and targets are set by the Committee and the Committee determines the extent to which the targets have been achieved at the year-end<br><br>A majority of bonus will be based on financial measures<br><br>The Committee may scale back the bonus if it considers the outcome is not representative of the underlying performance of the Company<br><br>For achievement of threshold performance, up to 15% of maximum bonus is earned |
| **Restricted Shares**<br>To align the interests of executives with shareholders in growing the value of the business over the long term | The Committee may grant annual awards of Restricted Shares, structured as conditional awards or nil-cost options<br><br>50% of an award vests after three years, 25% after four and 25% after five years, subject to service<br><br>All shares will be held for at least five years from grant (except for sales to meet tax on vesting). The holding period and vesting period will continue post cessation of employment to the extent that awards do not lapse on cessation<br><br>An additional benefit is provided in cash or shares equal to dividends that would have been paid over the vesting period or holding period on awards that vest<br><br>Robust clawback and malus provisions apply. The Committee has discretion to reduce the amount of any unvested award, and repayment of any vested award within two years of vesting, in the event of material misstatement, error, misconduct or reputational damage | 87.5% of salary face value at grant | In order for Restricted Shares to be capable of vesting, the Committee must be satisfied that business performance is robust and sustainable and that management has strengthened the business over three financial years commencing with the year in which the award is made. In assessing performance, the Committee will consider financial and non-financial KPIs of the business as well as delivery against strategic priorities. To the extent it is not satisfied with performance the Committee may scale back the level of vested awards including to zero. Full disclosure of the Committee's assessment will be made in the Annual Report on Remuneration for the year in which the assessment is made |

| Purpose and link to strategy | Operation | Maximum opportunity | Performance metrics |
|---|---|---|---|
| **SAYE**<br>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<br><br>Participants 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 savings made. | 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**<br>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 |

### Performance measure selection and approach to target setting
The measures used in the annual bonus are selected to reflect the Company's main financial KPIs and other strategic objectives for the year. Performance targets are set to be stretching but achievable, considering 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.

### Adjustments and use of Remuneration Committee discretion
The Remuneration Committee will review formulaic annual bonus outcomes and may adjust these to ensure alignment of pay with the underlying performance of the business. The Remuneration Committee may also adjust the calculation of short- and long-term performance measures for outstanding LTIP awards 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 will be consistent with that for the Executive Directors. The senior management team will participate in the same annual bonus and will receive Restricted Shares awards alongside the Executive Directors.

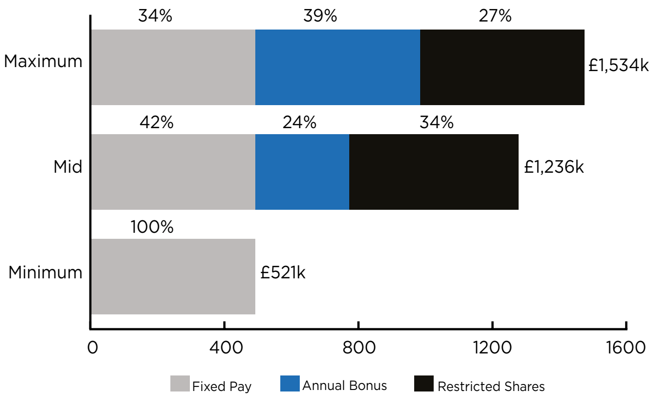
The Policy for our Executive Directors is considered with the remuneration philosophy and principles that underpin remuneration for the wider Group in mind. The remuneration arrangements for other employees reflect the seniority of each role. As a result, the levels and structure of remuneration for 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 are fair.

### Other
In addition to the above elements of remuneration, any commitment made prior to but due to be fulfilled after the approval at the 2018 AGM, 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).

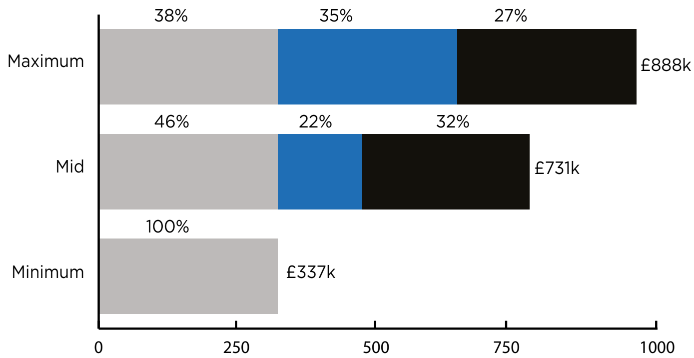
## PERFORMANCE SCENARIOS

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'. The projected value for Restricted Shares excludes the impact of share price movements or dividend accrual.

### Chief Executive Officer




### Chief Financial Officer




In illustrating potential reward opportunities, the following assumptions are made:

| | Fixed pay | Annual bonus | Restricted Shares |
|---|---|---|---|
| **Minimum** | Salary as at 1 May 2018 | No annual bonus payable | An award of Restricted Shares worth 87.5% and 75% of base salary for the Chief Executive and Chief Financial Officer, respectively |
| **Mid** | The CEO and CFO each receive a contribution of just over 3% of base salary to their personal pensions | On-target annual bonus payable (50% of maximum) | |
| **Maximum** | Benefits paid for the most recent financial year | Maximum annual bonus payable of 125% and 100% of base salary for the Chief Executive and Chief Financial Officer, respectively | |

## 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. The Remuneration Committee will seek to ensure that the remuneration arrangements will be in line with those outlined in the Policy table above, other than as follows:

| Component | Approach | Maximum opportunity |
|---|---|---|
| **Pension** | New appointees may be offered pension arrangements based on market competitive contribution rates | 5% of base salary or higher in exceptional circumstances |
| **Annual bonus** | In line with the policy, albeit with the relevant maximum normally being prorated to reflect the proportion of employment over the year | 125% of salary |

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 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 this report.

## 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). Any payment in lieu will be made on a monthly basis and subject to mitigation. 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 |
|---|---|---|
| Karen Hubbard | 5 January 2016 | 9 months |
| Kris Lee | 19 April 2017 | 9 months |

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, considering 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 pro rated for time served during the year |
| **Shares acquired by Directors with annual bonus** | | | Not applicable as shares are purchased and owned outright by the executive. |
| **Restricted Shares** | 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 and holding period would normally continue to apply, although the Committee has discretion to accelerate vesting and remove the holding requirement in exceptional circumstances. | Any outstanding awards will normally be pro rated for service over the three financial years starting with the year in which the award is made and over which the underlying performance of the Company will be reviewed to determine vesting. The Committee may disapply time pro rating in exceptional circumstances |
| **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 |
| Roger Whiteside | 27 November 2017 |

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 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 and will stay abreast of likely future guidance on this issue from the Financial Reporting Council.

### CONSIDERATION OF SHAREHOLDER VIEWS

The Company has engaged with significant investors on remuneration as part of its first corporate governance day and intends to hold similar events in future based on investor demand. More generally, when determining remuneration policy and its application, the Committee considers 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.

### 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**<br>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<br><br>Additional fees paid for additional roles or time commitment, eg chairing Board Committees<br><br>Non-Executive Directors do not participate in any incentive schemes or receive any other benefits (other than travel expenses, which may be grossed up for tax) | Any increases to NED fees will be considered following a thorough review process and considering wider market factors, eg inflation<br><br>The maximum aggregate annual fee for all directors provided in the Company's Articles of Association is £1,000,000 pa | 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 2018. 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.

## TOTAL REMUNERATION PAID TO EXECUTIVE DIRECTORS – AUDITED

The table below sets out the total remuneration received by each Executive Director providing services to the Company during the period for the year ended 31 January 2018 and the prior year:

| | Karen Hubbard | | Kris Lee | | Darren Bryant | |
|---|---|---|---|---|---|---|
| | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 |
| Salary[1] | £451,675 | £418,186 | £183,748 | n/a | £176,901 | £352,002 |
| Pension benefit | £15,388 | £14,067 | £5,964 | n/a | – | – |
| Taxable benefits[2] | £24,871 | £23,003 | £4,882 | n/a | £3,967 | £8,000 |
| Non-taxable benefits[3] | £3,542 | £3,205 | £2,066 | n/a | £1,476 | £3,389 |
| Annual bonus[4] | 0 | £104,849 | 0 | n/a | n/a | £453,263 |
| LTIP[5] | n/a | n/a | n/a | n/a | – | £348,143 |
| SAYE[6] | | – | n/a | n/a | n/a | £459 |
| Other[7] | – | £130,000 | £150,000 | n/a | n/a | n/a |
| **Total** | **£495,476** | £693,310 | **£346,660** | n/a | **£182,344** | £699,032 |

1. Kris Lee was appointed to the Board with effect from 3 July 2017. Darren Bryant retired from the Board on 31 July 2017.
2. Taxable benefits comprise car or car allowance, fuel allowance and family private medical insurance.
3. Karen Hubbard and Kris Lee (and formerly Darren Bryant) are members of the Group Life Assurance Scheme. The amounts stated relate to insurance premiums paid by the Group.
4. No annual bonus was payable for the year 2017/2018.
5. The value of Darren Bryant's LTIP awards that were included in 2016/17 in the table above was calculated using the three-month average share price to 31 January 2017 of 251p, as the awards had not vested at the date of signing last year's report. The awards vested in 2017/2018. The actual value on vesting was £348,143 and so the value has been restated from £264,894 to £348,143.
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. As part of his recruitment package, and in order that Kris Lee was able to take up his position quickly, the Committee approved a like-for-like buyout of his forfeited bonus of £150,000.

## ANNUAL BONUS PAYMENTS AND LINK TO PERFORMANCE

Bonus opportunities for 2017/18 were 125% of salary for Karen Hubbard and 100% of salary for Kris Lee (pro rated for time in role). Darren Bryant did not participate in the 2017/18 annual bonus.

The bonus was subject to achieving a range of EBITDA targets and subject to a personal performance underpin. Personal performance is assessed on achievement against the four pillars of the agreed growth strategy, to ensure the foundations for future growth. The EBITDA performance targets for the year, performance against them and bonus payments were:

| Performance level | 2017/18 EBITDA target | Percentage of maximum bonus awarded | EBITDA Performance achieved | Bonus payable (% of maximum) |
|---|---|---|---|---|
| Threshold | £98.0m | 15% | £94.0m | 0% |
| Maximum | £101.6m | 100% | £94.0m | 0% |

## GRANTS OF AWARDS UNDER THE LTIP IN 2017 – AUDITED

Awards under the LTIP were granted to the Executive Directors on 27 October 2017. Awards were made over shares worth 175% of basic salary for Karen Hubbard and 150% of salary for Kris Lee (pro-rated for time in role).

| 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 | 245,921 | £794,325 | 25% (100%) | 1.2.17–31.1.20 |
| Kris Lee | 85,366 | £275,733 | 25% (100%) | 1.2.17–31.1.20 |

1. In line with the LTIP rules, 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, 27 October 2017, of 323.0p.

The primary performance targets for these awards, are EPS growth over three financial years starting with that in which the award is granted. The award was made in the second half of our financial year to align with the timing of last year's grant, which had been delayed to allow a proper assessment of Brexit on the market and our business outlook.

Our interim results for FY17/18 showed strong sales performance on both a total and a like-for-like basis, but also demonstrated the significant impact of various cost headwinds (in particular foreign exchange and wage rates). Against this outlook, the Committee set an EPS growth range of 1% to 6% p.a. CAGR for the three financial years to January 2020, which is viewed as appropriately stretching in the circumstances.

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.

Awards that vest (after any sales required to pay tax and social security contributions) will be subject to a two-year holding period.

### 2015 LTIP AWARD VESTING

Awards granted in 2015 under the LTIP were subject to the three-year EPS compound annual growth target of 9% pa to 15% pa with 25% vesting at threshold, and were subject to a return on capital underpin. EPS performance over the three-year period 1 February 2015 to 31 January 2018 was below 9% meaning none of these awards will vest.

### SAYE

Awards under the HMRC-approved SAYE were granted to all participating employees on 27 June 2017. Options were granted at a discount of 20% to the share price on grant, and vest after three years subject to continued employment.

| Executive | Number of SAYE options awarded | Face/Maximum Value of Awards at Grant Date[1] | % of Award Vesting at Threshold and (Maximum) | Performance Period |
|---|---|---|---|---|
| Karen Hubbard | 3,358 | £11,222 | n/a | n/a |

1. Based on the share price on the date of award, 27 June 2017, of £3.34

### REMUNERATION FOR RETIRING DIRECTORS

Darren Bryant stepped down as CFO and retired from the Board on 31 July 2017 and salary, benefits and pension ceased to be paid at that date. As set out above, Darren did not receive an LTIP grant in 2017 nor was he eligible to receive any bonus for performance for the financial year 2017/18.

As a good leaver he will, to the extent that they vest based on performance, receive his outstanding pro rated LTIP awards at the normal vesting date. The Committee exercised its discretion to disapply any holding period on any vested LTIP awards on the basis that Darren retains a significant holding in the Company which continues to align his interests with other shareholders.

### TOTAL FEES PAID TO 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 2018 and the prior year.

| | Base fee | | Additional fees | | Total | |
|---|---|---|---|---|---|---|
| Non-Executive Director | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 |
| Geoff Cooper | **£125,000** | £125,000 | **£0** | £0 | **£125,000** | £125,000 |
| Octavia Morley | **£49,000** | £49,000 | **£8,000** | £8,000 | **£57,000** | £57,000 |
| David Stead | **£45,000** | £45,000 | **£8,000** | £8,000 | **£53,000** | £53,000 |
| Paul McCrudden | **£45,000** | £45,000 | **£0** | £0 | **£45,000** | £45,000 |
| Roger Whiteside | **£7,327** | n/a | **£0** | n/a | **£7,327** | n/a |

### PAYMENTS FOR LOSS OF OFFICE

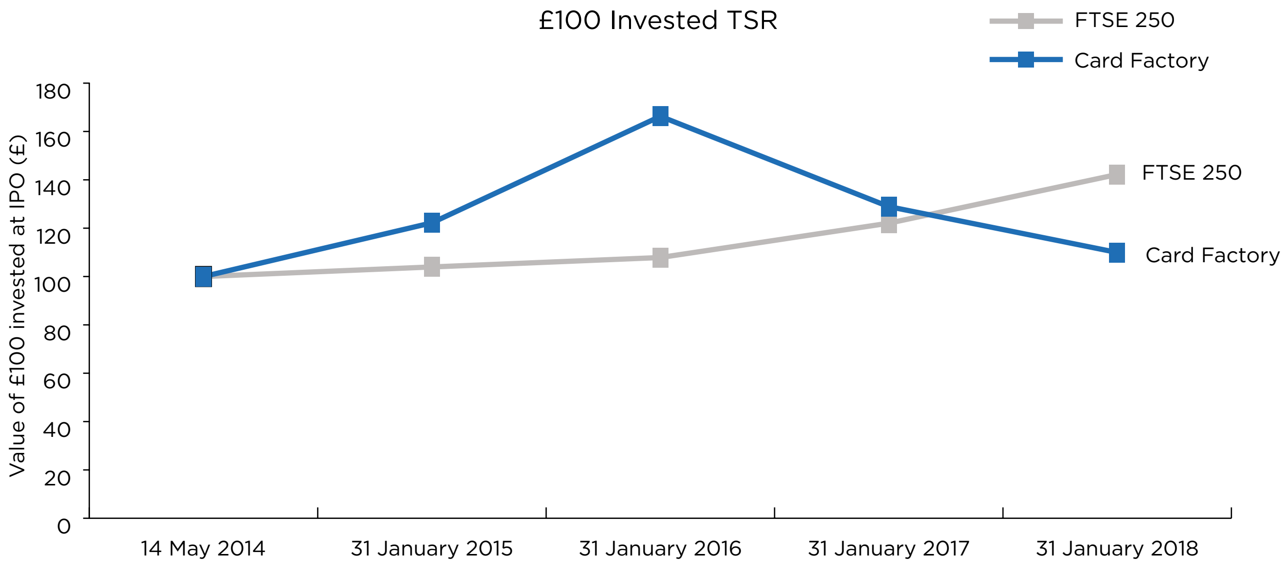
No payments were made to Directors for loss of office. The remuneration arrangements on cessation for Darren Bryant are set out above.

### PAYMENTS TO PREVIOUS DIRECTORS

No such payments were made during the year (other than those disclosed in relation to Darren Bryant' retirement).

## HISTORICAL TSR PERFORMANCE AND CEO REMUNERATION

The graph below illustrates the total shareholder return 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.




| CEO | 2017/18 | 2016/17[1] | 2015/16 | 2014/15 |
|---|---|---|---|---|
| Single figure of remuneration (£'000) | **496** | 1,005 | 951 | 884 |
| Annual bonus outcome (% of max) | **0%** | 20.0% | 79% | 77% |
| LTIP vesting (% of max) | **n/a** | 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).

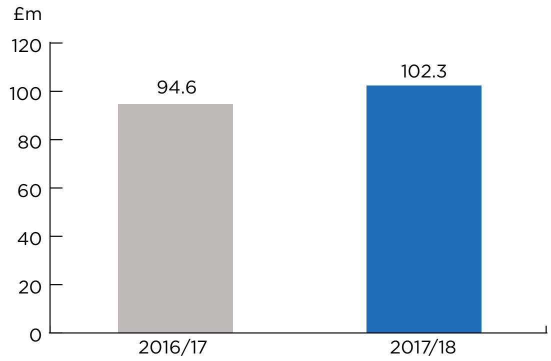
## CHANGE IN CEO CASH REMUNERATION, 2016/17 TO 2017/18

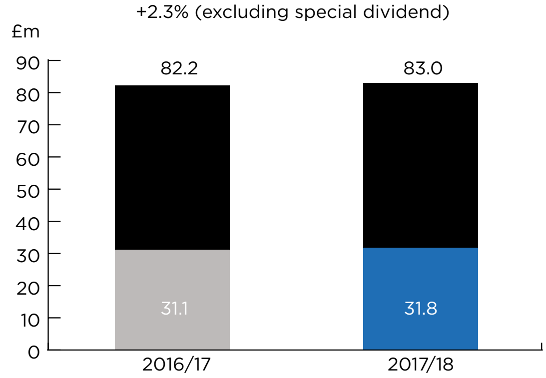
| | Change in CEO pay over the year[1] | Average change across all employees[2] |
|---|---|---|
| Salary | **0.8%** | **3.8%** |
| Taxable benefits | **(18.6)%** | **–** |
| Annual variable | **(100)%** | **(18.4)%** |

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.




2016/17
2017/18
Special Dividend



Strategic Report
Governance
Financials

## STATEMENT OF SHAREHOLDER VOTING

The following table shows the results of the shareholder votes on the Annual Report on Remuneration at the 2017 Annual General Meeting:

| | Annual Report on Remuneration (2017) | |
|---|---|---|
| | Total number of votes | % of votes cast |
| For (including discretionary) | 277,072,929 | 98.75 |
| Against | 3,507,910 | 1.25 |
| Total votes cast (excluding withheld votes) | 280,580,839 | 0 |
| Total votes withheld[1] | 2,359 | – |
| Total votes cast (including withheld votes) | 280,583,198 | – |

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 holding of shares in the Company equivalent in value to at least 200% and 150% of base salary for the Chief Executive and Chief Financial Officer, respectively. This will be increased in FY2019 to 250% and 200% respectively. Both Executive Directors joined the Board recently and so have not yet met the shareholding guideline. Karen Hubbard purchased all of the shares she (or her connected persons) currently hold.

| | Shares held | | | Options held | | | | |
|---|---|---|---|---|---|---|---|---|
| Director | Owned outright[1] | Unvested and not subject to performance | Unvested and subject to performance | Vested but not exercised | Unvested and subject to continued employment | Current shareholding (% of salary/ fee[2]) | Shareholding requirement (% of salary/ fee) | Guideline met? |
| **Executive Directors** | | | | | | | | |
| Karen Hubbard | 110,619 | – | 481,406 | – | – | 22% | 200% | No |
| Kris Lee | – | – | 85,366 | – | – | – | 150% | No |
| Darren Bryant | 618,036 | – | 232,795 | – | – | – | n/a | n/a |
| **Non-Executive Directors** | | | | | | | | |
| Geoff Cooper | 318,828 | – | – | – | – | | | |
| Octavia Morley | 13,333 | – | – | – | – | | | |
| David Stead | 22,222 | – | – | – | – | | | |
| Paul McCrudden | – | – | – | – | – | | | |
| Roger Whiteside | 22,520 | – | – | – | – | | | |

1. Including shares owned by connected persons.
2. Calculated using the closing share price of the Company on 31 January 2017 of 250p.

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[1] | n/a | 235,485 | £778,750 | 1.2.16 – 31.1.19 | n/a |
| LTIP | 27.10.17 | 323.0p[2] | n/a | 245,921 | £794,325 | 1.2.17 – 31.1.20 | n/a |
| SAYE | 27.06.17 | 334.2 | 268p | 3,358 | £11,222 | n/a | 1.8.19 –31.1.20 |
| **Kris Lee** | | | | | | | |
| LTIP | 27.10.17 | 323.0p[2] | n/a | 85,366 | £275,733 | 1.2.17 – 31.1.20 | n/a |

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.
2. 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, 27 October 2017, of 323.0.p.

# HOW THE POLICY WILL BE APPLIED IN FY18/19

## SALARY

The salaries of the Executive Directors will, with effect from 1 May 2018, be as follows:

| Executive Director | 1 May 2018 | 1 May 2017 |
|---|---|---|
| Karen Hubbard | **£477,000** | £453,900 |
| Kris Lee | **£315,000** | n/a |

## ANNUAL BONUS FOR 2018/19

The annual bonus is capped at 125% and 100% of salary for the Chief Executive and Chief Financial Officer, respectively, based 80% on EBITDA and 20% on a number of strategic measures.

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 next year's Annual Report on Remuneration.

The strategic objectives for the CEO and the CFO have been set to measure progress on the building blocks of the Group's established four pillar strategy. These will position us for growth in future years and mitigate business risk in achieving these goals in addition to their focus on delivering annual business results. These objectives are set out below, together with details of how they will be measured. The specific targets are commercially sensitive and will be disclosed retrospectively in next year's Directors' Remuneration Report with performance against them.

The CEO's strategic objectives are:

- strengthening our customer value proposition, measured by external research results compiled by OC&C and reported annually;
- improving our ongoing Business Efficiency by delivering a step change in store productivity, measured by store cost savings;
- delivering a future platform for Card Factory online, measured through EBITDA performance in this channel; and
- generating performance through our leadership team, managing succession planning and integrating the new senior hires into the business to deliver positive results. This will be measured through externally facilitated leadership feedback.

The CFO's strategic objectives are:

- delivery of the new store roll out programme, measured by average store profit contribution;
- within our business efficiencies pillar, improving our working capital management, measured by the year on year change;
- development and delivery of strategic trials and initiatives to drive future sales and profitability for the Group, measured by the successful implementation of new projects; and
- generating performance through our leadership team, managing succession planning and integrating the new senior hires into the business to deliver positive results. This will be measured through externally facilitated management feedback.

## BENEFITS AND PENSION

These will be paid in line with the policy.

## RESTRICTED SHARES

Restricted Shares will be granted over shares with a value at the time of grant of 87.5% of salary and 75% of salary for the Chief Executive and Chief Financial Officer respectively.

In order for Restricted Shares to vest, the Committee must be satisfied that business performance is robust and sustainable and that management has strengthened the business. In assessing performance, the Committee will consider financial and non-financial KPIs of the business as well as delivery against strategic priorities. To the extent it is not satisfied with performance the Committee may scale back the level of vested awards including to zero.

There will be full disclosure in the Annual Report and Accounts of the Committee's determination of the performance underpin.

## SHAREHOLDING REQUIREMENT

The level of shareholding required to be built and maintained is equivalent to 250% and 200% of salary for the Chief Executive and Chief Financial Officer respectively.

## NON-EXECUTIVE DIRECTOR FEES

No increases are proposed for the current year.

| | 2018/19 | 2017/18 |
|---|---|---|
| **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 |

## REMUNERATION COMMITTEE MEMBERSHIP AND ADVISERS

The Remuneration Committee consists of four Independent Non-Executive Directors: Octavia Morley (Chairman), David Stead, Paul McCrudden and Roger Whiteside, 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 41 and 42 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 Korn Ferry Hay Group, who were appointed by the Committee following a tender process during the year. Korn Ferry does not provide any other services to the Company. Korn Ferry 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 is objective and independent. There were no fees paid to Korn Ferry during the financial year.

## COMMITTEE ACTIVITIES

During 2017/18, the Committee met to consider the following remuneration matters:

- a full review of the directors' remuneration policy and cascade to senior executive levels and below, including extensive investor consultation;
- to consider performance against targets and resulting bonus payments and vesting of awards under the LTIP;
- to determine 2017/18 grants of LTIP awards and associated targets;
- to consider measures and targets for the 2018/19 annual bonus;
- to determine the remuneration package for the incoming Chief Financial Officer and the departure arrangements for his predecessor;
- to review developing trends in remuneration governance; and
- to formally approve the Directors' Remuneration Report set out in this Annual Report.

Approved by the Board of Card Factory plc on 9 April 2018 and signed on its behalf by

**Octavia Morley**
Chairman of the Remuneration Committee

9 April 2018

# 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 recruiting and supporting the handover to our new CFO, Kris Lee, following Darren Bryant's retirement at the end of July 2017.

Kris, a very experienced retail CFO, underwent an extensive induction programme giving him the opportunity to engage with all parts of the business and assess the Group's current operations and strategy. Following this, he provided his initial reflections to the Board.

Kris was recruited following a thorough search process focused on identifying a candidate with the skills and relevant retail experience to work closely with our CEO, Karen Hubbard, the Board and the senior management team to drive our existing four pillar strategy and, in time, assess longer-term strategic options for the business.

A professional search firm carried out the search and all members of the Committee, Karen and key members of the senior management team were involved in the selection process. The search firm were asked to review and, if possible, revise their long and short lists to seek qualified candidates that would increase the Board's diversity.

As part of the Board's commitment to managing Board succession and ensuring it has the right balance of skills and experience to support the Group's strategic plans, Roger Whiteside was appointed to the Board as an additional Independent Non-Executive Director in December 2017. Roger is currently CEO of multi-site food on-the-go retailer Greggs plc and has a wealth of retail knowledge and senior leadership experience that will complement the Board. As with Kris Lee, Roger's recruitment was facilitated by a specialist search firm and all of the Board were fully involved in his recruitment.

The Committee, working closely with Karen and the Group HR Director, Lucy Crowther, has supported development, engagement and succession planning for the senior management team in which there has been a number of changes during the year. The Committee has also endorsed the introduction of a more structured definition of job roles and levels across the Group that will provide greater transparency over future development, progression and reward.

During the forthcoming year and beyond, the Committee will conduct more formal and regular reviews of the Group's new wider template for talent development, which has been introduced to ensure effective succession planning across all levels in the Group.

Finally, the Non-Executive Directors and I have also committed to spending additional time in the business to strengthen our understanding of the Group's culture and the Group's understanding and appreciation of our roles.

Looking forwards, the Committee will continue to reflect on the developing corporate governance landscape. It will introduce more structured planning and review of succession for the Board and senior management team as well as regular discussions on diversity.

Yours sincerely

**Geoff Cooper**
Chairman of the Nomination Committee

9 April 2018

# 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 42 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 Company Secretary acts as secretary to the Committee.

## MEETINGS

As currently constituted, the Committee met three times during the year with details of attendance set out in the Corporate Governance Report on page 39.

## COMMITTEE ACTIVITY IN 2017/18

The Committee's main activity during the year, as described in more detail in the introductory letter to this report, was to support the recruitment and induction of our new CFO Kris Lee and the appointment of Roger Whiteside as an additional Independent Non-Executive Director.

## WELCOMING OUR NEW CFO

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

- handover time with our former CFO, Darren Bryant, including meetings with analysts and investors;
- one-to-one meetings with senior management team members;
- meetings with the Chairman and Non-Executive Directors;
- attending Board and divisional board meetings, including the Board strategy day in July 2017;
- immersion' time at our online subsidiary, Getting Personal;
- a tour and meetings with senior management at our in-house print facility, Printcraft;
- attending Card Factory's 2017 Christmas launch event with colleagues from throughout the business;
- 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;
- store visits; and
- meeting the Group's key advisers.

## COMMITTEE'S FOCUS FOR THE FUTURE

The Nomination Committee's priority over the coming year will be to:

- focus on the further development and implementation of a Board succession plan that addresses the current long service of the Chairman and a number of our Independent Non-Executive Directors; and
- continue to develop the succession planning process for all key roles in our senior management team and, in particular, to monitor and support the Group's new talent development programme which is aiming to support accession to senior roles from within the business and reduce the Group's reliance on external recruitment.

In addressing these, 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 the executive management team and among the Non-Executive Directors and of supporting the development of the next generation of leaders from within the business; and
- recognise that the Group's best interests are served by ensuring that the individuals who are in leadership roles in the Group represent a range of skills, experiences, backgrounds and perspectives, including gender, race, religion or sexual orientation 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.

We published our first Gender Pay Gap Report in March 2018 which, in addition to setting out the data required by the Government, details the great strides taken by the business towards ensuring there is equality of opportunity between the genders throughout the Group. A copy of the report has been published on Card Factory's investor website (www.cardfactoryinvestors.com)

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 first externally facilitated Board evaluation during the year which was led by the Chairman and facilitated by Lorna Parker. Further details are set out in the Corporate Governance Report on pages 43 and 44. Board evaluation will continue to be conducted on an annual basis and the Board will, as required by the UK Corporate Governance Code, engage an external facilitator once every three years to assist in the process.

## TENURE AND RE-ELECTION OF DIRECTORS

In accordance with the UK Corporate Governance Code, all the Directors will seek election or re-election (as appropriate) at the next AGM on 31 May 2018.

This report was reviewed and approved by the Board on 9 April 2018.

**Geoff Cooper**
Chairman of the Nomination Committee

9 April 2018

# Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 January 2018.

## 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 2016 ('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 9 April 2018 and is set out on pages 1 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 £58.3m (FY17: £65.7m). The results are discussed in greater detail in the Chief Financial Officer's Review on pages 20 to 23.

A final dividend of 6.4 pence per share (FY17: 6.3 pence) is proposed in respect of the period ended 31 January 2018 to add to an interim dividend of 2.9 pence per share (FY17: 2.8 pence) paid on 15 December 2017. The final dividend will, subject to shareholders' approval at the AGM on 31 May 2018, be paid on 8 June 2018 to shareholders on the register on 4 May 2018.

## SPECIAL DIVIDEND

A special dividend of 15 pence per share was paid to shareholders on 15 December 2017.

## 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 97. 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 102 and 103. Details of the share based incentive schemes in place are provided in the Directors' Remuneration Report on pages 56 and 57.

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.

## 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 9 April 2018 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 | 91,971,149 | 26.93% |
| Artemis Investment Management LLP | 34,051,657 | 9.97% |
| Majedie Asset Management | 25,959,884 | 7.60% |
| Woodford Investment Management | 25,586,257 | 7.49% |
| Stuart Middleton | 18,035,477 | 5.28% |

## 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 103 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 page 31.

Share incentive schemes in which employees participate are described in the Directors' Remuneration Report on pages 56 and 57 and in note 25 to the financial statements on pages 102 and 103.

## HEALTH AND SAFETY

An overview of health and safety is provided in the Corporate Social Responsibility Report on pages 30 and 31.

## GREENHOUSE GAS EMISSIONS

The Corporate Social Responsibility Report on page 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 26. In that section, beginning on page 24, 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 20 to 23.

## 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 1 to 27, 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 2021. 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 1 to 27.

The Directors have determined that the three years to 31 January 2021 is an appropriate period over which to provide its viability statement. Three years closely corresponds to the average remaining lease term of the Group's store portfolio and is the timeframe used 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 2021.

## 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 2018 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 31 May 2018 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.

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

This statement is set out on page 72.

## APPROVAL OF THE ANNUAL REPORT

The Strategic Report and the Corporate Governance Report were approved by the Board on 9 April 2018.

Approved by the Board and signed on its behalf by

**Shiv Sibal**
Company Secretary

9 April 2018

# 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 International Financial Reporting Standards as adopted by the European Union (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, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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

**Kris Lee**
Chief Financial Officer

9 April 2018

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



## 1. OUR OPINION IS UNMODIFIED

We have audited the financial statements of Card Factory plc ('the Company') for the year ended 31 January 2018 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity, Consolidated cash flow statement, Parent Company balance sheet, Parent Company statement of changes in equity, Parent Company cash flow statement, and the related notes, including the accounting policies in note 1.

### 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 2018 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.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the Company's members on 25 May 2017. The period of total uninterrupted engagement is for the 7 financial years ended 31 January 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

### Overview

| | | |
|---|---|---|
| **Materiality:**<br>Group financial statements as a whole | £4.0m (2017:£4.0m)<br>5.0% (2017: 5.0%) of Group profit before tax excluding non-underlying items. | |
| **Coverage** | 100% (2017:100%) of Group profit before tax | |
| **Risks of material misstatement** | **vs 2017** | |
| **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. | ◄► |
| | Recoverability of parent Company investments in subsidiaries. | ◄► |

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

## 2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2017), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

| | The risk | Our response |
|---|---|---|
| **Inventory costing and store inventory quantities**<br>(£51.5 million; 2017: £51.4 million)<br><br>*Refer to page 49 (Audit and Risk Committee Report), page 89 (accounting policy) and page 95 (financial disclosures).* | **Physical quantities of store stock**<br>Store inventory quantities depend on year end physical counts. Accordingly, given the high volume and broad range of inventory held there is a risk that quantities of store inventory could be incorrectly recorded. Controls over the year end counts of store inventory are themselves manual in nature.<br><br>**Calculation error**<br>Elements of the inventory costing calculations across both store and warehouse stock are manual in nature. Given the high volume and broad range on inventory held there is a risk that cost could be incorrectly recorded. | Our procedures included:<br>• **Count design and attendance:** Assessment of the design and implementation of the store count procedures through attendance at a sample of store inventory counts, including to inform the extent of test of details;<br>• **Control operation:** Evaluated the operating effectiveness of the controls over the process for reviewing store count results, which compares the results of the store counts to the expected stock levels for each store on a line by line basis. This includes investigation of significant variances. The test informs the extent of tests of details;<br>• **Tests of details:** Selected a sample of stock lines to assess whether the counted quantities agree to expected quantities according to the system and investigated how any variances within our sample had been resolved. As an adjustment is made to the gross stock figure to the extent variances exceed management's threshold, we considered the level of this threshold in the context of our materiality;<br>• **Tests of details:** Identified store outliers based on a number of factors such as stock levels per square foot of selling space. For these we evaluated the characteristics specific to a sample of stores such as their location in relation to other stores, to assess whether this was consistent with the stock levels reported. We considered the overall value of the stock held in outlier stores in the context of materiality; and<br>• **Re-performance:** For a sample of inventory lines re-performed the standard cost calculations and agreed each input to invoice or other supporting documentation.<br><br>**Our results:** The results of our procedures were satisfactory. |
| **Foreign exchange hedge accounting**<br>(£5 million deficit; 2017: £2 million (surplus))<br><br>*Refer to page 49 (Audit and Risk Committee Report), page 88 (accounting policy) and pages 100 to 102 (financial disclosures).* | **Accounting treatment**<br>The Group adopts hedge accounting for a high proportion of its foreign currency inventory purchases. The amount of fair value movement recorded through other comprehensive income (OCI) rather than the income statement is determined by effectiveness testing.<br><br>Hedge accounting is inherently complex and requires a degree of judgement in determining forecast cash flows.<br><br>If the assumptions made in the effectiveness testing were inappropriate, the presentation of the fair value movement on the financial instruments in OCI could be incorrect. | Our procedures included:<br>• **Control operation:** Tested the operating effectiveness of the processes and controls over foreign exchange hedging to assess whether effectiveness testing had been performed on a monthly basis;<br>• **Tests of details:** Assessed the accuracy of management's hedge effectiveness testing by agreeing the inputs to contracts, budgets and valuations;<br>• **Re-performance:** Re-performed the calculation of hedge effectiveness for all foreign exchange contracts outstanding at the year end; and<br>• **Historical comparisons:** Considered the accuracy of historical forecast foreign currency purchases to assess the Group's forecasting reliability. We also considered the accuracy of the testing performed in the prior year.<br><br>**Our results:** The results of our procedures were satisfactory and we found the fair value movement on derivatives recorded through OCI to be acceptable. |

| | The risk | Our response |
|---|---|---|
| **Parent: Recoverability of Parent Company's investments in subsidiaries**<br>(£316.2 million;<br>2017: £316.2 million)<br><br>*Refer to page 108 (accounting policy) and page 110 (financial disclosures).* | **Low risk, high value**<br>The carrying amount of the Company's investments, held at cost, represents 99.8% of the Company's total assets.<br><br>We do not consider the recoverable amount of these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement. However, due to their materiality in the context of the financial statements as a whole, this is considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit of the Parent Company. | Our procedures included:<br>• **Tests of details:** Compared the carrying amount of all of the investments with the respective subsidiaries' net assets values to identify whether the net assets values, being an approximation of their minimum recoverable amount, were in excess of the carrying amount.<br>• **Tests of details:** Compared the carrying amount of investments in total against the market capitalisation of the Group at the year end.<br>• **Assessing subsidiary audits:** Considering the results of the work on those subsidiaries' profits and net assets.<br><br>**Our results:** We found the Group's assessment of the recoverability of the investment in subsidiaries to be acceptable. |

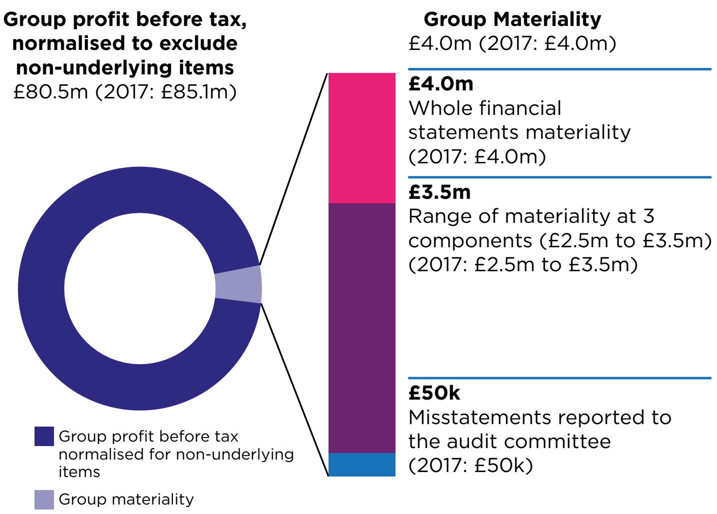
## 3 . OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

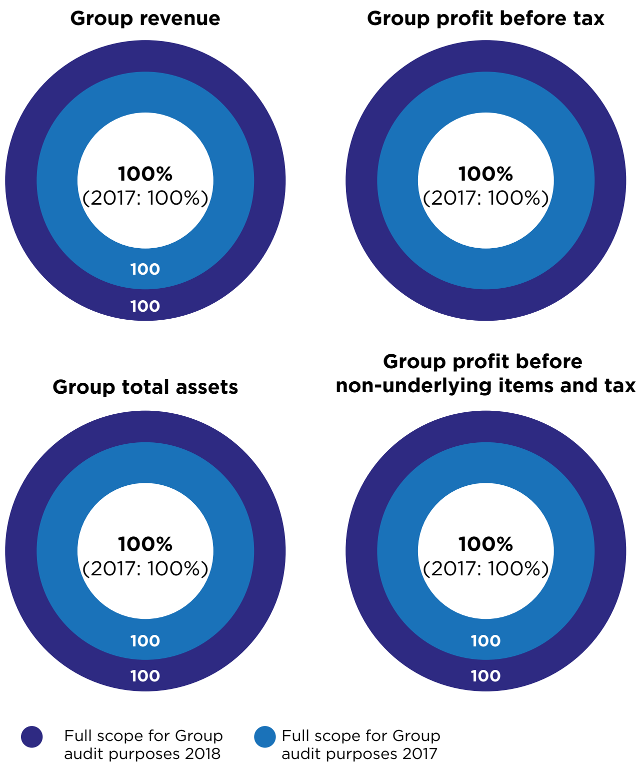
The materiality for the Group financial statements as a whole has been set at £4m determined by reference to a benchmark of Group profit before tax, normalised to exclude non-underlying items of £7.9m as disclosed in note 3, of which it represents 5.0% (2017: 5.0%).

The materiality for the Parent Company financial statements as a whole has been set at £3.9m determined by reference to a benchmark of total assets, of which it represents 1% (2017: 1%).

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

Of the Group's 3 reporting components we subjected all 3 to audit for Group reporting purposes. These components covered 100% of the total Group revenue (2017: 100%), 100% of the Group profit before taxation (2017: 100%) and 100% of total Group assets (2017: 100%). Our procedures were performed from the Group's support centre in Wakefield and at the component offices in Shipley and Wythenshawe.



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

### 4. WE HAVE NOTHING TO REPORT ON GOING CONCERN

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 70 if the same statement is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

### 5. WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

#### Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

#### Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

#### Disclosures of principal risks and longer-term viability

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

- the directors' confirmation within the longer-term viability statement on pages 70 and 71 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the longer-term viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the longer-term viability statement. We have nothing to report in this respect.

#### Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

### 6. WE HAVE NOTHING TO REPORT ON THE OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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.

We have nothing to report in these respects.

### 7. RESPECTIVE RESPONSIBILITIES

#### Directors' responsibilities

As explained more fully in their statement set out on page 72, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

### Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related annual accounts items.

In addition we considered the impact of laws and regulations in the specific areas of the national minimum wage legislation. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

## 8. THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

9 April 2018

# Consolidated Income Statement

## For the year ended 31 January 2018

| | Note | 2018 Underlying £'m | 2018 Non-underlying (note 3) £'m | 2018 Total £'m | 2017 Underlying £'m | 2017 Non-underlying (note 3) £'m | 2017 Total £'m |
|---|---|---|---|---|---|---|---|
| **Revenue** | | **422.1** | **–** | **422.1** | 398.2 | – | 398.2 |
| Cost of sales | | **(297.0)** | **(7.6)** | **(304.6)** | (271.6) | (0.6) | (272.2) |
| **Gross profit/(loss)** | | **125.1** | **(7.6)** | **117.5** | 126.6 | (0.6) | 126.0 |
| Operating expenses | | **(41.7)** | **(0.3)** | **(42.0)** | (38.8) | (1.5) | (40.3) |
| **Operating profit/(loss)** | 4 | **83.4** | **(7.9)** | **75.5** | 87.8 | (2.1) | 85.7 |
| Finance income | 7 | **0.1** | **–** | **0.1** | 0.1 | – | 0.1 |
| Finance expense | 7 | **(3.0)** | **–** | **(3.0)** | (2.8) | (0.2) | (3.0) |
| **Net finance expense** | | **(2.9)** | **–** | **(2.9)** | (2.7) | (0.2) | (2.9) |
| **Profit/(loss) before tax** | | **80.5** | **(7.9)** | **72.6** | 85.1 | (2.3) | 82.8 |
| Taxation | 8 | **(15.8)** | **1.5** | **(14.3)** | (17.6) | 0.5 | (17.1) |
| **Profit/(loss) for the year** | | **64.7** | **(6.4)** | **58.3** | 67.5 | (1.8) | 65.7 |
| **Earnings per share** | | **pence** | | **pence** | pence | | pence |
| – Basic and diluted | 10 | **18.9** | | **17.1** | 19.8 | | 19.3 |

All activities relate to continuing operations.

# Consolidated Statement of Comprehensive Income

## For the year ended 31 January 2018

| | 2018 £'m | 2017 £'m |
|---|---|---|
| **Profit for the year** | **58.3** | 65.7 |
| Items that are or may be recycled subsequently into profit or loss: | | |
| Effective portion of changes in fair value of cash flow hedges | **(7.2)** | 3.8 |
| Net change in fair value of cash flow hedges recycled to profit or loss | **(1.5)** | (5.1) |
| Tax relating to components of other comprehensive income (note 13) | **1.7** | 0.2 |
| **Other comprehensive expense for the period, net of income tax** | **(7.0)** | (1.1) |
| **Total comprehensive income for the period attributable to equity shareholders of the parent** | **51.3** | 64.6 |

Strategic Report

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# Consolidated Statement of Financial Position

## As at 31 January 2018

| | Note | 2018 £'m | 2017 £'m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 11 | **331.6** | 330.2 |
| Property, plant and equipment | 12 | **40.0** | 39.1 |
| Deferred tax assets | 13 | **1.9** | 0.6 |
| Other receivables | 15 | **0.8** | 0.8 |
| Derivative financial instruments | 24 | **0.2** | 0.6 |
| | | **374.5** | 371.3 |
| **Current assets** | | | |
| Inventories | 14 | **51.5** | 51.4 |
| Trade and other receivables | 15 | **16.6** | 16.6 |
| Derivative financial instruments | 24 | **0.3** | 3.5 |
| Cash and cash equivalents | 16 | **3.6** | 3.0 |
| | | **72.0** | 74.5 |
| **Total assets** | | **446.5** | 445.8 |
| **Current liabilities** | | | |
| Borrowings | 17 | **(14.9)** | (8.8) |
| Trade and other payables | 18 | **(37.7)** | (37.4) |
| Tax payable | | **(5.5)** | (8.7) |
| Derivative financial instruments | 24 | **(7.0)** | (0.7) |
| | | **(65.1)** | (55.6) |
| **Non-current liabilities** | | | |
| Borrowings | 17 | **(149.6)** | (129.3) |
| Trade and other payables | 18 | **(10.0)** | (11.2) |
| Derivative financial instruments | 24 | **(3.4)** | (0.2) |
| | | **(163.0)** | (140.7) |
| **Total liabilities** | | **(228.1)** | (196.3) |
| **Net assets** | | **218.4** | 249.5 |
| **Equity** | | | |
| Share capital | 19 | **3.4** | 3.4 |
| Share premium | 19 | **202.2** | 201.9 |
| Hedging reserve | | **(5.0)** | 2.0 |
| Reverse acquisition reserve | | **(0.5)** | (0.5) |
| Merger reserve | | **2.7** | 2.7 |
| Retained earnings | | **15.6** | 40.0 |
| **Equity attributable to equity holders of the parent** | | **218.4** | 249.5 |

The financial statements on pages 78 to 104 were approved by the Board of Directors on 9 April 2018 and were signed on its behalf by:

**Kris Lee**
Chief Financial Officer

# Consolidated Statement of Changes in Equity

## For the year ended 31 January 2018

| | 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 2016** | 3.4 | 201.6 | 3.1 | (0.5) | 2.7 | 55.4 | 265.7 |
| **Total comprehensive income for the period** | | | | | | | |
| Profit or loss | – | – | – | – | – | 65.7 | 65.7 |
| Other comprehensive expense | – | – | (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 | – | – | – | – | – | (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 |
| **Total comprehensive income for the period** | | | | | | | |
| Profit or loss | – | – | – | – | – | 58.3 | 58.3 |
| Other comprehensive expense | – | – | (7.0) | – | – | – | (7.0) |
| | – | – | (7.0) | – | – | 58.3 | 51.3 |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| Issue of shares (note 19) | – | 0.3 | – | – | – | – | 0.3 |
| Share-based payment charges (note 25) | – | – | – | – | – | (0.1) | (0.1) |
| Dividends (note 9) | – | – | – | – | – | (82.6) | (82.6) |
| **Total contributions by and distributions to owners** | – | 0.3 | – | – | – | (82.7) | (82.4) |
| **At 31 January 2018** | **3.4** | **202.2** | **(5.0)** | **(0.5)** | **2.7** | **15.6** | **218.4** |

# Consolidated Cash Flow Statement

## For the year ended 31 January 2018

| | Note | 2018 £'m | 2017 £'m |
|---|---|---|---|
| **Cash inflow from operating activities** | 20 | **89.7** | 99.4 |
| Corporation tax paid | | **(17.0)** | (17.6) |
| **Net cash inflow from operating activities** | | **72.7** | 81.8 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 12 | **(10.6)** | (8.6) |
| Purchase of intangible assets | 11 | **(2.5)** | (1.8) |
| Interest received | | **0.1** | 0.1 |
| **Net cash outflow from investing activities** | | **(13.0)** | (10.3) |
| **Cash flows from financing activities** | | | |
| Proceeds from bank borrowings | | **20.0** | – |
| Purchase of interest rate derivatives | | **–** | (0.1) |
| Interest paid | | **(2.7)** | (2.6) |
| Repayment of bank borrowings | | **–** | (5.0) |
| Proceeds from new shares issued | | **0.3** | 0.3 |
| Dividends paid | 9 | **(82.9)** | (81.1) |
| **Net cash outflow from financing activities** | | **(65.3)** | (88.5) |
| Net decrease in cash and cash equivalents | | **(5.6)** | (17.0) |
| Cash and cash equivalents at the beginning of the year | | **(5.7)** | 11.3 |
| **Closing cash and cash equivalents** | 16 | **(11.3)** | (5.7) |

# 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:

#### Inventories

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 estimate 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 33, 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 pages 70 to 71. 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 20 to 23. 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. The Chief Financial Officer's Review on pages 20 to 23 provides further detail on the Board's current view on capital policy.

### 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.

### 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.

- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12);
- Annual Improvements to IFRS Standards 2014 – 2016 cycle; and
- Disclosure Initiative (Amendments to IAS 7).

### 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 effective for periods beginning on or after 1 January 2018 (unless otherwise stated).

- IFRS 15 Revenue from Contracts with Customers;
- IFRS 9 Financial instruments;
- IFRS 16 Leases (effective 1 January 2019); and
- IFRS 2 'Classification and Measurement of Share-Based Payment Transactions'.

## 1 ACCOUNTING POLICIES CONTINUED

### IFRS 15

IFRS 15 'revenue from contracts with customers' 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 will not materially impact the measurement or recognition of items in the financial statements, however additional disclosures will be required.

### IFRS 9

IFRS 9 'financial instruments' sets out requirements for recognising and measuring financial assets and financial liabilities and replaces IAS 39 Financial Instruments: Recognition and Measurement.

#### Classification of financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and the cash flow characteristics of the assets.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Based on its assessment, the Group believes that the new classification requirements will not impact the accounting for its financial assets.

#### Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model will apply to financial assets measured at amortised cost. Revenue from retail customers represents over 99% of Group revenues and consequently trade and other receivables measured at amortised cost are not material to the financial statements. Based on its assessment, the Group believes that there is no material impact on the financial statements from adopting IFRS 9 in respect of expected credit losses.

#### Cash and cash equivalents

Cash and cash equivalents at 31 January 2018 were held with banks rated a3 to baa3 per Moody's baseline credit assessment and are not subject to any period of notice. The Group typically maintains a net overdrawn cash position as part of its RCF funding arrangement. Cash and cash equivalents held outside the RCF are of low value and based on its assessment, the Group believes that there is no material impact on the financial statements from adopting IFRS 9 in respect of expected credit losses.

#### Classification of financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The Group believes that the classification requirements of IFRS 9 will not impact the financial statements.

#### Hedge accounting

On initial adoption of IFRS9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group has chosen to apply the new requirements of IFRS 9.

IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies may qualify for hedge accounting, though eligibility for hedge accounting of the Group's existing hedging activities have been assessed as unchanged.

#### Foreign exchange hedge accounting

The Group utilises foreign currency derivative contracts and US Dollar denominated cash balances to manage the foreign exchange risk on US Dollar denominated inventory purchases. The Group designates only the change in the fair value of the spot element of forward currency contracts as the hedging instrument in cash flow hedging relationships. Under IAS 39, the change in fair value of the forward element of the forward currency contract ('forward points') is recognised immediately in profit or loss (presented as a non-underlying item, see notes 1 and 3 to the financial statements).

On adoption of IFRS 9, the Group has elected to separately account for the forward points as a cost of hedging. Consequently, the changes in forward points will be recognised in other comprehensive income and accumulated in a cost of hedging reserve as a separate component within equity and subsequently recognised into the hedged inventory purchase value. The Group does not intend to apply the transitional option to retrospectively apply this treatment.

The Group will also 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.

### Interest rate hedge accounting

The Group utilises interest rate derivative contracts to manage the risk on floating rate bank borrowings. The Group designates only the change in the fair value of the intrinsic element of interest rate caps as the hedging instrument in cash flow hedging relationships. Under IAS 39, the change in fair value of the time value element of the interest rate cap is recognised immediately in profit or loss (presented as a non-underlying item until the date of the hedged cash flow, see notes 1 and 3 to the financial statements).

On adoption of IFRS 9, the Group has elected to separately account for the time value as a cost of hedging. Consequently, the changes in time value will be recognised in other comprehensive income and accumulated in a cost of hedging reserve as a separate component within equity and reclassified to profit or loss on the date of the hedged cash flow. IFRS 9 mandates retrospective application of this treatment.

### Transition

Changes in accounting policies resulting from adoption of IFRS 9 will generally be applied retrospectively, except as described below:

The Group intends to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement changes (including impairment). Differences in carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 would be recognised as an adjustment to opening reserves.

The new hedge accounting requirements are applied prospectively except for the retrospective application of the time value element of interest rate caps. The comparative period will therefore be restated in respect of hedge accounting for the time value element of interest rate caps.

### Impact on the financial statements

The impact on the financial statements is shown below.

| | 2018 £'m | 2017 £'m |
|---|---|---|
| **Net Assets** | | |
| Inventories | **0.4** | – |
| **Equity** | | |
| Hedging reserve | **0.4** | – |
| Cost of hedging reserve | **(0.3)** | (0.3) |
| Retained earnings | **0.3** | 0.3 |
| | **0.4** | – |

The impact on finance expense in the FY18 income statement is less than £0.1m.

### IFRS 16

IFRS 16 'leases' will replace IAS 17 'leases' and related interpretations and requires 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 will have a material impact on the reported assets and liabilities in the financial statements.

The operating lease commitments disclosed in note 22 of the financial statements principally relate to property leases and some vehicle leases, all of which will meet the definition of a lease under IFRS 16. The Group does not believe there are any contracts not included in the operating lease note that would qualify as a lease under IFRS 16.

Under IAS 17 operating lease costs were expensed to the income statement. Under IFRS 16 a depreciation charge will be made against the right of use assets and an interest charge incurred against the lease liability. Any timing differences between operating lease costs previously expensed under IAS 17 and depreciation and interest charges under IFRS 16 will impact profit reported in the income statement. The EBITDA profit measure defined in note 5 to the financial statements will increase by approximately the operating lease costs identified in note 4 to the financial statements, subject to a non-material element qualifying as low value or short-term leases under IFRS 16 and continuing to be expensed to the income statement as operating lease costs.

The Group continues to assess the impact of adopting the standard under the different transitional options available. Full retrospective application would provide both a restated comparative period and a more consistent year on year charge to the income statement than the alternative modified transitional options. The assessment of a full retrospective application including all leases and lease events back to the date of lease commencement is not yet complete.

# Notes to the Financial Statements continued

**1 ACCOUNTING POLICIES** CONTINUED

**IFRS 2**

Amendments to IFRS 2 'Share-based payments' have been issued in relation to the classification and measurement of particular share-based payment transactions. The amendments relate to accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment, classification of share-based payment transactions with a net settlement feature for withholding tax obligations and accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Adoption of the standard will not have a material impact on the financial statements.

**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 but is not expected to 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.

**Finance 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 expense 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 pound Sterling, which is the functional currency of the Company.

Foreign operations

The Group has one foreign subsidiary with a Euro functional currency. The activities of foreign operations are not material to the Group. On consolidation, assets and liabilities of foreign operations are translated into Sterling at year-end exchange rates. The results of foreign operations are translated into Sterling at average rates of exchange for the year.

Transactions and balances

Transactions in foreign currencies are recorded at the exchange rate on the transaction date. All currency transactions that are not in the functional currency of the trading entity 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.

### Underlying profit and earnings

The Group has chosen to present an underlying profit and earnings measure. The Group believes that underlying profit and earnings information enables shareholders to make more meaningful comparisons of performance year-on-year. 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 was 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 were considered a one-off event and not representative of underlying performance for the prior year. As such they were presented as a non-underlying item in the prior period.

#### Other non-underlying operating expenses

In January 2016, Card Factory plc announced the retirement and succession of the CEO and in January 2017 announced the retirement and succession of the CFO. Costs attributable to recruitment and dual remuneration costs during the handover periods are presented as non-underlying items.

### Dividends

Dividends are recognised as a liability in the period in which they are approved.

### 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.

## 1 ACCOUNTING POLICIES CONTINUED

### 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 for less than three months. Bank overdrafts, within borrowings, 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. Derivative financial instruments not designated as effective hedging relationships principally relate to structured foreign exchange options that form part of the foreign exchange risk management policy detailed in note 23 of the financial statements. The Group designates only the intrinsic value of interest rate caps as a hedging relationship. 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.

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.

# Notes to the Financial Statements continued

## 1 ACCOUNTING POLICIES CONTINUED

### 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 principally through an extensive UK 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.

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.

## 3 NON-UNDERLYING ITEMS

| | 2018 £'m | 2017 £'m |
|---|---|---|
| **Cost of sales** | | |
| Loss on foreign currency derivative financial instruments not designated as a hedge (note 24) | **(7.6)** | (0.6) |
| **Operating expenses** | | |
| Loss on disposal of redundant EPOS assets | **–** | (0.9) |
| Accelerated depreciation on EPOS assets | **–** | (0.2) |
| Other non-underlying operating expenses | **(0.3)** | (0.4) |
| | **(0.3)** | (1.5) |
| **Net finance expense** | | |
| Loss on interest rate derivative financial instruments not designated as a hedge | **–** | (0.2) |

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:

| | 2018 £'m | 2017 £'m |
|---|---|---|
| Staff costs (note 6) | **106.2** | 98.5 |
| Depreciation expense (note 12) | | |
| – owned fixed assets | **9.5** | 9.2 |
| Amortisation expense (note 11) | **1.1** | 1.7 |
| Operating lease rentals: | | |
| – land and buildings | **40.4** | 38.9 |
| – plant, equipment and vehicles | **0.6** | 0.5 |
| Loss on disposal of fixed assets | **0.2** | 1.1 |
| Foreign exchange loss/(gain) | **3.3** | (2.6) |

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:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Audit of the consolidated and Company financial statements | **18** | 18 |
| Amounts receivable by the Company's auditor and its associates in respect of: | | |
| Audit of financial statements of subsidiaries of the Company | **89** | 89 |
| Audit-related assurance services | **7** | 8 |
| Other tax advisory services | **–** | 15 |
| Other assurance services | **4** | 13 |
| **Total fees** | **118** | 143 |

## 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.

| | 2018 £'m | 2017 £'m |
|---|---|---|
| **Underlying operating profit** | **83.4** | 87.8 |
| Underlying depreciation and amortisation* | **10.6** | 10.7 |
| **Underlying EBITDA** | **94.0** | 98.5 |

* Underlying depreciation and amortisation in 2017 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:

| | 2018 Number | 2017 Number |
|---|---|---|
| Management and administration | **393** | 357 |
| Operations | **9,543** | 9,571 |
| | **9,936** | 9,928 |

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

| | 2018 £'m | 2017 £'m |
|---|---|---|
| Employee wages and salaries | **96.2** | 89.4 |
| Equity-settled share-based payment expense | **(0.1)** | 0.2 |
| Social security costs | **5.8** | 4.6 |
| Defined contribution pension costs | **0.4** | 0.4 |
| **Total employee costs** | **102.3** | 94.6 |
| Agency labour costs | **3.9** | 3.9 |
| **Total staff costs** | **106.2** | 98.5 |

### Key management personnel

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

| | 2018 £'m | 2017 £'m |
|---|---|---|
| Salaries and short-term benefits | **2.3** | 2.8 |
| Equity-settled share-based payment expense | **(0.4)** | (0.1) |
| Social security costs | **0.3** | 0.3 |
| Defined contribution pension costs | **0.1** | 0.1 |
| | **2.3** | 3.1 |

Further details of Director's remuneration are disclosed in the Directors' Remuneration Report on pages 54 to 66.

## 7 FINANCE INCOME AND EXPENSE

| | 2018 £'m | 2017 £'m |
|---|---|---|
| **Finance income** | | |
| Bank interest received | **(0.1)** | (0.1) |
| **Finance expense** | | |
| Interest on bank loans and overdrafts | **2.6** | 2.6 |
| Amortisation of loan issue costs | **0.2** | 0.2 |
| Loss on interest rate derivative contracts | **0.2** | 0.2 |
| | **3.0** | 3.0 |
| **Net finance expense** | **2.9** | 2.9 |

# Notes to the Financial Statements continued

## 8 TAXATION

### Recognised in the income statement

| | 2018 £'m | 2017 £'m |
|---|---|---|
| **Current tax expense** | | |
| Current year | 13.9 | 17.4 |
| **Deferred tax charge/(credit)** | | |
| Origination and reversal of temporary differences | 0.5 | (0.3) |
| Adjustments in respect of prior periods | (0.1) | (0.1) |
| Effect of change in tax rate | – | 0.1 |
| | 0.4 | (0.3) |
| **Total income tax expense** | 14.3 | 17.1 |

The effective tax rate of 19.7% (2017: 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:

| | 2018 £'m | 2017 £'m |
|---|---|---|
| **Profit before tax** | 72.6 | 82.8 |
| Tax at the standard UK corporation tax rate of 19.2% (2017: 20.0%) | 13.9 | 16.6 |
| Tax effects of: | | |
| Expenses not deductible for tax purposes | 0.5 | 0.5 |
| Adjustments in respect of prior periods | (0.1) | (0.1) |
| Effect of change in tax rate | – | 0.1 |
| **Total income tax expense** | 14.3 | 17.1 |

## 9 DIVIDENDS

The Board is recommending a final dividend in respect of the financial year ended 31 January 2018 of 6.4 pence per share (2017: 6.3 pence per share), resulting in a total final dividend of £21.9 million (2017: £21.5 million). The dividend will, subject to shareholders' approval at the Annual General Meeting on 31 May 2018, be paid on 8 June 2018 to shareholders on the register at the close of business on 4 May 2018. 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 | 2018 £'m | 2017 £'m |
|---|---|---|---|
| Special dividend for the year ended 31 January 2018 | 15.0p | 51.2 | |
| Interim dividend for the year ended 31 January 2018 | 2.9p | 9.9 | |
| Final dividend for the year ended 31 January 2017 | 6.3p | 21.5 | |
| 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 |
| **Total dividends paid to shareholders in the year** | | 82.6 | 81.1 |
| Dividend equivalents paid under long-term incentive schemes | | 0.3 | – |
| **Total dividends per the cash flow statement** | | 82.9 | 81.1 |

Dividend equivalents totalling £nil (2017: £0.1 million) were accrued in the year 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.

| | 2018 (Number) | 2017 (Number) |
|---|---|---|
| Weighted average number of shares in issue | **341,260,105** | 340,798,812 |
| Weighted average number of dilutive share options | **37,572** | 171,016 |
| Weighted average number of shares for diluted earnings per share | **341,297,677** | 340,969,828 |

| | £'m | £'m |
|---|---|---|
| Profit for the financial period | **58.3** | 65.7 |
| Non-underlying items | **6.4** | 1.8 |
| Total underlying profit for underlying earnings per share | **64.7** | 67.5 |

| | pence | pence |
|---|---|---|
| Basic earnings per share | **17.1** | 19.3 |
| Diluted earnings per share | **17.1** | 19.3 |
| Underlying basic earnings per share | **18.9** | 19.8 |
| Underlying diluted earnings per share | **18.9** | 19.8 |

## 11 INTANGIBLE ASSETS

| | Goodwill £'m | Software £'m | Total £'m |
|---|---|---|---|
| **Cost** | | | |
| At 1 February 2017 | 328.2 | 6.4 | 334.6 |
| Additions | – | 2.5 | 2.5 |
| At 31 January 2018 | 328.2 | 8.9 | 337.1 |
| **Amortisation** | | | |
| At 1 February 2017 | – | 4.4 | 4.4 |
| Provided in the period | – | 1.1 | 1.1 |
| At 31 January 2018 | – | 5.5 | 5.5 |
| **Net book value** | | | |
| **At 31 January 2018** | **328.2** | **3.4** | **331.6** |
| At 31 January 2017 | 328.2 | 2.0 | 330.2 |

| | | | |
|---|---|---|---|
| **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 |

## 11 INTANGIBLE ASSETS CONTINUED

### Impairment testing

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

| | 2018 £'m | 2017 £'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 5 year management forecasts and operating cash flows with a 2% (2017: 2%) terminal growth rate applied thereafter, representing management's estimate of the long-term growth rate of the sector. The key assumptions used to forecast operating cash flows include: sales growth, based on historic performance and latest forecasts; product mix; foreign exchange rates, based on hedges in place and market forecasts for unhedged items; and the Group's current expectations in relation to efficiency initiatives. 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% (2017: 10%). No impairment loss was identified in the current year (2017: £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 2017 | 17.4 | 32.1 | 47.1 | 96.6 |
| Additions | – | 4.0 | 6.6 | 10.6 |
| Disposals | – | (0.3) | (1.1) | (1.4) |
| At 31 January 2018 | 17.4 | 35.8 | 52.6 | 105.8 |
| **Depreciation** | | | | |
| At 1 February 2017 | 2.3 | 23.3 | 31.9 | 57.5 |
| Provided in the period | 0.4 | 3.3 | 5.8 | 9.5 |
| Disposals | – | (0.2) | (1.0) | (1.2) |
| At 31 January 2018 | 2.7 | 26.4 | 36.7 | 65.8 |
| **Net book value** | | | | |
| **At 31 January 2018** | **14.7** | **9.4** | **15.9** | **40.0** |
| At 31 January 2017 | 15.1 | 8.8 | 15.2 | 39.1 |

| | | | | |
|---|---|---|---|---|
| **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 |

## 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 2016 | – | 0.6 | (0.7) | – | 0.3 | 0.2 |
| Credit/(charge) 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 |
| Charge to income statement | – | (0.3) | – | – | (0.1) | (0.4) |
| Credit to other comprehensive income | – | – | 1.7 | – | – | 1.7 |
| Charge to equity | – | – | – | – | – | – |
| **At 31 January 2018** | **0.2** | **0.1** | **1.2** | **0.2** | **0.2** | **1.9** |

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:

| | **2018 £'m** | 2017 £'m |
|---|---|---|
| Deferred tax assets | **1.9** | 1.1 |
| Deferred tax liabilities | **–** | (0.5) |
| Net deferred tax asset | **1.9** | 0.6 |

A reduction in the corporation tax rate to 17% from 1 April 2020 was substantively enacted on 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

| | **2018 £'m** | 2017 £'m |
|---|---|---|
| Finished goods | **50.9** | 50.9 |
| Work in progress | **0.6** | 0.5 |
| | **51.5** | 51.4 |

The cost of inventories recognised as an expense and charged to cost of sales in the year was £126.1 million (2017: £108.0 million).

## 15 TRADE AND OTHER RECEIVABLES

| | **2018 £'m** | 2017 £'m |
|---|---|---|
| **Current** | | |
| Trade receivables | **0.2** | 0.2 |
| Other receivables | **0.9** | 1.2 |
| Prepaid property costs | **12.8** | 12.6 |
| Other prepayments and accrued income | **2.7** | 2.6 |
| | **16.6** | 16.6 |
| **Non-current** | | |
| Prepaid property costs | **0.8** | 0.8 |

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 £0.4 million (2017: £0.9 million) US Dollar denominated deposits paid on inventory purchases.

# Notes to the Financial Statements continued

## 16 CASH AND CASH EQUIVALENTS

| | 2018 £'m | 2017 £'m |
|---|---|---|
| Cash at bank and in hand | **3.6** | 3.0 |
| Unsecured bank overdraft (note 17) | **(14.9)** | (8.7) |
| Net cash and cash equivalents | **(11.3)** | (5.7) |

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

| | 2018 £'m | 2017 £'m |
|---|---|---|
| Sterling | **(18.2)** | (6.6) |
| Euro | **0.3** | – |
| US Dollar | **6.6** | 0.9 |
| | **(11.3)** | (5.7) |

## 17 BORROWINGS

| | 2018 £'m | 2017 £'m |
|---|---|---|
| **Current liabilities** | | |
| Unsecured bank loans and accrued interest | **–** | 0.1 |
| Unsecured bank overdraft | **14.9** | 8.7 |
| | **14.9** | 8.8 |
| **Non-current liabilities** | | |
| Unsecured bank loans | **149.6** | 129.3 |

### Bank loans

Bank borrowings are summarised as follows:

| | Liability £'m | Interest rate % | Interest margin ratchet range % | Repayment terms |
|---|---|---|---|---|
| **31 January 2018** | | | | |
| Unsecured bank loan | 150.0 | 1.25 + LIBOR | 1.00 – 2.00 | £200m RCF |
| Accrued interest | – | | | The facility terminates in June 2020 |
| Debt issue costs | (0.4) | | | |
| | **149.6** | | | |
| **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 | | | |

The Group borrowing facility consists 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 1.25% at 31 January 2018). 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 £0.1 million (2017: £0.5 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

| | 2018 £'m | 2017 £'m |
|---|---|---|
| **Current** | | |
| Trade payables | **15.2** | 13.9 |
| Other taxation and social security | **4.2** | 3.8 |
| Property accruals and deferred income | **7.6** | 7.0 |
| Other accruals and deferred income | **10.7** | 12.7 |
| | **37.7** | 37.4 |
| **Non-current** | | |
| Property accruals and deferred income | **10.0** | 11.2 |

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 £5.4 million (2017: £5.8 million).

## 19 SHARE CAPITAL AND SHARE PREMIUM

| | 2018 (Number) | 2017 (Number) |
|---|---|---|
| **Share capital** | | |
| Allotted, called up and fully paid ordinary shares of one pence: | | |
| At the start of the period | **340,844,864** | 340,696,235 |
| Issued in the period (note 25) | **614,417** | 148,629 |
| At the end of the period | **341,459,281** | 340,844,864 |

| | £'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 | **201.9** | 201.6 |
| Issued in the period (note 25) | **0.3** | 0.3 |
| At the end of the period | **202.2** | 201.9 |

## 20 NOTES TO THE CASH FLOW STATEMENT

Reconciliation of operating profit to cash generated from operations:

| | 2018 £'m | 2017 £'m |
|---|---|---|
| **Profit before tax** | **72.6** | 82.8 |
| Net finance expense | **2.9** | 2.9 |
| **Operating profit** | **75.5** | 85.7 |
| Adjusted for: | | |
| Depreciation and amortisation | **10.6** | 10.9 |
| Loss on disposal of fixed assets | **0.2** | 1.1 |
| Cash flow hedging foreign currency movements | **(3.4)** | (0.2) |
| Share-based payments charge | **(0.1)** | 0.2 |
| **Operating cash flows before changes in working capital** | **82.8** | 97.7 |
| (Increase)/decrease in receivables | **3.0** | 1.1 |
| (Increase)/decrease in inventories | **(0.1)** | (1.0) |
| Increase in payables | **4.0** | 1.6 |
| **Cash inflow from operating activities** | **89.7** | 99.4 |

## 21 ANALYSIS OF NET DEBT

| | At 1 February 2017 £'m | Cash flow £'m | Non-cash changes £'m | **At 31 January 2018 £'m** |
|---|---|---|---|---|
| Unsecured bank loans and accrued interest (note 17) | (129.4) | (20.0) | (0.2) | **(149.6)** |
| Cash and cash equivalents (note 16) | (5.7) | (5.6) | – | **(11.3)** |
| **Total net debt** | (135.1) | (25.6) | (0.2) | **(160.9)** |

| | 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) |

## 22 OPERATING LEASE COMMITMENTS

Future minimum rentals payable under non-cancellable operating leases:

| | **2018 £'m** | 2017 £'m |
|---|---|---|
| Aggregate future minimum lease payments: | | |
| Within one year | **41.9** | 40.0 |
| Within one to two years | **36.6** | 35.5 |
| Within two to three years | **29.9** | 30.0 |
| Within three to four year | **22.2** | 23.6 |
| Within four to five years | **14.0** | 16.3 |
| Within five to ten years | **20.1** | 23.7 |
| Within eleven to fifteen years | **0.6** | 0.5 |
| | **165.3** | 169.6 |

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 24 to 27 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 £35.0 million (2017: £59.7 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 2018, 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, 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 2018** | | | | | |
| Unsecured bank loans | **–** | **–** | **150.0** | **–** | **150.0** |
| Unsecured bank overdraft | **14.9** | **–** | **–** | **–** | **14.9** |
| Trade and other payables | **34.3** | **–** | **–** | **–** | **34.3** |
| | **49.2** | **–** | **150.0** | **–** | **199.2** |
| **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 |

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 2018** | | | | | |
| Foreign exchange contracts | | | | | |
| – Inflow | **75.4** | **52.9** | **–** | **–** | **128.3** |
| – Outflow | **(80.1)** | **(54.3)** | **–** | **–** | **(134.4)** |
| Interest rate contracts | | | | | |
| – Inflow | **–** | **0.1** | **0.2** | **–** | **0.3** |
| **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) |

### 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, up to 75% forward cover for the period 12 to 24 months and up to 25% for the period 24 to 35 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.

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **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 | **(3.9)** | **(4.6)** | (2.0) | (2.2) |
| 10 cent decrease | **3.9** | **5.3** | (1.3) | 2.6 |

## 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 and up to 50% for the period 24 to 36 months.

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.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **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 | **(0.5)** | **0.5** | (0.3) | 0.1 |
| 50 basis point interest rate decrease | **0.5** | **(0.4)** | 0.4 | (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 2018 this exposure amounted to £0.4 million (2017: £0.9 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 (ie as prices) or indirectly (ie 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:

| | 2018 £'m | 2017 £'m |
|---|---|---|
| **Derivative assets** | | |
| *Non-current* | | |
| Interest rate contracts | **0.2** | 0.1 |
| Foreign exchange contracts | **–** | 0.5 |
| | **0.2** | 0.6 |
| *Current* | | |
| Foreign exchange contracts | **0.3** | 3.5 |
| **Derivative liabilities** | | |
| *Current* | | |
| Interest rate contracts | **–** | (0.1) |
| Foreign exchange contracts | **(7.0)** | (0.6) |
| | **(7.0)** | (0.7) |
| *Non-current* | | |
| Foreign exchange contracts | **(3.4)** | (0.2) |
| **Net derivative financial instruments** | | |
| Interest rate contracts | **0.2** | – |
| Foreign exchange contracts | **(10.1)** | 3.2 |
| | **(9.9)** | 3.2 |

### Interest rate contracts

At 31 January 2018 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 totalled £80.0 million for the period to October 2018, reducing to £70.0 million for the period to October 2019 then reducing to £60.0 million for the period to October 2020 (2017: £80.0 million for the period to October 2018, reducing to £60.0 million to October 2019). Fair value movements of £0.2 million (2017: £0.2 million) were expensed to the income statement within financial expense.

### Foreign exchange contracts

At 31 January 2018 the Group held a portfolio of foreign currency derivative contracts with notional principal amounts totalling £128.3 million (2017: £95.0 million) to mitigate the exchange risk on future US Dollar denominated trade purchases. Foreign currency derivative contracts with a notional value of £42.3 million representing a fair value liability of £4.5 million (2017: £53.2 million representing a fair value asset of £3.1 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. The fair value movements of £7.6 million that do not form part of an effective hedging relationship have been charged to the income statement (2017: £0.6 million credited) as a non-underlying item within cost of sales (see note 3).

### 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 2018** | | | | |
| Financial assets measured at fair value | | | | |
| Derivative financial instruments | **0.3** | **0.2** | **–** | **–** |
| **Financial assets not measured at fair value** | | | | |
| Trade and other receivables | **–** | **–** | **1.1** | **–** |
| Cash and cash equivalents | **–** | **–** | **3.6** | **–** |
| **Financial liabilities measured at fair value** | | | | |
| Derivative financial instruments | **(4.8)** | **(5.6)** | **–** | **–** |
| **Financial liabilities not measured at fair value** | | | | |
| Unsecured bank loans | **–** | **–** | **–** | **(149.6)** |
| Unsecured bank overdrafts | **–** | **–** | **–** | **(14.9)** |
| Trade and other payables | **–** | **–** | **–** | **(34.3)** |
| | **(4.5)** | **(5.4)** | **4.7** | **(198.8)** |

## 24 FINANCIAL INSTRUMENTS CONTINUED

| | 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) |

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.

## 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 are subject to a three year vesting period and include performance conditions. In previous years grants to employees outside the senior management team were not subject to performance conditions. Further details on Executive Director LTIP awards are provided in the Remuneration Report on pages 54 to 66. All shares received by Executive Directors and senior management 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 was conditional upon and subject to Mr Cooper remaining as Chairman of the Company on such date. On 26 May 2017 Mr Cooper exercised the option to purchase £330,000 of ordinary shares at £2.25 resulting in a gain of £164,099 based on the share price at that date.

### 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 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) | £2.90 | (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 |
| Granted during the year | 759,978 | £0.00 | 301,816 | £2.68 | – | – |
| Exercised during the year | (465,592) | £0.00 | (2,155) | £2.90 | (146,666) | £2.25 |
| Forfeited during the year | (642,355) | £0.00 | (273,183) | £2.87 | (12,582)* | £2.50 |
| **Outstanding at 31 January 2018** | **1,872,053** | **£0.00** | **862,232** | **£2.84** | **–** | **–** |

3,103 options were exercisable under the SAYE scheme at 31 January 2018.

* Estimated number of shares in respect of CEO bonus entitlement was to be deferred in shares for three years. Under the terms of the bonus scheme the award was subsequently paid in cash with a requirement to purchase shares using one third of the total cash bonus awarded.

### 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.

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **LTIP** | **SAYE** | LTIP | SAYE |
| Fair value at grant date | **£3.19** | **£0.37** | £3.07 | £0.53 |
| Share price at grant date | **£3.19** | **£2.98** | £3.07 | £3.20 |
| Exercise price | **£0.00** | **£2.68** | £0.00 | £2.91 |
| Expected volatility | **30%** | **30%** | 30% | 30% |
| Expected term | **3 years** | **3 years** | 3 years | 3 years |
| Expected dividend yield | **N/A*** | **8.0%** | N/A* | 7.5% |
| Risk free interest rate | **0.55%** | **0.28%** | 0.11% | 0.21% |

* 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 expected volatility is based on historical volatility of the Company over the expected term at the grant date.

### Impact on the income statement

The total expense recognised in the income statement arising from share-based payments is as follows:

| | **2018 £'m** | 2017 £'m |
|---|---|---|
| Card Factory LTIP | **(0.2)** | 0.1 |
| SAYE | **0.1** | 0.1 |
| | **(0.1)** | 0.2 |

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 2018 (2017: £0.6 million).

## 27 CONTINGENT LIABILITIES

There were no material contingent liabilities at 31 January 2018 (2017: £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 Executive 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 54 to 66. Directors of the Company and their immediate families control 0.014% of the ordinary shares of the Company.

There were no other related party transactions in the year.

## 29 SUBSIDIARY UNDERTAKINGS

At 31 January 2018 the Group controlled 100% of the issued ordinary share capital of the following subsidiaries, all of which are included in the consolidated financial statements. All subsidiaries are registered in England and Wales with the exception of Card Factory Ireland Limited which is registered in the Republic of Ireland. The registered office of the Company is Century House, Brunel Road, Wakefield 41 Industrial Estate, Wakefield, West Yorkshire, WF2 0XG.

| 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 | ** |
| Card Factory Ireland Limited | Sale of greeting cards 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.
*** 6th Floor, 2 Grand Canal Square, Dublin 2, Dublin, Republic of Ireland.

# Parent Company Statement of Financial Position

## As at 31 January 2018

| | Note | 2018 £'m | 2017 £'m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments | 4 | **316.2** | 316.2 |
| Deferred tax | 5 | **–** | 0.2 |
| | | **316.2** | 316.4 |
| **Current assets** | | | |
| Trade and other receivables | 6 | **0.5** | 0.4 |
| **Total assets** | | **316.7** | 316.8 |
| **Current liabilities** | | | |
| Trade and other payables | 7 | **(1.4)** | (1.9) |
| **Net assets** | | **315.3** | 314.9 |
| **Equity** | | | |
| Share capital | 8 | **3.4** | 3.4 |
| Share premium | 8 | **202.2** | 201.9 |
| Merger reserve | | **2.7** | 2.7 |
| Retained earnings | 14 | **107.0** | 106.9 |
| **Equity attributable to equity holders of the parent** | | **315.3** | 314.9 |

The financial statements on pages 105 to 113 were approved by the Board of Directors on 9 April 2018 and were signed on its behalf by:

**Kris Lee**
Chief Financial Officer

Company number 09002747

# Parent Company Statement of Changes in Equity

## For the year ended 31 January 2018

| | Share capital £'m | Share premium £'m | Merger reserve £'m | Retained earnings £'m | Total equity £'m |
|---|---|---|---|---|---|
| At 1 February 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 | – | 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) | (80.9) |
| **At 31 January 2017** | 3.4 | 201.9 | 2.7 | 106.9 | 314.9 |
| **Total comprehensive income for the year** | | | | | |
| Profit or loss | – | – | – | 82.8 | 82.8 |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Issue of shares (note 8) | – | 0.3 | – | – | 0.3 |
| Share-based payments | – | – | – | (0.1) | (0.1) |
| Taxation on share-based payments recognised in equity | – | – | – | – | – |
| Dividends | – | – | – | (82.6) | (82.6) |
| | – | 0.3 | – | (82.7) | (82.4) |
| **At 31 January 2018** | **3.4** | **202.2** | **2.7** | **107.0** | **315.3** |

# Parent Company Cash Flow Statement

## For the year ended 31 January 2018

| | Note | 2018 £'m | 2017 £'m |
|---|---|---|---|
| **Cash outflow from operating activities** | 12 | **(0.9)** | (0.8) |
| Corporation tax paid | | **–** | – |
| **Net cash outflow from operating activities** | | **(0.9)** | (0.8) |
| **Cash flows from investing activities** | | | |
| Dividends received | | **83.0** | 117.0 |
| Repayment of loans by Group undertakings | | **0.5** | 163.1 |
| Interest received from Group undertakings | | **–** | 1.5 |
| Investments in subsidiary undertakings | | **–** | (200.0) |
| **Net cash inflow from investing activities** | | **83.5** | 81.6 |
| **Cash flows from financing activities** | | | |
| Proceeds from new shares issued | | **0.3** | 0.3 |
| Dividends paid | 3 | **(82.9)** | (81.1) |
| **Net cash outflow from financing activities** | | **(82.6)** | (80.8) |
| 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 £82.8 million for the year ended 31 January 2018 (2017: £117.9 million), including £83.0 million dividends received from subsidiary undertakings (2017: £117.0 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.

### 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.

**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.

- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12);
- Annual Improvements to IFRS Standards 2014 – 2016 cycle; and
- Disclosure Initiative (Amendments to IAS 7).

**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 effective for periods beginning on or after 1 January 2018 (unless otherwise stated).

- IFRS 15 Revenue from Contracts with Customers;
- IFRS 9 Financial instruments;
- IFRS 16 Leases (effective 1 January 2019); and
- IFRS 2 Classification and Measurement of Share-Based Payment Transactions.

Adoption of the standards is not expected to have a material impact on the financial statements of the Company.

**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 but is not expected to have a material impact on the financial statements.

## 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 54 to 66.

## 3 DIVIDENDS

The Board is recommending a final dividend in respect of the financial year ended 31 January 2018 of 6.4 pence per share (2017: 6.3 pence per share), resulting in a total final dividend of £21.9 million (2017: £21.5 million). The dividend will, subject to shareholders' approval at the Annual General Meeting on 31 May 2018, be paid on 8 June 2018 to shareholders on the register at the close of business on 4 May 2018. 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 | 2018 £'m | 2017 £'m |
|---|---|---|---|
| Special dividend for the year ended 31 January 2018 | 15.0p | **51.2** | – |
| Interim dividend for the year ended 31 January 2018 | 2.8p | **9.9** | – |
| Final dividend for the year ended 31 January 2017 | 6.3p | **21.5** | – |
| Special dividend for the year ended 31 January 2017 | 15.0p | **–** | 51.1 |
| Interim dividend for the year ended 31 January 2016 | 2.8p | **–** | 9.6 |
| Final dividend for the year ended 31 January 2016 | 6.00p | **–** | 20.4 |
| | | **82.6** | 81.1 |
| Dividend equivalents paid under long-term incentive schemes | | **0.3** | – |
| **Total dividends per the cash flow statement** | | **82.9** | 81.1 |

Dividend equivalents totalling £nil (2017: £0.1 million) were accrued in the year in relation to share-based long-term incentive schemes.

# Notes to the Parent Company Financial Statements continued

## 4 INVESTMENTS IN SUBSIDIARIES

| | £'m |
|---|---|
| At 31 January 2016 | 116.2 |
| Additions | 200.0 |
| **At 31 January 2017 and 31 January 2018** | **316.2** |

Additions in the prior year comprised an additional £200.0 million investment in CF Bidco Limited, a 100% owned subsidiary entity.

The Directors' are satisfied that there is no indication of an impairment of the investment in subsidiaries.

### Subsidiary undertakings

At 31 January 2018 the Company controlled 100% of the issued ordinary share capital of the following subsidiaries, all of which are included in the consolidated financial statements. All subsidiaries are registered in England and Wales with the exception of Card Factory Ireland Limited which is registered in the Republic of Ireland. The registered office of the Company is Century House, Brunel Road, Wakefield 41 Industrial Estate, Wakefield, West Yorkshire, WF2 0XG.

| 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 | ** |
| Card Factory Ireland Limited | Sale of greeting cards 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.
*** 6th Floor, 2 Grand Canal Square, Dublin 2, Dublin, Republic of Ireland

## 5 DEFERRED TAX ASSET

| | 2018 £'m | 2017 £'m |
|---|---|---|
| Deferred tax assets in relation to share-based payments | – | 0.2 |

## 6 TRADE AND OTHER RECEIVABLES

| | 2018 £'m | 2017 £'m |
|---|---|---|
| Amounts owed by Group undertakings | **0.4** | 0.3 |
| Prepayments and other debtors | **0.1** | 0.1 |
| | **0.5** | 0.4 |

## 7 TRADE AND OTHER PAYABLES

| | 2018 £'m | 2017 £'m |
|---|---|---|
| Amounts owed to Group undertakings | **1.1** | 0.8 |
| Trade payables | **–** | 0.2 |
| Accruals | **0.3** | 0.9 |
| | **1.4** | 1.9 |

## 8 SHARE CAPITAL AND SHARE PREMIUM

| | 2018 (Number) | 2017 (Number) |
|---|---|---|
| **Share capital** | | |
| Allotted, called up and fully paid ordinary shares of one pence: | | |
| At the start of the period | **340,844,864** | 340,696,235 |
| *Shares Issued in the year | **614,417** | 148,629 |
| At the end of the period | **341,459,281** | 340,844,864 |

| | £'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 | **201.9** | 201.6 |
| *Shares Issued in the year | **0.3** | 0.3 |
| At the end of the period | **202.2** | 201.9 |

* 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 are subject to a three year vesting period and include performance conditions. In previous years grants to employees outside the senior management team were not subject to performance conditions. Further details on Executive Director LTIP awards are provided in the Remuneration Report on pages 54 to 66. All shares received by Executive Directors and senior management 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.

### 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 26 May 2017 Mr Cooper exercised the option to purchase £330,000 of ordinary shares at £2.25 resulting in a gain of £164,099 based on the share price at that date.

# Notes to the Parent Company Financial Statements continued

### 9 EQUITY SETTLED SHARE-BASED PAYMENT ARRANGEMENTS CONTINUED

#### 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 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) | £2.90 | (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 |
| Granted during the year | 759,978 | £0.00 | 301,816 | £2.68 | – | – |
| Exercised during the year | (465,592) | £0.00 | (2,155) | £2.90 | (146,666) | £2.25 |
| Forfeited during the year | (642,355) | £0.00 | (273,183) | £2.87 | (12,582)* | £2.50 |
| **Outstanding at 31 January 2018** | **1,872,053** | **£0.00** | **862,232** | **£2.84** | **–** | **–** |

3,103 options were exercisable under the SAYE scheme at 31 January 2018.

* Estimated number of shares in respect of CEO bonus entitlement was to be deferred in shares for three years. Under the terms of the bonus scheme the award was subsequently paid in cash with a requirement to purchase shares using one third of the total cash bonus awarded.

#### 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.

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **LTIP** | **SAYE** | LTIP | SAYE |
| Fair value at grant date | **£3.19** | **£0.37** | £3.07 | £0.53 |
| Share price at grant date | **£3.19** | **£2.98** | £3.07 | £3.20 |
| Exercise price | **£0.00** | **£2.68** | £0.00 | £2.91 |
| Expected volatility | **30%** | **30%** | 30% | 30% |
| Expected term | **3 years** | **3 years** | 3 years | 3 years |
| Expected dividend yield | **N/A *** | **8.0%** | N/A * | 7.5% |
| Risk free interest rate | **0.55%** | **0.28%** | 0.11% | 0.21% |

* 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 expected volatility is based on historical volatility of the Company over the expected term at the grant date.

#### Impact on the income statement

The total expense recognised in the income statement arising from share-based payments is as follows:

| | **2018 £'m** | 2017 £'m |
|---|---|---|
| **(Credit)/expense recognised in the Company income statement** | | |
| Card Factory LTIP | **(0.2)** | – |
| **Expense recognised in subsidiary income statements** | | |
| Card Factory LTIP | **–** | 0.1 |
| SAYE | **0.1** | 0.1 |
| | **0.1** | 0.2 |
| **Total (credit)/expense recognised in the Group income statement** | **(0.1)** | 0.2 |

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

| | **2018 £'m** | 2017 £'m |
|---|---|---|
| Profit before tax | **82.8** | 118.1 |
| Dividends received | **(83.0)** | (117.0) |
| Net finance income | **–** | (1.5) |
| **Operating loss** | **(0.2)** | (0.4) |
| Adjusted for: | | |
| Share-based payment charge | **(0.2)** | – |
| **Operating cash flows before changes in working capital** | **(0.4)** | (0.4) |
| Increase in receivables | **–** | – |
| Decrease in payables | **(0.5)** | (0.4) |
| **Cash outflow from operating activities** | **(0.9)** | (0.8) |

### 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:

| | **2018 £'m** | 2017 £'m |
|---|---|---|
| Management services | **1.4** | 1.6 |
| Interest receivable | **–** | 1.5 |
| Dividends received from Group undertakings | **83.0** | 117.0 |
| Repayment of loans due from Group undertakings | **0.6** | 163.1 |
| Investments in Group undertakings | **–** | (200.0) |

**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 54 to 66. Directors of the Company control 0.014% of the ordinary shares of the Company.

### 14 DISTRIBUTABLE RESERVES

The retained earnings of the Company are wholly distributable.

# Advisers and Contacts

| | |
|---|---|
| **CORPORATE BROKERS** | UBS Limited<br>5 Broadgate<br>London EC2M 2QS<br>Tel: 020 7567 8000 |
| | Investec Bank plc<br>2 Gresham Street<br>London<br>EC2V 7QP<br>Tel: 020 7597 4000 |
| **LEGAL ADVISERS** | Linklaters LLP<br>One Silk Street<br>London EC2Y 8HQ<br>Tel: 020 7456 2000 |
| **AUDITOR** | KPMG LLP<br>1 Sovereign Square,<br>Sovereign St,<br>Leeds LS1 4DA<br>Tel: 0113 231 3000 |
| **PRINCIPAL BANKERS** | Royal Bank of Scotland Group plc<br>Leeds Corporate Office<br>3rd Floor<br>2 Whitehall Quay<br>Leeds LS1 4HR<br>Tel: 0113 307 8564 |
| **REGISTRARS** | Equiniti Limited<br>Aspect House<br>Spencer Road<br>Lancing<br>West Sussex BN99 6DA<br>Tel: 0371 384 2030[1] |
| **FINANCIAL PUBLIC RELATIONS** | MHP Communications<br>6 Agar Street<br>London WC2N 4HN<br>Tel: 020 3128 8100 |
| **REGISTERED OFFICE** | Century House<br>Brunel Road<br>Wakefield 41 Industrial Estate<br>Wakefield West Yorkshire WF2 0XG<br>Company Registration No: 9002747<br>Tel: 01924 839150 |
| **INVESTOR RELATIONS** | CardFactoryMHP@enginegroup.com<br>Tel: 020 3128 8100 |

1 Lines are open 8.30am to 5.30pm (UK time), Monday to Friday, excluding English public holidays

Card Factory

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