C&J CLARK LIMITED

# ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 2 FEBRUARY 2019

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# RESULTS AT A GLANCE

| | | 52 weeks to 2 February 2019 | 53 weeks to 3 February 2018 |
|---|---|---|---|
| Group turnover | | **£1,468.8m** | £1,539.9m |
| Group operating profit | | **(£75.7)m** | £29.3m |
| Basic earnings per ordinary share | | **(140.3)p** | (53.0)p |
| Dividends per ordinary share | – interim | **3.0p** | 0.0 p |
| | – 2nd interim | **3.0p** | 10.0 p |
| Net borrowings | | **£17.7m** | £27.3m |

### Group turnover (£m)

| | |
|---|---|
| 2015 | 1,494.4 |
| 2016 | 1,533.6 |
| 2017 | 1,654.7 |
| 2018 | 1,539.9 |
| **2019** | 1,468.8 |

### Group operating (loss)/profit (£m)

| | |
|---|---|
| 2015 | 112.7 |
| 2016 | 45.8 |
| 2017 | 41.4 |
| 2018 | 29.3 |
| **2019** | (75.7) |

### (Loss)/profit after tax (£m)

| | |
|---|---|
| 2015 | 80.0 |
| 2016 | 36.0 |
| 2017 | 26.5 |
| 2018 | (31.3) |
| **2019** | (82.9) |

### Adjusted (loss)/profit after tax (£m)

| | |
|---|---|
| 2015 | 85.3 |
| 2016 | 38.6 |
| 2017 | 34.5 |
| 2018 | 12.3 |
| **2019** | (82.7) |

### Dividends per share on a declared basis (pence)

| | |
|---|---|
| 2015 | 46.5 |
| 2016 | 32.5 |
| 2017 | 21.0 |
| 2018 | 10.0 |
| **2019** | 6.0 |

### Adjusted earnings per share (pence)

| | |
|---|---|
| 2015 | 143.5 |
| 2016 | 65.0 |
| 2017 | 58.3 |
| 2018 | 20.8 |
| **2019** | (140.0p) |

### Net borrowings (£m)

| | |
|---|---|
| 2015 | 66.8 |
| 2016 | 183.3 |
| 2017 | 133.7 |
| 2018 | 27.3 |
| **2019** | 17.7 |

### Net borrowings as a percentage of equity (%)

| | |
|---|---|
| 2015 | 11.3 |
| 2016 | 28.2 |
| 2017 | 22.3 |
| 2018 | 5.4 |
| **2019** | 3.8 |

# CHAIRMAN'S STATEMENT

Further to my comments in the Interim Report & Accounts, Stella David was appointed as full-time Interim Chief Executive Officer immediately following the resignation of Mike Shearwood on 25 June 2018. Stella's immediate availability, extensive experience and the energy and enthusiasm that she brought to the role has contributed significantly to the momentum in restoring the business to a sounder footing. Meanwhile, an extensive and global search process was conducted for a permanent Chief Executive Officer. We concluded the search in a timely fashion and appointed Giorgio Presca as the Chief Executive Officer of the Company on 11 March 2019.

Giorgio has more than 20 years' experience in managing and developing global premium brands, particularly in the footwear and apparel industries, working across listed, private-equity-owned, family-run, and founder-led businesses. He also brings a strong track record of business transformation and growth delivery, together with a proven expertise in developing digital channels, an area that is core to the Group's strategy.

**A Climate of Uncertainty**
The external environment in which the Group operates continues to be extremely volatile: the UK and European Union are yet to agree upon the terms of the UK's exit from the European Union, while trade relations between the US and China remain volatile around duties and tariffs.

The retail environment also remains extremely challenging in two of the Group's key markets, with significant footfall declines resulting in material shortfalls in retail channel performance in both the US & the UK. As a result, your Board has increased focus on risk management and mitigation including a full risk review at the July Board meeting. The Group's contingency planning for the UK's exit from the European Union was reviewed and an investment in a European Distribution Centre was approved. While the project delivers a good financial return under current conditions, it brings the added benefit of protecting the Group from any future changes in UK/European Union duty and tariff regimes.

Overall, the footwear category continues to grow, and the Group has stepped up its investment in growth markets, particularly in Asia, where the aim is to broaden the business base and reduce reliance on the UK and US markets. The Group is also seeking to diversify its portfolio through growth in the Cloudsteppers concept with pop-up stores in China being used to boost brand awareness of this "athleisure" offering. Management has also continued successfully to keep a tight grip on the cost base in the business.

**Returns to Shareholders**
While the Group has seen growth in its Asian and US wholesale businesses, the tough retail environment in the UK

and US has been a major drag on profitability throughout the year with no noticeable improvement in the second half performance. The Group took a non-cash charge of £17.9m related to its retail businesses in the UK and US markets at the half-year and, following the conclusion of the Group's comprehensive and fundamental review of the prospects for its retail business, that charge has been increased to £49.8m. As a result of this and other one-time charges the Group has recorded a non-cash loss after tax for the full year of £82.9m compared to a loss of £31.3m last year.

A more consistent measure of business performance is underlying operating profit/loss before the effects of volatile foreign exchange and other one-off or non-underlying items, where the Group recorded a profit of £30.1m for the year, a deterioration of 33.4% versus the £45.2m recorded in the prior year.

Cash was again tightly managed and Net Borrowings at the end of the year were £17.7m (2017/18: £27.3m). A full explanation of financial performance is given in the Chief Financial & Transformation Officer's report on pages 19 to 25.

The Group took advantage of the significant reduction in Net Borrowings achieved in the prior financial year to renegotiate its facilities with the primary aim of reducing borrowing costs, but also to provide the Board with additional flexibility on dividend policy. As communicated in my letter to shareholders in December, the Board has taken into account not only the significant reduction in profitability of the Group, but also the fact that the business is expected to remain cash generative over the medium term and in addition recognises the importance placed by shareholders on a regular and sustainable distribution policy. Taking into account all of these factors, the Board has declared a second interim dividend of 3 pence per share (2017/18: 10p) which, taken in conjunction with the first interim dividend of 3 pence per share (2017/18: Nil) results in a total dividend declared of 6 pence per share (2017/18: 10p).

Looking ahead to 2019/20, whilst the Board remains committed to the long-term development of a progressive dividend policy, the current significant uncertainties in both the internal and external environments make it difficult to forecast both the phasing and total level of dividend in 2019/20. It is unlikely, however, that any meaningful increase on the total 2018/19 level of 6 pence per share could be declared.

Our share valuation and the subsequent share market, is conducted in accordance with the Articles of Association. Due to the continued sell-off by three large institutional shareholders, the Share Market in October 2018 was, as expected, heavily skewed to sellers over buyers. In October 2018, the valuation per share was set at £5.35 for the October 2018 share market where 874,508 shares were offered for sale with 15,099 shares purchased. With the continued prospect of the institutional shareholders putting their entire shareholding up for sale in future share markets, we expect that selling shares will remain constrained for the next several share markets.

**Progressing our Strategy**

The Board's annual strategic review took place in November this year, in order to allow Stella sufficient time in the business to run a robust process. The revised strategy is described in full in Stella's report on page 7 and is focused on a smaller number of key actions that have the potential to make a real difference to performance in the medium-term. While in some cases the actions are radical, the Board is convinced that these are necessary if the business is to be restored to robust health.

**Sound Governance**

The Directors take very seriously their responsibility to have a robust governance structure in place, ensuring that we are able to properly discharge our responsibilities in approving a strategy, as well as monitoring and reviewing progress as it is implemented, and ensuring that we manage our risks and carry out business responsibly.

We are also very conscious that, as Directors, we are accountable to our shareholders and must have regard to other stakeholders such as employees, consumers, suppliers, the communities with whom we do business as well as the environment. We welcome the opportunity at our Annual General Meeting to meet and answer shareholders' questions. We also maintain an active dialogue with shareholders throughout the year via meetings with the family shareholder council as well through regular communication with the Chair of the family shareholder council and the council's various sub-committees. The views of other shareholders are also important, and I have engaged with many shareholders over the past six months.

**Board Changes**

I am grateful to all the Directors for their contribution during 2018/19, especially those of my colleagues who have additional responsibilities or who chair Board committees: particular merit to Stella David, for being prepared to take on the role of Interim Chief Executive Officer; Lucien Alziari for taking on the role of Senior Independent Non-Executive Director whilst continuing to chair the Remuneration Committee; and Walker Boyd, who chairs the Audit Committee and Share Valuation Committee.

In my letter to shareholders of 12 March 2018 as well as in last year's Annual Report, I advised shareholders that I will be retiring as a director of the Company at the end of the 2019

Annual General Meeting. This has given the Board sufficient time to consider continuity and a smooth transition in selecting and appointing a successor. I have served well beyond the 9 year limit for a director and have been extended each year by Special Resolution for another 6 years. This brings my total service as a Board director to nearly 15 years. Therefore, as planned over a year ago, I will not be offering myself for re-election at the 2019 Annual General Meeting. The Board has designated Stella David to succeed me as the Non-Executive Chairman upon the formal closing of the 2019 Annual General Meeting and Stella has accepted. Stella's recent and deep involvement in the business will be of significant value to management and shareholders.

The Nominations Committee also conducted the process to identify a successor for Walker Boyd as Chairman of the Audit Committee and Stephen Bolton joined the Board with effect from the April Board meeting. Stephen is a Fellow of the Chartered Institute of Management Accountants and has spent his entire career in the Consumer Goods sector, initially at Unilever and subsequently at Diageo, where his final role was Group Controller, having previously headed the Global Audit, Risk & Compliance team. As previously communicated, Walker has agreed to delay his planned retirement in order to permit an appropriate handover period with Stephen.

The Nominations Committee also conducted the process to recruit an additional Director following Stella David's nomination as Chair-elect, and Victor Herrero joined the Board with effect from the April Board meeting. Victor has extensive experience in the apparel industry, most recently as CEO of Guess, and previously at Inditex where he spent most of his career based in Hong Kong, latterly as Head of Asia Pacific with particular responsibility for the China business.

Tim Campbell, as previously communicated, stepped down at the November Board in order to take up a position in the US Foreign Service. The Board thanks Tim for his contribution and wishes him well in his new career.

Tim was replaced as a family-nominated Non-Executive Director by Peter Clark with effect from the November Board. Peter is Managing Director of Cannon House Partners, a privately held, US-based investment firm where he directs activities in real estate and equity investments. Previously, Peter was an analyst with the Seattle office of HAL Holdings, a Monaco-based investment group, where he specialized in real estate acquisitions and development. Prior to this he was a principal with Landstar, a privately held real estate investment firm focused on residential turn-around projects.

The Articles of Association require that one third of the Directors stand for re-election at each Annual General Meeting. In addition, the Board, through its Nomination Committee, reviews business needs against the skills of the current Directors and makes adjustments to Board composition where beneficial. This serves as the basis for sound succession planning at the Board level.

**A Responsible Business**

This year has seen substantially increased public and political awareness and louder calls for action on sustainable, responsible consumption and for businesses to make a more positive contribution to wider society. The Group remains driven by a responsibility to respond to the expectations of all its stakeholders and realise the commercial value gained from building a global brand with a strong corporate reputation.

In 2018/19 we continued to make further progress in our corporate responsibility agenda across our global business operations and the communities in which we operate, most notably; in continuing to influence and maintain responsible practice within our supply chain, making extended positive impact to local communities and to those less advantaged through our charitable giving programmes and focusing on reducing our impact on climate through efforts to reduce energy consumption within our operations.

**A Sustainable Business**

In an increasingly connected world where businesses are under more scrutiny than ever, the Group remains driven both by a responsibility to address the expectations of our shareholders, and an opportunity to realise the commercial value that building a global brand with a strong corporate reputation can bring.

Our intent is to fully embed corporate responsibility into a complex global business with regional entities. This means that our focus on being a responsible business will be at the heart of every decision we make and will underpin the commercial success for which we strive.

In 2018/19, we took further important steps in this direction. We have built on the solid progress made by our behaving responsibly programme and have evolved it into a broader corporate social responsibility approach. A strengthened and robust governance structure with ownership from our Senior Leadership Team, plus support from our Corporate Responsibility Governance Committee, has helped us define what a responsible business looks like, now and in years to come.

We have also recently pledged our support to the British Retail Consortium's Better Retail, Better World initiative until 2020. This allows us to integrate the way we do business into key UN Sustainable Development Goals that are relevant to our industry and our operations. I am pleased to report that we have made good progress in key areas of corporate responsibility including the environment, suppliers and community. We will continue to embed corporate responsibility into the business in a robust, impactful way which creates commercial value for the Group.

**Outlook**

The Interim Chief Executive Officer addresses the significant challenges facing the business in her report. The outlook for the business remains extremely challenging, particularly in the UK and US retail channels. Management is working hard on improving business performance and the Board continues to exercise tight oversight over the business. The dedication of our employees remains critical to the success of the Group and we thank them for their continued contribution.

Your Board of Directors remains confident that Clarks will weather the headwinds and stay the course to a stronger business, notwithstanding the external uncertainties. I remain a faithful shareholder and offer the Board and all our shareholders best wishes for a bright future at Clarks.

Thomas J O'Neill
**Chairman**
5 April 2019

# INTERIM CHIEF EXECUTIVE OFFICER'S REVIEW

**An extremely challenging year**

2018/19 was an incredibly difficult year for Clarks: Spring/Summer 18 profitability was impacted by the second tranche of post-Brexit exchange rates; retail performance declined significantly as consumers in the US and the UK continued to abandon "bricks and mortar" locations in favour of shopping online (where the Group's performance is behind the market); consumers that shopped with us continued to trade down to lower price points; and the need to transition a key wholesale relationship in China held back performance in that market.

Detailed analysis of performance across the Group is contained in the Business Review section but in summary: Europe remains a tough market (turnover declined by 7.7%), with profitability heavily impacted by the devaluation of sterling and steep declines in retail performance driven by reduced footfall, on top of which has been the de-stabilising effect of the ongoing uncertainty regarding Brexit; The Americas (turnover declined by 5.1%) have seen continued recovery from the operational issues that impacted performance in the past, but the retail side of the business has continued to decline fast and we have not seen compensating growth in Digital; in Asia Pacific (turnover increased by 2.9%), China has continued to grow, but has been held back by the need to transition a key wholesale relationship in Beijing, although on a brighter note the business did record performance on Singles Day with Tmall (Alibaba's digital marketplace).

Unfavourable currency movements were a significant headwind for the Group in 2018/19: notably the decline in value of Sterling versus the US Dollar. The hedges in place at the time of the Brexit vote provided cover to the end of the Spring/Summer 2017 season, so the Group faced a significant increase in cost of goods for the UK market in the Spring/Summer 2018 season. While a number of actions were taken on pricing, cost of goods reduction and overhead cost control, it was not possible to mitigate the full impact of Brexit, and on a reported basis, underlying operating profit for the Group fell by £15.1m year-on-year. We continue to work hard to rebuild the profitability of the business, with further action plans on pricing, cost of goods and overheads all planned for roll-out in 2019/20 as part of the strategic plan.

The US & UK retail estates have become a real drag on business performance, and as a result the Group has recorded a £49.8m charge against store asset impairment and onerous lease commitments in the year. The Group has conducted a fundamental and comprehensive review of its property portfolio during the year and is preparing to take rapid actions to exit the worst-performing sites in as short a timescale as is practical.

The business has maintained a significant focus on cash generation in the year and this has enabled the Group to keep debt and leverage at low levels: both working capital and capital expenditure have been tightly managed, and the net borrowing position at the end of the year was a creditable £17.7m, an decrease of £9.6m from the prior year.

The new strategy will not substantially impact the business until 2020/21, when the full benefit of the cost of goods programme will be fully reflected in the numbers, but in the interim, a programme of essential short-term cost actions has been developed to shore up profitability in 2019/20.

## 2019/20 and beyond: our turnaround strategy

### Context

The business has become increasingly less profitable over the last 5 years and is under significant stress. The decline in the Group's performance is due to a range of factors such as legacy issues from previous investment decisions, internal challenges and external headwinds. These factors include:

- Inability to keep pace with the rapid consumer shift from traditional retail to digital channels.
- Very challenging trading conditions in the US and UK Retail sector.
- Continuing cost of goods inflation.
- Complexity and cost of operating across a significant number of different distribution models.
- Complexity and cost of differing consumer needs and product portfolios across the 3 regions.
- Legacy IT infrastructure that is complex and costly to maintain but does not meet all of our requirements.
- A constrained income statement with reduced ability to invest in brand building and marketing activities.
- Significant level of changes in leadership.

When compared against a basket of competitors, Clarks has higher cost of sales and overheads as a % of sales, invests significantly less in marketing as a % of sales and is significantly less profitable. Acknowledging the major performance gaps against our key competitors we have set the following 5-year strategic goal:

***"To return the Clarks business to competitive and sustainable levels of growth and profitability by 2023"***

Given the scale of the transformation, Management have completed a challenging and honest triage of the business to ensure we can prioritise and phase the critical strategic choices required to deliver this goal – nursing the business back to health in the near term and building the foundations for future growth. This triage has resulted in a rebased 5-year plan that falls into three distinct drivers:

1. **Stabilise:** Urgent actions that reduce the cost base, arrest decline and secure 2019/20 profitability.
2. **Rebase:** Structural changes required to reset the business and build future foundations.
3. **Grow:** Areas of investment and focus to drive future growth.

During the life of the plan we will drive growth in Asia, digital across all regions, and US wholesale while reducing exposure to retail in the US, Europe and the UK. In addition, we will reduce the cost base in line with competitor benchmarks and optimise core processes to make the business more efficient. While improving the profitability of the business we also aim to build critical growth driving capabilities and increased investment in marketing. Ensuring we end the plan with a robust, sustainable business and a portfolio of brands expressed within the Clarks umbrella brand with significantly more power and equity than today.

While we strongly believe this plan is achievable, it is also challenging. It will require us to make significant shifts in organisational structure, channel balance, digital capabilities, processes, ways of working and brand focus. All of this is against the backdrop of a very turbulent global trading environment in our key markets (brought about by Brexit / China and US Trade and Tariff disputes) and with a relatively new Executive Committee. Given this context we have developed a plan that is ambitious but also firmly rooted in the reality of the current business capability, performance and future trading environment.

**The three drivers of the 5-year plan:**
The new 5-year plan is based on three distinct drivers. Whilst work on each driver has started, the drivers will deliver benefits at different stages across the life of the plan. The section below outlines the key activities within each driver:

**1. Stabilise: Urgent actions that reduce the cost base, arrest decline and secure 2019/20 profitability**
Given the scale of profit decline in 2018/19, there is an urgent need to reduce both cost of goods and overhead in 2019/20. While these cuts will be challenging and are not done lightly, they only serve to bring us more in line with competitive benchmarks. Once we have realised these targets we will be aligned to the competitive benchmark on cost of goods, but still behind the competitive set on overheads. In addition to this we will be implementing a targeted retail recovery plan to arrest the slide in this channel. Specifically, we will deliver against the following Stabilise targets as part of the plan :

i. Significant cost of goods reduction by 2021/22.
ii. Meaningful overhead reduction in 2019/20 plus further overhead reduction in 2020/21.
iii. Managed decline in the retail channel via exit of the worst-performing stores / focus on the remaining core portfolio.

**2. Rebase: Structural changes required to rebase the business and build future foundations**
The second pillar of the plan will start to reshape the business from a channel, market, process and culture perspective. We will rationalise our US and UK retail estate and exit smaller markets to reduce risk and enable greater focus on the growth areas of the business. In addition, we will optimise our product development calendar and metrics to improve efficiency and unlock value, getting the right product to the right consumer at the right time and right price. As we reduce our store estate and move more sales to digital, we will need to increase marketing spend to drive demand and to maintain visibility given the higher cost of digital marketing. Finally, we will work tirelessly to define and develop a more dynamic culture, with greater levels of accountability, improved leadership capability and a more challenging performance culture. Specifically, we will deliver against the following rebase targets as part of the plan:

i. Rebasing our global retail estate with a meaningful reduction in owned stores.
ii. Exiting low value markets.
iii. Optimised product calendar and metrics.
iv. Building an agile and dynamic performance culture.
v. Increasing marketing spend significantly as a percentage of sales to drive desire and demand.

**3. Grow: Areas of investment and focus to drive future growth**
The third pillar of the plan will focus resources and capabilities on the critical future growth engines for the next 5 years. This includes a step change in Asian growth, taking advantage of the growth opportunity in this Region while also developing a credible third leg to the Clarks geographic portfolio. We will also drive growth in our digital sales across the Regions to make up lost ground on the competition. To do this we will drive capability and sales across the Group's digital, wholesale digital and market places. Finally, we will push the US wholesale opportunity harder, recovering lost ground. Specifically, we will deliver against the following Grow targets as part of the plan:

i. Build an Asia business of similar scale to the Americas and Europe by 2023/24.
ii. Drive Digital, delivering double-digit percentage turnover growth per annum.
iii. Grow Americas Wholesale at mid-single digit per annum turnover growth over the next 3 years.

**Investing for the future**
As we look ahead to 2019/20 and beyond, it is important to recognise our continued commitment to invest in how we present our products and our brand to consumers. This is critical if we are to deliver sustainable growth in line with our targets.

It is critical in the digital age to recognise that consumers' primary method of engaging with Clarks is online (and increasingly on a mobile device). We are therefore shifting investment away from physical stores towards investment in market-competitive digital platforms (both owned, as in the US & UK, and third-party, as in Asia) and to digital marketing. As part of that shift, we have built our own in-house digital engineering capability (currently a team of 40 people) to enable us to quickly respond to changing consumer trends and emerging commercial opportunities – for example the recent launch of omni-stock in the UK that allows us to fulfil e-commerce orders from store. We continue to work hard on developing an improved business-to-business platform that enables us to work much more collaboratively with our wholesale trade partners, as well as leverage our third-party deployment capability.

In order to create an agile brand-led business it remains essential for us to access and interpret timely information and we are continuing to press ahead with modernising our information technology platforms. The first major step in remediating the underperformance in IT systems was the transition of the Group's SAP platform onto the latest HANA operating system which is now largely complete and delivers enhanced reporting and analytical capability at a competitive cost level. We have also started to retire part of our legacy systems base, including the closure of the Kennett Square facility in Pennsylvania with the aim of reducing complexity and reducing ongoing operating costs. To give some idea of the scale of the challenge that lies ahead in IT, our current expectation remains that it will take 5 years to complete the transition to a modern, fully-competitive IT platform.

Turning to the Supply Chain, the Board signed off the implementation of a third-party EU Distribution Centre which will enable us to better service our Mainland European wholesale business as well as providing contingency against Brexit-related tariff risks. We are also continuing to invest in new systems and operational capability at our Westway and Hanover Distribution Centres in order to meet the challenge of handling sales via the digital channel in a cost-effective way. We have also taken the decision to close the Morelight Manufacturing pilot facility: having invested significant time and effort in commissioning this facility, it became apparent that reaching the forecast output levels was not going to be possible and given the financial pressures that the business is under, the facility ceased production in January 2019.

**Looking ahead**

Our financial results for 2018/19 were poor: while the main driver in the profit decline is the non-underlying charges, performance across the rest of the business has been below expectations, most notably in the retail channel where the business has not moved quickly enough to exit poorly-performing stores.

The external environment is expected to remain extremely challenging in 2019/20 and the management team will have to work hard to maintain profitability while the strategic turnaround plan is put in place. I firmly believe that the Group can be put on a sustainable basis, but it will require swift and radical action to deliver this.

Finally, it would be remiss of me not to acknowledge the contribution of our people in what has been a very difficult year. We want to ensure Clarks continues to be a great place to work and I am very grateful to every employee for all their efforts throughout the year.

Stella David
**Interim Chief Executive Officer**
5 April 2019

# BUSINESS REVIEW

## Overview

The clear goal of the business strategy is to return the Clarks business to competitive and sustainable levels of profitability by 2023. To do this there are three pillars. The first is to 'Stabilise' which focuses on implementing urgent actions that reduce the cost base, arrest decline and secure profitability over the next trading period. The second is to 'Rebase' the business by making the structural changes required to reset the business and build future foundations, and the third is to 'Grow' the business, this will be achieved by focusing on areas of investment to support our critical growth engines. The initiatives to deliver these objectives are underway and will primarily be seen in 2019 and beyond, however Clarks has started to make progress in a number of these areas in 2018 as well as commencing investment in the strategic pillars that will underpin future growth.

## Our progress

- Increase in Asia Pacific sales of 2.1% versus prior year, driven by digital marketplace growth.
- Investment in digital platforms and capability continues with new websites launched in 2018 in the US and Japan and omni-channel fulfilment capability going live in the UK. Additional digital investment in a new business to business (B2B) platform and new consumer websites in key markets are also underway (£8.2m over the next year).
- Cost base £609.2m (1.3%) lower than prior year despite significant investment in improved capability.
- Continued discipline on cash with net borrowings reduced to £17.7m versus the prior year-end position of £27.3m.
- Reshaping of our retail portfolios in US, UK & mainland Europe has started with 56 stores closed during the year.

Progress in each region is described in the following sections.

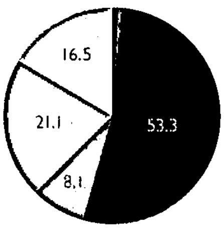
# GEOGRAPHIC REVIEW EUROPE

## Overview

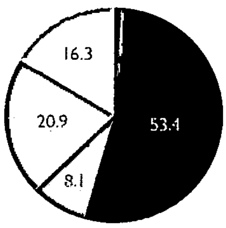
| | 2018/19 | 2017/18 | Variance | Variance % | CER growth* % |
|---|---|---|---|---|---|
| Pairs sold – millions | 20.2 | 22.2 | (2.0) | (9.0) | – |
| Net turnover £m | 667.3 | 722.8 | (55.5) | (7.7) | (7.2) |
| Average sellling price £/pair | £33.03 | £32.55 | 0.48 | 1.5 | 1.7 |
| Net margin £m | 313.2 | 351.4 | (38.2) | (10.9) | (11.3) |
| Year-end inventory pairs – millions | 12.3 | 12.7 | (0.4) | (3.1) | – |

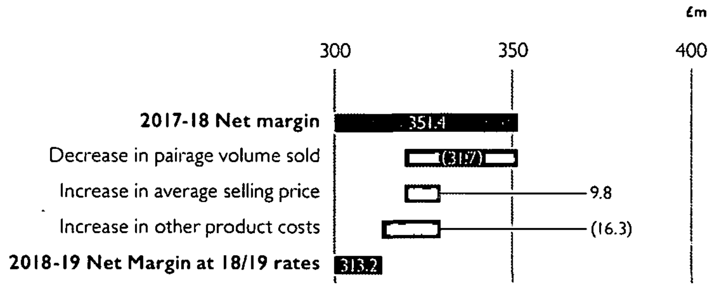
*For a definition of CER please see the glossary on pages 103 to 104.

**2018/19 Net turnover by channel (%)**




**2017/18 Net turnover by channel (%)**




■ Franchise ■ Retail ☐ Digital
☐ Wholesale ☐ Outlet

## Top five styles sold in 2018/19

| Style | Category/Brand | Pair sold | |
|---|---|---|---|
| Venture Star | Children's/School | 228k |  |
| Venture Walk | Children's/School | 199k |  |
| Hula Thrill | Children's/School | 185k |  |
| Couture Bloom | Women's/Clarks | 127k |  |
| Desert Boot | Men's/Originals | 101k |  |

## The Trading Environment

The UK market experienced another turbulent year in 2018, driven by increased uncertainty around the impact of Brexit impacting consumer confidence. Discount remained the key call to action across the high street and online with retailers battling to attract consumer interest & secure a share of spend. As high street footfall levels continue to decline insolvency rates have increased. Several notable, established apparel retailers were impacted including; House of Fraser, Debenhams & New Look. Whilst other mainland Europe markets were less directly impacted by Brexit other global and local economic factors have adversely impacted our key trading partners, particularly in the independent footwear sector and with some of our International Franchise Store partners.

## Performance headlines – all channels

In the face of challenging market conditions Clarks Europe saw a significant downturn in financial performance in 2018/19.

Pairs sold reduced year-on-year by 2.0m (9.0%) driven by a combination of factors including a general decline in the number of visits to our stores/websites, similar pressures felt by our wholesale trading partners across all our key markets, and the impact of losing some core commercial lines (Hamble Oak, Griffin, Taylor Shine and Driggs) from the range for much of the year. In addition to this cost of sales rates increased by £0.91 (6.2%) per pair driven by Brexit foreign currency impacts on Autumn/Winter 18 and Spring/Summer 2018. Average selling price grew modestly by £0.48 (1.7%), albeit in a largely discount led deflationary market. As a result of these dynamics net margin fell by £38.2m (10.9%).

Overheads declined by £4.7m (1.9%) year-on-year, a credible performance but not at a level enough to mitigate the dramatic impact of the volume decline and product cost increases.

Despite the 9.0% reduction in pairs sold, inventory levels have reduced by 394k pairs (3.1%) through tighter control over purchasing and focus on clearing aged inventory.

**2018/19 European key priorities were as follows:**

1. A single-minded focus on driving retail conversion.
2. A focus on digital content, Personalisation and core team capability.
3. In wholesale focusing on key markets (UK, Germany, France & Spain).
4. Rebuilding capability in merchandising.
5. Strengthening our operating platform, especially in wholesale.
6. Engaging more consumers through marketing.
7. Tight management of the regional cost base and inventory.
8. Outlet focus on driving average selling price whilst continuing to manage and clear aged inventory.

Clearly commercial performance fell a long way short of expectation for the reasons described above, there were however some notable successes in 2018/19 including:

- Implementation of Omni-stock capability in UK stores in November.
- Growth of 0.7% in mobile conversion rate.
- Improved segmentation in wholesale with focus on key accounts and pureplay generating growth.
- Building new core capability in retail operations/field, merchandising and digital / user experience.
- Improvement of 3.8% in outlet average selling price alongside a 3% reduction in inventory levels.

## Our channels

### Full-price retail

UK & ROI high street conditions remained extremely tough in 2018/19 and our trading performance was driven by a continued decline in store footfall, down a further 6.2% following an 8.4% drop in 2017/18. Conversion ended level on the year at 11.2%. Average selling price grew marginally against the backdrop of a discount led market, however the impact of the increase in product costs has resulted in a Gross Margin rate drop of 430bps against last year.

In response to the challenging market conditions and with a level of uncertainty about the role of the PURE store design concept in driving commercial performance, store capital investment was essentially put on pause in 2018/19. Focus from a property perspective has appropriately been on developing a 5-year estate rationalization plan to ensure the business has the right level of bricks and mortar representation to satisfy consumer shopping habits now and into the future. In the year 18 loss making stores were closed with further closures planned for 2019/20. Store closures have naturally reduced the fixed cost base and over time will drive a significant improvement in contribution per pair in the Retail channel.

Alongside this, store operating costs have continued to be well managed, payroll in particular where a further 6.4% of hours have been taken out in response to the reduction in footfall. This follows a reduction of 9.4% in 2017/18. In many stores we are now operating at absolute minimum hours at certain times so whilst we continue to face cost pressure from national minimum wage, further scope for hours reduction is limited.

**Wholesale**

Trading conditions were tough in all our major Wholesale markets in 2018. In the UK, department stores like House of Fraser and Poundworld went into administration, with Debenhams also recording disappointing results. Across mainland Europe, small independent retailers struggled to compete, with many of our partners closing their doors throughout the year. In addition to market factors, we chose to exit a globally brand-damaging partnership (Bells) worth £5m in turnover annually.

Wholesale contribution declined by 6% on the year driven by an 11.7% reduction in pairs sold. Average selling price improved by 2.5% and channel overheads reduced by 4.6% partly as a factor of volume and tight control of discretionary costs.

Within the overall decline there were positive signs from pure play digital retailers with partners like Amazon, Zalando, Sarenza, Boozt and Eubowie continuing to drive European consumer penetration and reach. With always improving intelligence about their end consumer and the online buying and service proposition, these retailers grew and won market share from traditional brick and mortar retailers.

In response to the changing channel dynamic, we reorganised the team and our investment to position talent and resources towards digital partners in key markets and our business with them was up 12% year-on-year due to these efforts.

While our sell-out struggled all year-long, evidenced by declining forward order books and less in-stock sold, our segmentation and distribution footprint improved. This was an important and necessary rebasing that will pay rewards in years to follow. We also chose to segment premium items away from mainstream distribution points, for example introducing Originals in nearly 100 new premium sneaker boutiques across Europe. Our online marketplace also improved, illustrated by an improving Desert Boot average selling price throughout the year.

Continued focus on driving digital wholesale growth, sharp segmentation, new account acquisition, and intuitive product lifecycle management will be among the highest wholesale priorities in 2019.

**e-commerce**

Our e-commerce business was equally impacted by trading conditions in all our major markets. e-commerce contribution fell by £4m (32.8%) year-on-year across all owned websites. Although visits were overall up by 4% with more people landing on the product page, conversion rates declined and returns rates increased and resulting net pairs sold after returns fell by 6.9%. Average selling price grew by 1.5%, but with cost of goods sold rates per pair increasing our net margin declined by 13.7%. Overheads grew by 1.5% driven by increased operating costs partially offset by a reduction in marketing spend.

2018/19 was the first full year of the new Hybris digital platform and our main objective has been optimising this platform for our customers. With the introduction of a User Experience (UX) capability, from the 2nd quarter onwards the teams are now able to use data alongside the insight from a weekly face to face customer testing programme to continuously improve the customer experience. This new capability to Clarks along-side more frequent site releases has enabled the team to address both customer pain points such as site speed and on-site search alongside introducing new features such as 'shoes on feet'.

The focus has been increasing the amount of people putting products in their baskets which has improved to 14%. With over 60% of people now accessing Clarks via mobile phones the mobile experience has been our number one focus and mobile conversion is running at +0.7% year-on-year. November saw the launch of our Omni-stock capability, addressing the biggest opportunity our customers tell us prevents them shopping with Clarks, which is onsite availability. We are now able to send shoes from both our warehouse and our stores, improving availability by around 10% and delivering an incremental 6% on our conversion to our business.

With the prediction that by the year 2021, 25% of the global population will only access the internet via mobile, mobile site, alongside social media and the use of video at relevant points in the journey are 3 of the areas of focus for 2019/20.

**Outlet**

Outlet too had a challenging 2018/19, which saw the start of the selling price strategy, focusing on full price trade backed by new store openings. The trading plan saw Outlet deliver a 3.8% selling price increase and a margin per pair increase of 5.6%.

The trading environment for outlet was turbulent in 2018/19 with weather disruption at the start of the Spring/Summer season, continued footfall challenges and a distressed high street which eroded the appeal of some Outlet centres. The key successes in the year were a record breaking Back to School, European stores' promising recovery in the second half and the strategy of driving average selling price growth all of which protected Outlets contribution from the declining footfall on the high street.

Continued focus on managing inventory through tighter buying controls resulted in Outlet reducing its inventory holding by 81k pairs whilst absorbing more clearance pairs from the business.

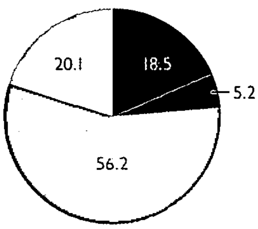
# GEOGRAPHIC REVIEW
# AMERICAS

## Overview

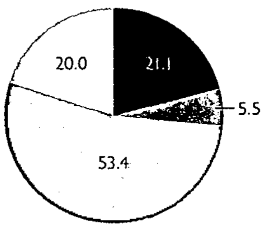
| | 2018/19 | 2017/18 | Variance | Variance % | CER growth* % |
|---|---|---|---|---|---|
| Pairs sold – millions | 21.2 | 20.7 | 0.5 | 2.5 | – |
| Net turnover £m | 606.9 | 639.8 | (32.9) | (5.1) | (3.1) |
| Average sellling price £/pair | £28.60 | £30.91 | £(2.31) | (7.5) | (5.5) |
| Net margin £m | 270.4 | 257.1 | 13.3 | 5.2 | (3.2) |
| Year-end inventory pairs – millions | 10.9 | 10.1 | 0.8 | 7.9 | – |

*For a definition of CER please see the glossary on pages 103 to 104.

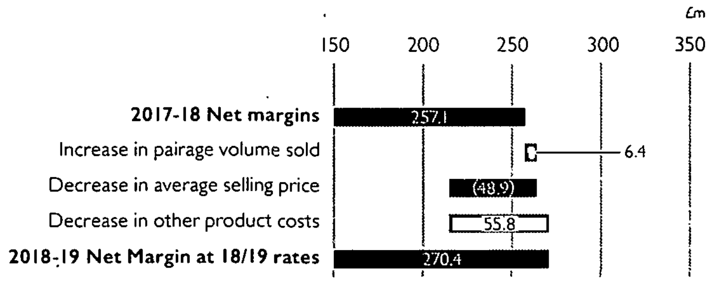
### 2018/19 Net turnover by channel (%)




### 2017/18 Net turnover by channel (%)




■ Retail ■ Digital □ Wholesale □ Outlet




## Top five styles sold in 2018/19

| Style | Category/Brand | Pair sold | |
|---|---|---|---|
| Arla Glison | Women's/ Cloudsteppers | 660k |  |
| Breeze Sea | Women's/ Cloudsteppers | 448k |  |
| Bushacre 2 | Men's/Clarks | 408k |  |
| Cotrell Step | Men's/Clarks | 313k |  |
| Cheyn Madi | Women's/Clarks | 312k |  |

## The Trading Environment

The Americas region contribution improved over the prior year despite significant headwinds impacting the direct to consumer trading environment. Overall Regional contribution increased by 5% on a CER basis. This growth was delivered despite significant industry disruption, evolving consumer expectations as well as specific internal factors which impacted performance:

- The role of the retail store continued to evolve, with the gap between retail and online blurring quicker than ever and consumers gravitating towards an integrated omni-channel approach.
- Mall traffic continuing to decline and impacting physical retail sales.
- A number of premium product assortments did not resonate well with consumers resulting in lower than expected sell through rates. This product ultimately needed additional promotional activity to clear through.
- The implementation of a new e-commerce platform during the year was challenging and in the short term resulted in significant performance issues in the second half of the year.

The Regional contribution growth was driven by a combination of Wholesale volume growth and overhead reductions compared to prior years. As a result of the significant decline in the direct to consumer business which delivers higher average prices than the wholesale channel, net turnover for the Americas declined by -3.1% compared to the prior year on a CER basis and net margin fell by the same amount, however robust cost control efforts more than offset these margin declines, driving the increase in Region contribution outlined above.

## 2018/19 Americas key priorities

1. The delivery of more consumer viable product to reduce promotional activity.
2. E-commerce platform transition to GB4 and stabilisation post-implementation.
3. Right sizing the retail portfolio.
4. Enhancing product segmentation within the channels.
5. Tight management of the regional cost base to continue to drive overhead savings.

## Our channels

### Full-price retail

2018/19 was an extremely disappointing year for the Retail business with a reduction in net turnover of -15.6% driven by like-for-like sales declines of -9% and the acceleration of the store closure programme. The external environment was a clear factor in the underlying performance as store footfall continued to decline. In addition reduced spending in brand marketing and shortfalls in omni-channel capability have resulted in a lack of response by customers to the more premium assortment and the higher margins that were planned. A more proactive approach has been taken toward renegotiating lower rents with landlords and closing unprofitable locations as a result of the broader retail strategy review outlined elsewhere. The overall sales shortfall was partially mitigated by cost containment efforts to control channel overheads.

### Wholesale

The Wholesale business in the Americas continues to be the driver of contribution for the region as wholesale market share in the US continued to grow across both the Men's and Women's categories, predominantly driven by increases in Collection and Cloudsteppers product. Net turnover in the channel increased by 2.2% against the prior year on a CER basis driven by volume growth, with improvements in margin rate and greater operational effectiveness delivering strong channel contribution growth against the prior year of 9%.

### e-commerce

E-commerce was adversely impacted by the implementation of a new trading platform in April 2018. Technical issues with the site caused outages and slower site speeds and this, combined with a deterioration in the user experience led to a decline in conversion rates despite increased traffic to the site. The disappointing performance of premium product assortments as outlined in the Retail business review was also a factor in driving greater promotional activity than planned. e-commerce net turnover declined against the prior year by 7.4% on a CER basis.

### Outlet

The Outlet business was also faced with a difficult trading environment, experiencing many of the same headwinds described above. Net turnover decreased by 3.1% with like-for-like sales down 0.8% from the prior year and channel contribution lower by 13.3%. Outlet started the year with an aged inventory profile that required aggressive pricing and low margins to clear which impacted performance. Pairs sold remained flat year on year but traded at a slightly lower margin rate. Initial trial store testing with new layouts that highlight key styles at the front, present shoes in a style-over-stock format in the middle and push clearance product to the back of the store were strongly margin positive and this format will be rolled out further in 2019/20.

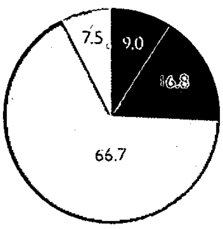
# GEOGRAPHIC REVIEW
# ASIA PACIFIC

## Overview

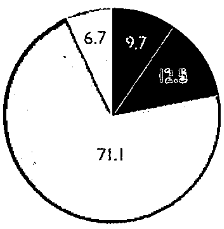
| | 2018/19 | 2017/18 | Variance | Variance % | CER growth* % |
|---|---|---|---|---|---|
| Pairs sold – millions | 4.8 | 4.7 | 0.1 | 2.1 | – |
| Net turnover £m | 185.8 | 180.6 | 5.2 | 2.9 | 1.1 |
| Average sellling price £/pair | £38.97 | £36.12 | £2.85 | 7.9 | (0.3) |
| Net margin £m | 99.4 | 88.0 | 11.4 | 13.0 | 2.3 |
| Year-end inventory pairs – millions | 2.7 | 2.6 | 0.1 | 3.8 | – |

*For a definition of CER please see the glossary on pages 103 to 104.

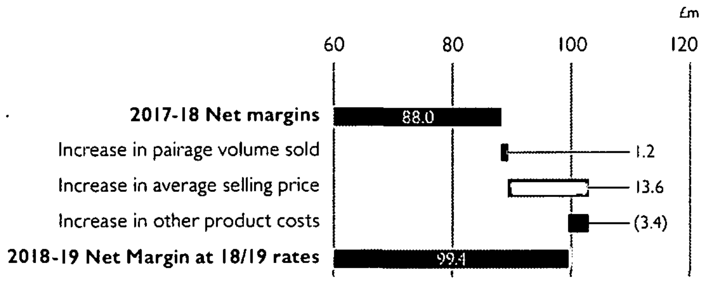
**2018/19 Net turnover by channel (%)**




**2017/18 Net turnover by channel (%)**




■ Retail ■ Digital □ Wholesale □ Outlet




## Top five styles sold in 2018/19

| Style | Category/Brand | Pair sold | |
|---|---|---|---|
| Tri Clara | Women's/ Clarks | 46k |  |
| Tri Spark | Women's/ Clarks | 43k |  |
| Mena Bloom | Women's/ Clarks | 41k |  |
| Tri Spark | Men's/Clarks | 39k |  |
| TriActive Run | Men's/Clarks | 34k |  |

## The Trading Environment

The Asia business environment continues to be broadly favourable and continuing progress is being made in establishing our business capability ready to drive future performance. However, in 2018/19 the Region only delivered modest growth against the prior year as the ongoing transition in the department store business model in China proved to be a drag on wholesale business performance. The strong growth in direct to consumer channels was able to compensate for the wholesale channel decline and resulted in a small amount of net turnover growth in the Region of 1.1% against the prior year on a CER basis. Increased investment in capability and brand marketing to support future growth restricted the Regional contribution increase to 0.3% on a CER basis.

China continues to see a rapid shift from department stores to shopping malls and a new integrated digital and physical business model led by Alibaba. This is impacting the current model of wholesale which is dependent to a large extent on department stores. Future growth is expected to come from franchise stores in shopping malls with a connected digital environment and the business focus during the year has been on developing capability to enable Clarks to participate fully in that growth platform.

The business has been reshaped in South East Asia (SEA) by the new management team and has been able to drive significant improvements, led by growth in Indonesia with our new partner. This momentum is expected to continue into 2019/20.

Digital also continues to be an area of growth, with strong performance across China, India and Japan. There is also an emerging e-commerce revolution in South East Asia led by Lazada (now owned by Alibaba). This digital growth is expected to continue with a shift to more omni-channel commerce linking online and offline retail across key markets.

## 2018/19 Asia Pacific key priorities

1. Accelerate digital growth across Asia with specific focus on China and Tmall.
2. Build and deploy Clarks Japan website to expand the digital presence in the market.
3. Open International Franchise Stores (IFS) and International Franchise Concession (IFC) with PURE store design concept across Asia.
4. Develop an India for India line of product to address the opportunity in the market place.
5. Establish a new distributor in Indonesia and reset the business.
6. Improve contribution in owned retail channel by driving productivity.

## Our Channels

### Full-price retail

The retail portfolio continues to be reshaped, and as well as opening 5 new owned retail stores, a number of underperforming loss-making stores were exited during the period. This negatively impacted net turnover, which was 6.5% lower than the prior year on a CER basis but improved overall channel contribution which increased by 116% year on year. Throughout the year store level reporting and connectivity has been developed to ensure that we have much more consistent management information across Asia Pacific to support operational improvements.

### Wholesale

The wholesale channel experienced a small decline in volume compared to the prior year resulting in a net turnover reduction of 4.8% on a CER basis. This was largely led by the decline in department stores in China as consumers shift from department stores to shopping malls. There was also a volatile trading environment across Middle East and Africa (MEA) where aggressive discounting activity and high partner inventory levels remain a feature in key markets. Good progress is being made in SEA with the new partner in Indonesia where we have opened 4 International Franchise Stores in the first year and plan to expand further in 2019/20. India remains challenging in terms of expansion of wholesale distribution and product cost and suitability, and in order to make progress, plans are now being developed with our Joint Venture partner to provide a more robust distribution and product strategy for this market.

### e-commerce

The digital business continued to grow strongly as net turnover increased by 34.8% against the prior year on a CER basis and the channel is now delivering a contribution of over £6m having grown by 20% year-on-year. There have been a number of significant initiatives and successes through the year, with highlights again being Collections Day and Singles Day with Tmall in China. Capability continues to be developed to support the continued growth of this channel with investment going into digital resource to unlock new opportunities in Korea as well as maximize growth in the existing markets.

### Outlet

The outlet channel delivered a strong increase in contribution with net turnover increasing by 10.6% against the prior year on a CER basis without significantly increasing store operating costs. This drove channel contribution growth of 58% year on year. During the period, significant amounts of aged inventory were successfully cleared through outlet stores, which will enable the channel to drive favourable margin rates going forward as well as providing sustainable capacity for clearance products generated within the Region.

# CHIEF FINANCIAL & TRANSFORMATION OFFICER'S REVIEW

**Overview**

The underlying business performance in 2018/19 (described in the Interim CEO report on pages 7 to 10) is extremely disappointing. While the management team has worked hard to offset the year-on-year shortfalls in commercial performance (most notably in the consumer-facing channels), the scale of these shortfalls resulted in underlying operating profit before exchange adjustment declining by 33% from £45.2m in 2017/18 to £30.1m in 2018/19.

The worst-performing channel for the Group in 2018/19 was full-price retail and in response to this, as communicated in the Interim Report & Accounts, management initiated a fundamental and comprehensive property review aimed at defining the future shape of the Group's full price retail portfolio. That review has now concluded and a charge of £49.8m in respect of impairment and onerous lease provisions has been recognised in the full-year accounts, an increase of £31.9m versus the Interim Report & Accounts. In line with the interim period reporting, we consider this charge to be one-off and exceptional in nature and have therefore reported it as a non-underlying item.

The process of reshaping the Group's property portfolio has already commenced, with 56 stores closing in the year as management took advantage of break points or terminations to exit underperforming leases. In some cases, landlords were prepared to offer significantly reduced rents, and where it makes sense to do so, the Group has renewed leases, usually for a reduced period.

While the review clearly identifies those stores that currently fail to meet the Group's return criteria, it is difficult to accurately predict the actual number of store closures that will result, given the increased willingness of landlords to engage in negotiation regarding rent levels and lease renewal terms at lease break or termination. However, it is fair to say that our expectation is that a meaningful number of stores will close over the next five years and the Group is committed to managing this in a sensitive way, given the impact that this will have on our store employees, many of whom have given long and loyal service.

The Group has also reviewed its legacy UK freehold property portfolio and has booked an impairment of £7.2m. While no decision has been taken to sell these properties, it is not part of the Group's future strategy to be exposed to the UK commercial property market.

As part of the strategic planning process, the IT team have developed a clear view as to the future systems landscape of the business. This has allowed the Group to review the IT assets on the balance sheet against that strategy, and write-off those assets no longer required, as well as adjusting the useful lives of certain other assets to match the planned modernisation programme.

Following a UK Court decision on 26 October 2018 a one-off charge of £4.3m has been recognised in respect of the additional liability relating to the Guaranteed Minimum Pension (see the pension section of the CFO report on page 24 for further information).

Clearly the scale of the non-underlying charges included in the 2018/19 accounts are significant, but represent the necessary cost of repositioning the business onto a sounder and more sustainable footing.

On a more positive note, I am pleased to report that the Group reduced its year-end net borrowings for the third successive year: the net debt position was £17.7m at the end 2018/19 compared to £27.3m in the prior year, and £133.7m at the end of 2016/17.

**Income Statement**

Turnover excluding the Indian Joint Venture of £1,468.8m was £71.1m below last year on a reported basis and 4.5% lower on a CER basis (see Glossary on pages 103 to 104). Much of the turnover decline was in the UK&ROI market through lower footfall driven by specific weather events (Beast from the East and the BBQ summer) and our own poor product execution. US retail also declined sharply, albeit partially offset by higher wholesale dispatches, but at a lower average selling price.

In line with previous years, the Group has chosen to report an alternative reporting measure of underlying operating profit (see Glossary on pages 103 to 104), which it believes is an accurate reflection of the underlying trends of the business as it strips out volatile foreign exchange impacts and one-off or exceptional items that would otherwise have distorted the true performance.

The Group's underlying operating profit for the period to 2 February 2019 was £30.1m compared to an underlying profit of £45.2m for the 53 week period to the 3 February 2018.

Underlying operating profits adjusted for the impact of realised and unrealised foreign currency translation gains and losses was a profit of £22.0m compared to a profit in the prior year of £34.3m.

The key drivers of the movement in currency in the year relate to:

1. Macro-economic factors that have resulted in some volatility in exchange rates, particularly the USD vs GBP over the year.
2. The impact of translating our subsidiary results into GBP at average exchange rates.
3. Transactional gains and losses realised on crystallising forward contracts to settle transactions other than GBP in our UK reporting entities.

One-off or exceptional items classed as non-underlying in the accounts comprise:

1. An exceptional charge of £49.8m relating to the impairment of store assets and onerous lease obligations and a charge of £4.8m relating to store dilapidations was recognised as a result of the comprehensive and fundamental review of the retail estate. In the prior year a charge of £5.3m was recognised within underlying operating profit for non-exceptional onerous lease and store asset impairment charges.
2. A charge of £24.3m associated with the impairment or write down of assets as a result of the strategic review of the Group's IT landscape and the impairment of freehold properties held by the Group. This compares to £8.4m in the prior year related to the write-down of the first generation of digital assets.
3. A charge of £7.1m related to the closure of the Morelight Manufacturing facility and the closure of the Group's Turkish subsidiary.
4. A charge of £14.1m for business re-organisation costs related to operating model implementation, the closure of the Kennett Square IT facility and the exit of satellite logistics facilities no longer required to support the Hanover Centre. This compares to a charge of £6.2m in the prior year for the re-organisation announced in April 2017.
5. A charge of £4.3m relating to the equalisation costs of Guaranteed Minimum Pension (see the pensions section of the CFO report on page 24).
6. As reported in the interim financial statements to 4 August 2018, a net gain arose of £11.4m following the closure of the UK defined benefit schemes on 31 July 2018. This one-off gain is due to a permanent reduction in the future liabilities and has been offset by £3.5m of payments made to some of the members impacted. This compares to a net gain of £8.5m reported at the 3 February 2018 relating to the pension changes in the US scheme which closed on 31 December 2017.

7. In the prior year were two items not repeated, firstly, a charge relating to change in estimate arising from a more detailed property lease review of £0.8m, and secondly, a gain relating to the impact of the change in accounting policy for the components of costs absorbed in inventory of £3.4m.
8. A gain of £1.9m due to the reversal of previously recognised Long-Term Incentive Plan charges as the current performance of the Group has dropped below the targets set within those schemes.
9. Without comparative, other exceptional costs relating to an onerous IT contract and an insurance receivable write down relating to a valid claim against our Puerto Rico property insurer £3.6m, combined.

Group operating loss for the year was £75.7m compared to a profit of £29.3m reported for the period to 3 February 2018.

The Group's share in the losses of Clarks Future Footwear Limited its joint venture business in India was £0.5m consistent with the prior year.

Finance costs of £8.2m were £0.9m below the prior year and are made up of the following items:

1. Interest and other costs associated with servicing our borrowings facilities were £8.9m compared to £10.8m in the prior period. The reduction is driven by the lower average borrowings through the period and the lower tier of interest in the re-negotiated facilities agreed in April 2018.
2. The imputed pension financing income calculated of the FRS102 surplus in the defined benefit pension schemes was £1.0m, a increase of £0.1m over the prior period due to the lower average surplus.
3. The unwinding of discounting associated with long-term provisions of £0.1m relates to the unwinding of onerous lease provisions.
4. A loss of £0.3m was recognised on the fair value of non-hedge accounted financial derivatives at 2 February 2019. This compares to a gain of £1.4m reported in the comparative period.

Loss after tax of £82.9m was £51.6m higher than last year with tax credits of £1.5m driven by the Group's effective tax rate of 1.8%. In the prior year the £51.0m tax charge included £44.7m relating to the restatement of our deferred tax positions following the announcement of US tax reform and the recognition of withholding taxes on unremitted earnings of C. & J. Clark Canada Limited and C&J Clark China Trading Company Limited.

The main factors resulting in the group tax rate below the UK tax rate of 19% are the non-recognition of tax losses, non-recognition of other deferred tax assets and an increase in depreciation of non-qualifying fixed assets relating to non-underlying items.

The current year tax rate is 4.1% (2018 37.2%) excluding prior year items. The prior year rate excludes the impact of US tax reform.

Adjusted (loss)/profit after tax is an alternative performance measure (see Glossary on pages 103 to 104) and strips out the changes to the fair value of non-hedge accounted financial derivatives and large one-off tax adjustments relating to government policy changes. Adjusted loss after tax was £82.7m compared to an adjusted profit in the prior year of £12.3m.

## Key figures from the Income Statement

| | 2018/19 £'m | 2017/18 £'m | Movement vs LY as reported £'m | Movement vs LY as reported % | CER growth % |
|---|---|---|---|---|---|
| **Group turnover** | **1,468.8** | **1,539.9** | **(71.1)** | **(4.6)** | **(4.5)** |
| **Underlying operating profit (before exchange adjustments)** | **30.1** | **45.2** | **(15.1)** | **(33.4)** | **(32.1)** |
| Exchange adjustments | (8.1) | (10.9) | 2.8 | 25.7 | |
| **Underlying operating profit (after exchange adjustments)** | **22.0** | **34.3** | **(12.3)** | **(35.9)** | |
| **Non-underlying items** | | | | | |
| – Exceptional onerous lease and store asset impairments | (49.8) | - | (49.8) | (100.0) | |
| – Exceptional dilapidations | (4.8) | - | (4.8) | (100.0) | |
| – Non-store asset impairments | (24.3) | (8.4) | (15.9) | (189.3) | |
| – Morelight and Turkey closure costs | (7.1) | - | (7.1) | (100.0) | |
| – Re-organisation costs | (14.1) | (6.2) | (7.9) | (127.4) | |
| – UK pension GMP equalisation charge | (4.3) | - | (4.3) | (100.0) | |
| – Defined benefit pension plan closures | 7.9 | 8.5 | (0.6) | (7.0) | |
| – Change in estimate and change in accounting policy | - | 2.6 | (2.6) | (100.0) | |
| – Other one-off charges | (3.6) | - | (3.6) | (100.0) | |
| Senior managers Long-Term Incentives | 1.9 | (2.0) | 3.9 | (195.0) | |
| Joint Venture elimination adjustment | 0.5 | 0.5 | – | – | |
| **Group operating (loss)/profit** | **(75.7)** | **29.3** | **(105.0)** | **(358.4)** | |
| Share of operating loss in Joint Venture | (0.5) | (0.5) | – | – | |
| **(Loss)/profit before interest and tax** | **(76.2)** | **28.8** | **(105.0)** | **(364.6)** | |
| Net finance costs | (8.2) | (9.1) | 0.9 | 9.9 | |
| **(Loss)/profit before tax** | **(84.4)** | **19.7** | **(104.1)** | **(528.4)** | |
| Tax | 1.5 | (51.0) | 52.5 | 102.9 | |
| **Loss after tax** | **(82.9)** | **(31.3)** | **(51.6)** | **(164.9)** | |
| Earnings per share | (140.3p) | (53.0p) | (87.3p) | (164.9) | |
| **Adjusted (loss)/profit after tax** | | | | | |
| **Loss after tax** | **(82.9)** | **(31.3)** | **(51.6)** | **(164.9)** | |
| Fair value of non-hedge accounted financial derivatives | 0.3 | (1.4) | 1.7 | 121.4 | |
| Tax on fair value of non-hedge accounted financial derivatives | (0.1) | 0.3 | (0.4) | 133.3 | |
| Reduction in US deferred tax asset | – | 44.7 | (44.7) | 100.0 | |
| **Adjusted (loss)/profit after tax** | **(82.7)** | **12.3** | **(95.0)** | **772.2** | |
| Adjusted earnings per share | (140.0p) | 20.8p | (160.8p) | 772.2 | |

### Cash flow and Liquidity

On 21 May 2018 the Group concluded an amendment and extension of the borrowing facilities it entered into on 27 February 2017. The Group's borrowing facilities now comprise a $75.0m private placement with Prudential Insurance Company of America maturing in 2022 and $231.9m of funding under a revolving credit facility (RCF) also maturing in 2022 provided by a syndicate of four major banks, being: Lloyds Bank, The Royal Bank of Scotland, Bank of America Merrill Lynch and HSBC Bank.

The Group's covenant EBITDA for the 12-month period was £76.0m. Covenant EBITDA is adjusted for one-off and exceptional items and is used by our banking partners to determine our achievement against a range of covenants set by them. The Group has engaged in discussions with its banking group to reset the Fixed Charge Cover covenant in order to provide additional headroom while the Group executes the plan developed as a result of the comprehensive and fundamental review of its property portfolio. These negotiations have concluded satisfactorily and will be in force from 3 April 2019.

| | 2018/19 £'m | 2017/18 £'m | Movement vs LY as reported £'m | % |
|---|---|---|---|---|
| Fixed assets | 258.8 | 306.6 | (47.8) | (15.6) |
| Debtors | 156.2 | 147.4 | 8.8 | 6.0 |
| Inventory | 378.7 | 376.2 | 2.5 | 0.7 |
| Creditors | (301.1) | (300.6) | (0.5) | 0.2 |
| Provisions | (72.7) | (30.7) | (42.0) | 136.8 |
| Borrowings | (17.7) | (27.3) | 9.6 | (35.2) |
| **Net assets excluding pension asset** | **402.2** | 471.6 | (69.4) | (14.7) |
| Pension | 66.8 | 32.3 | 34.5 | 106.8 |
| **Net assets attributable to shareholders'** | **469.0** | 503.9 | (34.9) | (6.9) |
| Gearing | 3.8 | 5.4 | (1.6) | (29.6) |
| Return on capital employed (ROCE) | (20.3) | (6.0) | (14.3) | (238.6) |
| Adjusted ROCE | (20.3) | 2.3 | (22.6) | (981.1) |

### Fixed assets and capital expenditure

The value of fixed assets has fallen by £47.8m to £258.8m this is despite the GBP value of USD assets rising due to the movement in exchange rates between the two reporting dates. The key driver for the movement is the high impairments accounted for in the period. The Group has also continued to only prioritise investments that generate immediate growth benefits (such as digital investment) or are necessitated through compliance or obsolescence of core systems.

As previously noted, the Group has identified a number of legacy IT systems where it has taken an impairment or accelerated the asset life to write down over a shorter period. This aligns those assets with the IT strategy (included within the overall business strategy).

The Group has also reviewed its legacy UK freehold property portfolio and has booked an impairment of £7.2m. While no decision has been taken to sell these properties, it is not part of the Group's future strategy to be exposed to the UK commercial property market.

Following a consultation process the Group concluded that the Morelight Manufacturing facility was to cease production. As a result an impairment was recorded against the assets of the facility.

### Store asset impairments and onerous lease charges

As previously reported, in the interim report and accounts an exceptional charge of £17.9m was recognised relating to loss making stores in the UK and US. This triggered a fundamental and comprehensive review of the Group's store portfolio and the decision taken to exit several stores at the next earliest opportunity. As part of the fundamental and comprehensive review the second half of the financial year a further review was conducted with the resultant additional charge of £31.9m.

As at 2 February 2019 there are 469 (2017/18: 236) stores with an impairment provision and 173 (2017/18: 78) stores with an onerous lease provision.

### Receivables and customers

The Group takes a risk based approach to credit and utilises a number of instruments to minimise risk, including credit insurance, letters of credit and bank guarantees.

The Group operates policies to ensure compliance with laws and regulations including Board agreed Credit, Anti-Money Laundering and Sanctions policies. The Group undertakes a formal on-boarding process for new customer and vendors to screen for compliance risks and undertakes a rolling programme of screening of existing customers and vendors.

The Group continues to make progress with its customer payment terms with both the UK and US both seeing reduction in DSO. In Asia Pacific the DSO has increased to support a strategic shift in China to move to open credit terms for customers.

### Payables and suppliers

We constantly review our supplier terms to ensure we are driving the right balance between working capital benefits for the Group and being a responsible partner to our many suppliers across the world.

We have terms in line with market standard for all our footwear suppliers and up to 60 days for all other suppliers of the Group. We do not seek to extend payment terms from small business.

In April 2017 the Payment Practices and Performance Regulations came in to force and we submitted our first report under those regulations on 30 August 2018. A further report for the period 4 August 2018 to 3 February 2019 was submitted on 28 February 2019 and is also available on the HMRC website.

### Provisions

Provisions (excluding deferred tax) were £60.6m an increase of £35.5m over the prior year. The increase is driven by the increase in non-underlying items, specifically onerous leases.

### Tax

The net current tax creditor decreased by £2.9m to £0.0m principally due to the increase in UK debtor as a result of a loss carry back claim, which offsets other entities liabilities.

The net deferred tax asset has moved from £1.5m to a liability of £9.8m partly due to an increase in items charged to reserves. This was partially offset by deferred tax asset on UK losses carried forward at the year end. Additional information on the movement in deferred tax balances is contained in Note 15.

### Pensions

The accounting approach to valuing pension assets and liabilities for disclosure in this Report and Financial Statements are largely prescribed (under FRS 102 section 28). The key aim of this standard is to enable readers to better compare different companies' financial positions leading to standardisation across a number of pension assumptions. However, this method takes no account of a number of very important issues which inform our funding and investment policy, including the relative size of the pension fund and the Group, the maturity of the pension fund, the strength of the business and crucially the Shareholders' attitude to risk and the desire to avoid unexpected cash calls on the Group. The major pension risks relate to unpredictable inflation, interest rates, investment returns and increases in life expectancy.

Whilst we continue to report a surplus in line with FRS 102, we would not be able to fund our pension schemes in line with the assumptions under this standard given:
- It will not comply with the statutory funding regulations which require trustees to adopt more prudent assumptions in assessing the financial strength of the Fund and agreeing a Statutory Recovery Plan every three years (see below).
- Adopting a funding and investment strategy consistent with the FRS 102 reporting standard would make our objective unachievable.

The cost of all Group pension schemes is shown in Note 16 to the financial statements and reflects the demographic assumptions and the in-depth review of the pension liabilities.

Separate to the assessment under FRS 102, we also carried out a formal actuarial valuation of the main UK fund as at 31st July 2016 with the results finalised in May 2017. Under the more prudent assumptions required for this valuation which are agreed with the Trustee, we had a deficit of £81m (compared to the surplus position under FRS 102) with a contribution schedule agreed to remove this deficit over the next 8 years. In addition, as part of the agreement with the Trustee, the Company also agreed to enhance the security arrangements in respect of that Fund.

In January 2018, after completion of a strategic review of our pension arrangements in the UK and US, we conducted a consultation with our employees in those geographies around closing our existing defined benefit pension arrangements. Following this review, the scheme in the US closed on 31 December 2018 and the UK scheme closed on 31 July 2018.

Following a UK Court decision, the Group has provided additional sums for Guaranteed Minimum Pension ('GMP'). GMP relates to service built up on or before 5 April 1997 and was intended to replicate features of state benefits, which at the time were different for men and women, and because of this GMP is not equal for men and women.

From 17 May 1990 the Barber ruling required pension schemes to provide equal benefits for men and women. Many UK schemes did not equalise benefits in respect of GMP due to industry-wide uncertainty regarding the issue. However, the High Court ruling in the Lloyds 'GMP Equalisation' case on 26 October 2018 means that it is now widely accepted that there is enough clarity that pension schemes need to address inequalities in respect of GMP.

The Group has used the valuation method C2 in determining the additional contributions required to comply with the ruling. Under method C2, arrears are payable in respect of some pensions where, had the member been of the opposite gender, they would have received extra pension since retirement. Our actuaries have calculated the additional contributions and this has been recognised as a non-underlying charge.

Actuarial gains and losses are shown in the Other Comprehensive Income Statement on page 66.

During the financial year cash contributions into the main UK fund by way of deficit funding amounted to £Nil (2017/18 – £16.0m).

## Financial risk management

### Insurance

Insured and uninsured risks are reviewed with our insurance broker. Our strategy is to review the cost effective transfer of risk and then decide which risks should be retained and which transferred.

We focus our insurance on the most critical areas or where there is a legal requirement. The company purchases the following insurance – Property Damage, Business Interruption, Public & Products Liability, Employers Liability (Workers Compensation), Directors & Officers Liability, Pension Trustee Liability and Credit. Limits and Self-Insured Retentions apply to most policies.

The Group is currently going through a re-marketing of the main insurance risks through a competitive tender.

## Treasury

### Treasury operations

The Group's funding, liquidity, currency and interest rate risks are managed by a Treasury Committee working within a framework of policies authorised by the Board. The policies are reviewed and updated annually where necessary.

### Interest rate risk

The Group is exposed to interest rate risk principally in relation to borrowings and deposits denominated in Sterling, US Dollar and the Euro. The Group's practice is to use fixed rate debt (and when appropriate, derivative contracts) to maintain an appropriate mix of fixed and floating rate borrowings to manage this risk.

### Currency risk

The Treasury function manages currency exposure on the cash flows arising from the Group's trading operations by entering into forward dated FX contracts which are scheduled to mature throughout the year in line with detailed forecasts of future transaction flows.

Contracts are placed through competitive tendering with relationship banks. Income and expenditure flows in the same currency are offset as far as possible through natural hedging, and the Group hedges the net exposure.

The main currencies in order of transactional value are US Dollar, Euro, Chinese Yuan and Japanese Yen. The US Dollar is used by all regions as the primary currency for sourcing footwear from the Far East.

At the 3 February 2019, the Group's estimated currency exposure for the following financial year is substantially covered in line with policy. The total value of fixed dated sale and purchase currency contracts was £648.5m.

Paul Kenyon
**Chief Financial and Transformation Officer**
5 April 2019

# CORPORATE GOVERNANCE

# CORPORATE GOVERNANCE OVERVIEW

### Board

**Chairman: Thomas J O'Neill**
All Directors are collectively responsible for the success of the Clarks Group of companies. The Non-Executive Directors exercise independent judgement in respect of Board decisions, and examine and challenge the proposals and decisions of the Executive Committee (EC). They also have responsibilities concerning the integrity of financial information, internal controls and risk management.

The Board is responsible for approving Clarks strategy and policies, maintaining risk and corporate governance, and overseeing progress towards meeting objectives and plans. It is accountable to shareholders for the proper conduct of the business and its long-term success and acts in the interests of all stakeholders.

The Chief Executive Officer (CEO), Chief Financial and Transformation Officer (CFTO) and EC take the lead in developing our strategy, which is then reviewed, constructively challenged and approved by the Board. The Board has delegated some of its powers to the CEO and operates with the assistance of five permanent standing Committees.

### Audit Committee

**Chairman: Walker Boyd**
The Audit Committee provides assurance to the Board in the following areas: the integrity of our financial reporting and internal controls over non-financial matters; compliance with laws and our Code of Business Ethics; the Company's relationship with its external auditor ; the role, resources and effectiveness of the Company's internal audit function; and the effectiveness of the Company's risk management framework, in each case with the ultimate aim of protecting shareholders' interests.

### Remuneration Committee

**Chairman: Lucien Alziari**
The Remuneration Committee considers and sets, on behalf of the Board, our remuneration policy and also the overall remuneration of Executive Directors and the Chairman.
It also monitors and challenges the total remuneration of each other member of the executive management team.

### Nomination Committee

**Chairman: Thomas J O'Neill**
The Nomination Committee recommends new Board appointments which are ultimately determined by the Board and, more broadly, considers succession planning for senior leadership and Board positions. The Nomination Committee also advises the Board on significant developments in corporate governance.

## Board Committee membership and meeting attendance in 2018/19

| | Main board | | Audit committee | | Remuneration committee | | Share Valuation committee | | Nomination committee | | Board Pensions committee | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Number of Meetings [(A)] | 7 | | 4 | | 9 | | 2 | | 9 | | 1 | |
| | Member | Attendance | Member | Attendance | Member | Attendance | Member | Attendance | Member | Attendance | Member | Attendance |
| Thomas J O'Neill [(I)] | Yes | 7 (7) | No | 0 | No | 0 | No | 2 | Chair | 9 (9) | Chair | 1 (1) |
| Stella David [(B) (J) (K)] | Yes | 7 (7) | No | 0 (1) | No | 8 (3) | No | 0 | No | 3 (2) | Yes | 1 |
| Paul Kenyon | Yes | 7 (7) | No | 4 | No | 3 | No | 2 | No | 0 | Yes | 1 (1) |
| Timothy Campbell [(C)] | No | 6 (6) | No | 0 | No | 7 (7) | No | 2 (2) | No | 0 | No | 0 |
| Walker Boyd [(D)] | Yes | 7 (7) | Chair | 4 (4) | No | 0 | Chair | 2 (2) | No | 5 | Yes | 1 (1) |
| Lucien Alziari [(E)] | Yes | 7 (7) | No | 0 | Chair | 9 (9) | No | 0 | Yes | 9 (9) | No | 0 |
| Ben Lovell [(F)] | Yes | 7 (7) | Yes | 4 (4) | No | 0 | Yes | 2 (2) | Yes | 9 (9) | No | 0 |
| Tanya Cordrey | Yes | 7 (7) | Yes | 4 (4) | No | 0 | Yes | 2 (2) | No | 5 | No | 0 |
| Tobias Zimmerer | Yes | 7 (7) | No | 0 | Yes | 8 (9) | No | 0 | No | 1 | No | 0 |
| Peter Clark [(F) (G)] | Yes | 4 (1) | No | 3 | Yes | 2 (2) | No | 1 | No | 1 | No | 0 |
| Michael Shearwood [(H)] | No | 3 (3) | No | 1 | No | 2 (2) | No | 0 | No | 0 | No | 1 |

[(A)] This is the number of scheduled calendar full meetings. Other meetings are held on an ad hoc basis when required to deal with event specific matters. Such meetings are not recorded here.

[(B)] Appointed CEO on an interim basis on 25 June 2018.

[(C)] Resigned at the conclusion of the meeting on 20 November 2018.

[(D)] Chair of Audit Committee and Share Valuation Committee.

[(E)] Chair of Remuneration Committee and appointed Senior Independent Director on 25 June 2018.

[(F)] Nominees of the Family Shareholder Council.

[(G)] Appointed on 20 November 2018.

[(H)] Resigned on 25 June 2018.

[(I)] Chairman of the Board, the Nominations Committee and the Pensions Committee.

[(J)] Resigned as Senior Independent Director on 25 June 2018.

[(K)] Resigned as member of Audit, Remuneration and Nominations Committees on 25 June 2018.

Note: Numbers in brackets denote number of meetings during the year Board or Committee members were entitled to attend. Where no bracketed numbers appear, the individuals attended by invitation of the Chairman rather than as of right. A 'Yes' indicates continuing membership.

### Share Valuation Committee

Chairman: Walker Boyd

The Share Valuation Committee provides assurance to the Board regarding the bi-annual independent valuation of the Company's shares pursuant to the provisions of its Articles of Association. It does so by reviewing and challenging the methodology and the approach of the appointed valuer.

### Pension Committee

Chairman: Thomas J O'Neill

The Pensions Committee considers all new pension schemes and material amendments to existing schemes; any departure from existing pensions or life assurance schemes or practices and generally monitors and develops policy on all aspects of the Company's pension arrangements.

### Executive Committee

The members of the EC shall be the CEO and such individuals as the CEO shall from time to time determine, including, but not limited to the Chief Financial & Transformation Officer, other Executive Directors, the heads of each business division, Human Resources, Sourcing, Operations, Group Legal and the Company Secretary.

The EC is the body through which the CEO exercises the authority delegated to her by the Board. It meets on a monthly basis and considers major business issues and assists the CEO in the performance of their duties, including the development of and implementation of strategy, operational plans, policies, procedures and budgets. The CEO is responsible for establishing and chairing the EC and reports formally to the Board, at each meeting of the Board, on the proceedings of the committee.

## Key governance roles

**Chairman**: Leadership, operation and governance of the Board, ensuring Board effectiveness.

**CEO**: Responsible to the Board for the management, development and performance of the business.

### Length of tenure of Non-Executive and Executive Directors

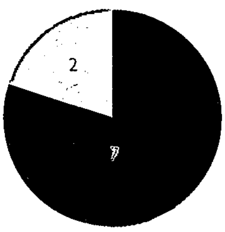
| | Years |
|---|---|
| Thomas J O'Neill | 14 |
| Ben Lovell* | 8 |
| Stella David | 6 |
| Lucien Alziari | 3 |
| Walker Boyd | 3 |
| Paul Kenyon | 1 |
| Tanya Cordrey | 1 |
| Tobias Zimmerer | 1 |
| Peter Clark | 0 |

* Ben Lovell's 8 years' service as a Director of the Group includes six years between 1999 and 2005.

**Senior Independent Non-Executive Director**: Acts as a sounding board for the Chairman and an intermediary for other Directors and shareholders when necessary.

**Company Secretary**: Reports to Chairman on all Board governance matters and, together with the Chairman, periodically reviews the Board and the Company's other governance processes to ensure they remain fit for purpose.

### Gender split of Directors as at 2 February 2019




■ Male ☐ Female

# BOARD OF DIRECTORS

## Stella David

Stella accepted the role of Interim Chief Executive Officer (CEO) in June 2018 when Mike Shearwood left the business. She continued in the role until the beginning of April 2019 when she was succeeded by Giorgio Presca.

Stella was appointed to the Board as an Independent Non-Executive Director in March 2012. She has over 30 years' experience in branded consumer goods, with a focus on strategy and brand management. She retired as CEO of William Grant & Sons, a family-owned, international spirits company in 2016. As well as her current executive duties, she currently has non-executive roles with HomeServe plc, Bacardi Ltd and Norwegian Cruise Line Holdings Ltd. She has also served as Non-Executive Director for Nationwide Building Society.

It is intended Stella will succeed Thomas J. O'Neill as Non-Executive Chairwoman of the Company upon Tom stepping down from the Board at the conclusion of the 2019 Annual General Meeting.

## Paul Kenyon

Paul was appointed to the Board as an Executive Director in August 2017 and currently acts as Chief Financial and Transformation Officer (CFTO). Paul has more than 30 years' experience in financial management and has held a series of senior finance roles, most recently as CFO of Nomad Foods Limited, where he oversaw the Company's listing on the New York Stock Exchange. Prior to that he served as CFO of Iglo Foods Holdings Limited, a private equity-owned company where he led the sale process to Nomad Foods. Before his time at the Iglo Group, he held a series of senior roles at AstraZeneca plc. He was CFO of AstraZeneca's Global Commercial business, Senior Vice President, Group Finance and for a period held the role of Chairman of AstraTech, AstraZeneca's medical technology subsidiary, concluding with its successful disposal. He is a Fellow of the Chartered Institute of Management Accountants, a Chartered Global Management Accountant and is currently a Non-Executive Director of Nomad Foods Limited.

## Thomas J O'Neill

Tom was appointed to the Board as an Independent Non-Executive Director in May 2004. In December 2013 he was appointed the Non-Executive Chairman of the Company. He has more than 25 years' experience in international retailing and brand management, most recently as Chief Executive and Director of Harry Winston, Inc. where he also concurrently held the position of President and Director of Harry Winston Diamond Corporation. Prior to Harry Winston, he was Worldwide President of Burberry, Chief Executive at LVMH Fashion Division in the Americas, Chief Executive of Marc Jacobs and Executive Vice-President of Tiffany & Company. He currently serves as an Independent Non-Executive Director on the Board of Aurum Holdings Ltd. which owns Mappin & Webb, Goldsmiths and Watches of Switzerland.

Tom will step down from the Board at the conclusion of the 2019 Annual General Meeting.

## Lucien Alziari

Lucien was appointed to the Board as an Independent Non-Executive Director in January 2016. He is a senior Human Resources executive with over 30 years of experience in major international companies. In June 2017, he was appointed Chief Human Resources Officer of Prudential Financial, a Fortune 50 global financial services company. Prior to this, he served from 2012 to 2017 as Executive Vice- President and Chief Human Resources Officer of AP Moller-Maersk, a global shipping and energy conglomerate ; and from 2004 to 2012 as Chief Human Resources Officer and Head of Corporate Responsibility for Avon Products.

Lucien is a Fellow and Director of the National Academy of Human Resources in the United States, a founding member of HR50 and Chair of the Board of Advisers of the Centre for Executive Succession at the University of South Carolina.

# BOARD OF DIRECTORS

## Walker Boyd

Walker was appointed to the Board as an Independent Non-Executor Director in January 2016. He has extensive retail experience in the UK and US and is a Chartered Accountant. Walker was Group Finance Director of Signet Jewellers Limited, previously Signet Group Plc, from 1995 until his retirement in 2010. He was Non-Executive Chairman of WHSmith Plc from 2010 to 2013 and Non-Executive Chairman of Spirit Pub Company Plc from 2011 to 2015. He has also served as a Non-Executive Director on the Boards of CSR Plc, where he was Senior Independent Director and Chairman of the Audit Committee, and Punch Taverns Plc.

## Ben Lovell

Ben was appointed as a Family-nominated Non-Executive Director in November 2016. He worked for Clarks in the UK for 10 years, first as a trainee manager and then managing various Peter Lord shops, followed by a three-year spell as merchandising manager at Ravel in London. He moved to the US in 1981 and was responsible for inventory control and the customer service function for Clarks of England. In 1988, he established his own eponymous shoe stores in the Greater Philadelphia region. The stores specialise in Euro-comfort and are full service stores. He sold the business in 2016. Ben has been a member of the family shareholder council since its inception and served as a Non-Executive Director from 1999 to 2005.

## Tanya Cordrey

Tanya was appointed as an Independent Non-Executive Director in July 2017. She has built a series of high growth, global, digital businesses. She is the former Chief Digital Officer at Guardian News & Media, where she played a key role in their digital transformation, and during her time on the senior executive team the company won several awards for its innovative digital products and reached record levels of digital revenue and monthly users. She held several senior roles at eBay, Zopa and established award-winning Babycentre.co.uk.

In 2015, Tanya was named Chief Digital Officer of the Year, UK. She previously was a Non-Executive Director at Schibsted, an international media and classifieds company, listed on the Oslo Stock Exchange. Tanya is currently a digital adviser to senior executive teams at several large and fast-growing European companies, she is on the Board of Advisers at Palamon Capital Partners, and also works closely with various global start-ups.

## Tobias Zimmerer

Tobias was appointed as an Independent Non-Executive Director in July 2017. He has extensive experience within the shoe industry, notably at Gabor shoes and Schuh-Union. He joined the ARA Group in 2000 and from 2002 until 2012 he served as Chairman of the ARA Group and from 2009 was also CEO of ARA Shoes. He acts as a consultant for various international companies in industry and commerce, including the Tata Group and Deichmann. Until 2014, he was a member of the executive board at the Test and Research Institute Pirmasens (PFI) and until 2015 he was a member of the executive board at the German Federal Association of the Footwear and Leather Goods Industry (HDS/L).From June 2014 to May 2016 he was a member of the management team at the Josef Seibel Group.

## Peter Clark

Peter was appointed as a Family-nominated Non-Executive Director in November 2018. He is Managing Director of Cannon House Partners, a privately held, US-based investment firm where he directs activities in real estate and equity investments. Previously, he was an analyst with the Seattle office of HAL Holdings, a Monaco-based investment group, where he specialized in real estate acquisitions and development. Prior to this, he was a principal with Landstar, a privately held real estate investment firm focused on residential turn-around projects.

## Paul Wakefield

Paul Wakefield leads our Group Legal and Company Secretary functions, overseeing our legal and compliance teams and providing his expertise to the Group. Paul has a wealth of experience, which he has gathered over 25+ years in roles for various law firms and companies for whom he provided advice on a wide range of corporate and commercial issues.

# CORPORATE GOVERNANCE REPORT

The Company is privately owned and not formally subject to the requirements of the UK Corporate Governance Code (the "Code") published by the Financial Reporting Council. It is, however, committed to maintaining a high standard of corporate governance that reflects principles of best practice and so looks to the Code for guidance as to how it might help it operate as a large privately-owned business with wide and varied stakeholders. This report describes how the Company so operates.

The Company has, for many years, and as a means of ensuring family shareholder engagement with the Board had an informal understanding with the Street Trustee Family Company Limited ("STFC"). This is an entity that has as its members shareholders who derive their shares by reason of a Clarks family connection. This understanding requires the board to seek the opinion of the STFC on certain key items relating to governance, share ownership, strategy, culture and risk. This is typically done through communication between the Chairman of the Board and the Chair of the STFC Council, being a body of elected councillors of the STFC. In addition, there are quarterly meetings at which members of the Board make themselves available to the STFC council to discuss key matters affecting the Company and its stakeholders. The relationship with the STFC has been, and is expected to continue to be, a key part of the Company's governance practices and is believed by the Board to promote the success of the Company for the benefit of its members as a whole.

The Company continued to assess its approach to corporate governance throughout the year under review and will continue to do so in light of changing governance regulations for large private companies. Further information on the Company's current governance arrangements is set out below.

**Board of Directors**

At 2 February 2019, the Board consisted of a Non-Executive Chairman, four Independent Non-Executive Directors, one of whom is the Senior Independent Director, two Non-Executive Directors who are nominees of the STFC Council and two Executive Directors. The Non-Executive Chairman is responsible for leading the Board and ensuring its effectiveness in all aspects of its role. During the year 2018/19, Stella David was appointed as Chief Executive Officer on an interim basis whilst the Board sought a permanent successor to Mike Shearwood, who left the business in June 2018. The role of the Senior Independent Director was accepted by Lucien Alziari upon Stella David agreeing to take on the role of CEO and, in this role, he acts as a sounding board to the Chairman and as an intermediary for the other Directors when necessary.

The Code suggests that at least half the Board, excluding the Chairman, should be comprised of Non-Executive Directors who are determined by the Board to be independent. The Code defines this to mean those Directors who are independent in character and judgement. Factors that may influence the determination of independence include holding a significant shareholding or having served on the Board for more than nine years. The Board believes that (excluding the Chairman) of the other Non-Executive Directors, four of those serving during the reporting period are considered to be independent as defined by the Code, thereby meeting the Code's stipulation. Both Ben Lovell and Peter Clark serve as nominees of the STFC and so are not to be considered independent although the Board considers it remains in the interests of the Company that there are two nominees of the STFC Council appointed to the Board. It is to be noted that Peter Clark was appointed as director upon the retirement of Tim Campbell in November 2018. Subsequent to the year-end, and with a view to maintaining the level of independence on the Board, two additional independent Non-Executive Directors, namely Stephen Bolton and Victor Herrero, were appointed to the Board. Having been appointed by the Board since the 2018 AGM, both will resign and offer themselves for re-election at the 2019 AGM.

At the last AGM shareholders approved an extension to the terms of appointment for one year for Thomas J O'Neill. Having served on the Board since May 2004, Thomas J O'Neill and the Board concluded during the reporting period to commence the process of selecting a successor as Chair of the Board. Consequently, the Board will not be proposing a special resolution at the AGM to extend the appointment of Thomas J. O'Neill for a further one-year period and neither will Thomas J O'Neill offer himself for re-election.

After due consideration, and consultation with the STFC, the Board has agreed that Stella David should succeed Thomas J O'Neill as Chair of the Board. She will assume the role at the conclusion of the 2019 AGM.

Upon his commencing in the role of CEO on 11 March 2019, Giorgio Presca has taken up the office of Executive Director on the Board. He will offer himself for re-election by shareholders at the 2019 AGM.

Of the remaining Directors, one-third of them are required to retire from office although they are each eligible for re-election. In this respect, both Ben Lovell and Lucien Alziari will retire at the AGM but both will offer themselves for re-election.

Tim Campbell stepped down from the Board in November 2018 in order to focus on a new professional role. Peter Clark has been nominated and appointed as a family-appointed Director. Peter Clark, having been appointed by the Board since the 2018 AGM, will resign and offer himself for re-election at the 2019 AGM.

Board member biographies are set out on pages 30 to 33. The Board delegates some of its responsibilities to its permanent standing Committees that comprise Audit, Remuneration, Share Valuation, Pensions and Nomination.

The terms of reference for each of these Committees are kept under regular review, considering best practice standards and what is appropriate for the business, as a private company.

Each Committee has access to such information and advice as it deems necessary, at the cost of the Company, which also provides internal resources to enable each to undertake its duties. The Company Secretary acts as secretary to all the Committees, except for the Board Pensions Committee, which is supported by the Group Director of Pensions. The Board has a schedule of meetings throughout the year which is set in advance, as well as strategy sessions and Committee meetings. The Board provides oversight of the Company through a formal agenda of matters reserved for its decision.

The Board continues to receive appropriate and timely information prior to each meeting with a formal agenda, and with Board and Committee papers being distributed ahead of any meeting taking place. A Board portal system enables all Board members to receive, read and review Board and Committee papers via an online and secure portal.

Decisions of the Board are taken democratically after discussion. Any Director that feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting. Any specific actions arising from such meetings are agreed by the Board and followed up by the relevant parties.

As suggested by the Code, an internal evaluation of the Board and Committees was undertaken. This was carried out by Thinking Board, a governance self-assessment service operated by an advisory company called Independent Audit Limited (a company with no other commercial relationship with the Company).

The specifics of the process were intended to measure the activities of the Board and Committees against the main principles and provisions of the Code.

The evaluation considered, amongst other things, the balance of skills, experience, independence and knowledge of the company on the Board, its diversity, including gender and how the board works together as a unit. To assess these and other aspects of the Board, each director completed a series of questions hosted on-line by Thinking Board. This was the second year the Board has evaluated its effectiveness this way.

In respect of the review of the Board's effectiveness most of the Directors expressed the view the Board was, on the whole, operating effectively. Indeed, there was only one aspect of the Board's activities where at least half of the Director's believed the Board was not doing well enough and that was in respect of ensuring, in the context of its culture, values and ethics, it had a clear view on what was happening in the business.

There was a sense the Board was not doing enough to understand, in terms of its culture, value and ethics, the Company's day to day behavioural environment. This may be seen as a response to the circumstances giving rise to Mike Shearwood's unforeseen departure and has been identified as an area for future focus. The Board agreed, however, the circumstances surrounding Mike Shearwood's departure from the business should not be seen as representative of the prevalent culture within the business. The review noted also much good progress having been achieved by the interim CEO in stabilising the business and setting up an environment within which the newly appointed CEO will be able to take the Company forward. It was acknowledged in the review that getting the relationship right with the incoming permanent CEO will be a clear priority for the Board in the current financial period.

As well as challenging itself to get a better view of the workings of the business and to establish a good working relationship with the new CEO, the Board also identified certain other issues to be targeted as improvement areas during the balance of the 2019/20 financial period and beyond. Those issues are (i) to continually assess the risks in the business model against its agreed risk strategy; and (ii) work with the Executive Committee team to ensure the Board is getting the right information at the right time.

The Board will continue to keep 'diversity' front and foremost. Diversity is noted by the Board as a desirable objective and continuing driver of its effectiveness – breaking down, as it does, a tendency towards what is referred to as "group think". Shareholders should be assured it is consistently high on the Board's agenda.

No specific review of the Chairman's role was undertaken given Thomas J O'Neill's decision not to offer himself for re-election. Neither was a specific review of the Senior Independent Director role undertaken given Lucien Alziari's limited time in the role.

The Chairman held discussions with each individual Director with regards the outcomes from their respective 360-degree assessments (again, as facilitated by Thinking Board). In these discussions, the Chairman considered each Director's contribution and personal development needs. In respect of the evaluation it was concluded that each Director continues to perform effectively and to demonstrate commitment to the role. Where training needs were identified the Company will facilitate these.

Stella David continued in the role of Interim Chief Executive Officer until her long-term successor, Giorgio Presca had commenced his duties and completed a structured induction period. Given the interim nature of Stella David's appointment, no specific appraisal of her performance as CEO has been undertaken.

**Audit Committee**

The Audit Committee met four times during the year. All members of the committee are expected to attend all the meetings and attendance at these meetings by the committee members is shown on page 28. The Group Director of Risk Management and Internal Audit, the external Auditor, together with the CFTO, Company Secretary and other persons may also attend the meetings by invitation. The Audit Committee is chaired by Walker Boyd and a majority of its members are independent. Walker Boyd has competence in accounting and the members as a whole are seen as having competence relevant to the financial aspects of the Company and the footwear sector in general.
Its duties and responsibilities, as set out in its terms of reference, include:

- Monitoring and reviewing the integrity of the annual and interim financial statements of the Company and reporting to the Board on significant financial reporting issues and judgements, having regard to matters communicated to it by the external auditor.
- Reviewing the policies and processes for identifying and assessing the Company's internal and financial controls and risk management systems.
- Approving the internal audit plan and monitoring adherence to the plan during the year.
- Reviewing the Company's policies and processes on whistleblowing, fraud and compliance.
- Making recommendations to the Board in relation to the appointment, reappointment and removal of the Company's external auditor, including approval of their remuneration.
- Reviewing and approving the policy on the use of the external auditor for non-audit services.

The independence and objectivity of the external auditors and the effectiveness of the external audit processes are also considered by this Committee. It is a specific responsibility of the Audit Committee to ensure that an appropriate relationship is maintained between the Company and its external auditors, including periodic tendering for (and best practice rotation of) audit services. After an audit tender process during the summer of 2016, the Audit Committee recommended the appointment of Ernst & Young (EY) as replacement auditors to KPMG. The Company confirmed their continuing appointment by Ordinary Resolution at the

2018 AGM. It is recommended EY be confirmed as auditors for a further period of one year at the 2019 AGM.
The meetings during the year focused on:
- Reviewing the 2018/19 interim results and 2018/19 Annual Report and Financial Statements. As part of the review, the Committee received reports from management on the key accounting judgement elements (which included reports upon the basis of revenue recognition, net realisable values, provisions held against onerous leases and store asset impairment assessments in respect thereof, treatment of financial derivatives, treatment of items as non-underlying or otherwise) and taxation. The review also included consideration of the EY Audit Committee Report.
- Monitoring the Company's risk management framework and internal controls and policies (for which the Board has overall responsibility). Throughout the year the Committee has received regular reports from the Risk and Internal Audit and the Compliance functions, which together, have worked towards developing an improved risk environment throughout the Company. Particular focus was given to planning for the continuing challenge affecting the Company with regards to cyber security and data privacy as well as considering the risks presented by the external trading environment and the particular risks facing the Company in the different regions in which it operates.
- Reviewing the appropriateness or otherwise of considering the Company as a going concern.
- Reviewing the Risk and Internal Audit functions, including receiving reports on internal audits carried out in 2018/19 and approving the 2019/20 audit plan. The effectiveness of the Internal Audit function was specifically considered by the committee during the year, which identified certain objectives and areas for improved effectiveness.
- A focus upon the Company's response to control risks (in particular, around the prevention of fraud) identified as part of the external audit process.
- Reviewing the external audit plan and the independence and objectivity of the auditors and EY's performance for the 2017/18 audit cycle. The Committee reviewed the effectiveness of EY subsequent to their completion of the 2017/18 audit.
- Approving the fees charged by the external auditors.
- Regulating the provision of non-audit services to the Company by the external auditor.
- Reviewing the continuing audit of footwear suppliers (to promote compliance with international laws and good practice) and also reports on the Company's Health & Safety operations.
- Reviewing material litigation to which the Company is subject.
- Reviewing the effectiveness of the Company's whistleblowing procedures and receiving reports upon incidents raised, and where appropriate, monitoring the actions taken.
- Challenging the effectiveness of the Company's governance in respect of capital expenditure.
- Reviewing and updating its terms of reference.

As has been noted elsewhere, the Audit Committee evaluated its performance and, whilst noting objectives for the subsequent financial period concluded it was operating effectively.

**Remuneration Committee**

The Remuneration Committee met seven times during the year and its responsibilities include the approval of the total remuneration and other benefits of the Executive Committee. The meetings are supplemented with telephone or video conference meetings through the year when deemed necessary. The Committee also receives reports on, and reviews the terms and conditions of, senior management's remuneration, and approves both short term and long-term incentive plans/targets offered in the business. External advisers are appointed to assist the Committee as it deems appropriate. The Remuneration Committee is currently chaired by Lucien Alziari.

**Share Valuation Committee**

This Committee meets twice a year with representatives of those advisers responsible for valuing the Company's shares, together with others deemed necessary to review general trading conditions and provide the necessary information to enable a valuation of the Company's shares (in accordance with the provisions of the Company's Articles of Association) by the independent valuer. This Committee was chaired during the year by Walker Boyd.

**Pensions Committee**

This Committee reviews and scrutinises all proposals for changes to the Company's employee pension schemes. All significant changes are then recommended to the Board for approval. This Committee is currently chaired by Thomas J O'Neill.

## Nominations Committee

This Committee is responsible for Board succession, planning and composition. The Committee meets at least once a year, with more frequent meetings convened as and when specific Board search activity requires. This year the Committee has been particularly active with respect to a search for a permanent replacement to Mike Shearwood as CEO and also with regards efforts to find candidates to succeed non-executive positions. External advisers are used by the Committee as appropriate.

The Committee is typically chaired by the Chairman of the Company unless the business under consideration is the recruitment of a Company Chairman. In such circumstances, the Committee is typically chaired by the Senior Independent Director.

## Executive Committee

The Executive Committee (EC) is the senior decision-making, executive committee. It is responsible for reviewing overall financial performance, strategy, plans and budgets as approved by the Board. It also oversees daily trading, key risks, management development and corporate responsibility.

The EC consists of the key senior managers in the business and is chaired by the Chief Executive Officer. It comprised at the end of the reporting period:

- Stella David, Interim Chief Executive Officer
- Paul Kenyon, Chief Financial and Transformation Officer
- Gary Champion, President, Americas Region
- Jack Quinlan, President, Asia Pacific Region
- Ben Fletcher, President, Europe Region
- Belinda Deery, Chief People Officer
- Antony Perillo, Chief Supply Chain Officer
- Paul Wakefield, Chief Legal Officer and Company Secretary
- Louise Franchomme, Chief Product and Merchandise Officer
- Tara McRae, Chief Marketing Officer

Subsequent to the end of the reporting period, Giorgio Presca, was appointed and took up the role of CEO as from 11 March 2019. Stella David, as a consequence, ceased, to be CEO and continues as a Non-Executive Director with a view to succeeding to the role of chair at the conclusion of the 2019 AGM.

The Executive Committee is represented on the Board by the CEO and CFTO who together report upon, and are responsible for the activities of the EC and the performance of the business.

## Shareholder relations

The Company recognises the importance of communicating with its shareholders to ensure that its strategy and performance are understood. The annual and interim report and accounts are available to all shareholders and the Board encourages all shareholders to elect to receive those reports via a secure online portal.

All shareholders have the opportunity to ask questions of the Board at the Company's Annual General Meeting, which all Directors attend. At the meeting, the Non-Executive Chairman will give a statement on the Company's performance during the financial year. The Chairman will advise shareholders on proxy voting levels and the Company encourages all shareholders to attend and participate in the AGM.

## Audit and internal control

The Board, through the Audit Committee (as stated earlier), is responsible for determining the nature and extent of significant risks it is willing to take in pursuit of the Company's strategic objectives. It monitors the system of internal controls maintained by the Company and has responsibility for carrying out a review of the status of those internal controls on an annual basis and reporting that it has done so. This system provides reasonable, but not absolute, assurance against material loss and includes the safeguarding of assets, the maintenance of proper accounting records, appropriate legislation and mitigation of business risks.

During the year, a Risk Control Group was established which is chaired by the CTFO and ensures risks facing the business in the pursuit of its strategy are identified, evaluated and mitigated. This is referred to further in the risk overview section.

Risks are associated with a variety of internal or external events including controls breakdowns, regulatory requirements, political interventions and natural catastrophe. Each region and operating unit is responsible for establishing and operating the required detailed control procedures to manage these risks.

Whilst the Board has ultimate responsibility for effective risk management and an appropriate system of controls, all managers are responsible for the identification and evaluation of key risks applicable to their area of the business.

# RISK OVERVIEW

## Principle Risks

Clarks faces a diverse range of risks and uncertainties and the table below provides insight into the Principle Risks that could have an adverse effect on the business operationally and impact the delivery of its 5 Year Strategic Plan. We outline why effective management of these risks is important and relevant to the business, how we are managing these, and which are emerging, rising, falling or have remained static during the past 12 months.

Our approach to Risk Management has grown in maturity during 2018/2019, aligned to strategic planning and is designed to encourage clear decision making on which risks we take and how we manage them. Fundamental to this process is a sound understanding of every risk's potential strategic, commercial, financial, compliance, legal and reputational implications.

The following tables provide further details on the approach:

| Risk Category and Principle Risks | Context / Potential Impact |
|---|---|
| **Transition** | |
| Pace of change of (systems, processes and consumer behaviour) | Implementation issues could impact normal business processes management data and ability to effectively manage change and the acceleration of change in consumer behaviour. |
| Development of capability | If we are unable to build required capabilities fast enough this will impact our ability to deliver the plan. |
| Retention & growth of existing customer base while attracting new consumers | We fail to acquire new customers while retaining existing consumers or vice versa. |
| **Financial** | |
| Ability to deliver targeted sales growth | There is a risk that we are unable to invest and execute effectively behind our brands and channels to deliver the targeted sales. |
| Failure to grow, reward and retain talent | Legacy issues impacting value creation in the early years of the plan may limit our ability to be market competitive in reward and retain key business leaders and talent. |
| Unable to access Capital to finance Plan | We need to be in a borrowing position until 2022/2023 and the majority of the Group's facilities extend to April 2022. Hence the Group is reliant on being able to refinance at competitive rates of interest. |
| Failure to deliver targeted NDW reductions | A failure to deliver targeted reductions within the timeline agreed will have a substantially negative impact on projected profitability. |

| Risk Category and Principle Risks | Context / Potential Impact |
|---|---|
| **External** | |
| Cyber Attack on Internal Systems | A Cyber Attack could significantly impact our ability to operate and / or damage brand reputation. |
| Lack of agility to respond to volatility | Brexit, the Trump administration's disruption of NAFTA and volatile currency rates could affect our sourcing and supply chain arrangements. |
| Lack of agility to respond to Business Interruption issues | We have not planned for or are insufficiently agile to respond effectively to a major business interruption. |
| **Legal & Compliance** | |
| A lack of compliance with global legislation | There is a risk that we are in breach of legislation anywhere in the world that could result in significant financial and reputational damage to Clarks. |

**Trend Key**

| | | | |
|---|---|---|---|
| (↑) Increased Risk | (↓) Reduced Risk | (—) No Change | (!) Emerging Risk |

| Principle Risk | Trend vs last year | Mitigation |
|---|---|---|
| **Transition** | | |
| Necessary Pace of change (systems & processes) | (—) | We have two main areas of focus each with detailed work streams:<br>– Robust governance over change.<br>– Effective roadmap and programme planning. |
| Development of capability | (↓) | – Strong progress made in recruiting skills to get the key Foundation programmes on track.<br>– Global merchant skills strengthened.<br>– Successful recruitment of high calibre digital engineers. |
| Retention & growth of existing concur base while attracting new consumers | (—) | – Improved holistic insight to augment current UK centric data is being developed.<br>– Ensuring the availability of strong assets and depth of content across each channel and segment.<br>– Maintaining and developing product targeted at mainstream consumers. |
| **Commercial & Financial** | | |
| Ability to deliver targeted sales growth | (—) | – Protection and robust measurement of marketing spend and effectiveness.<br>– Continued investment in Asia Pacific store environment.<br>– Continued development of capability across the entire value chain. |
| Failure to grow, reward and retain talent | (↓) | – Prioritising reward investment towards critical talent and increasing the use of non-financial recognition for key talent.<br>– Developing retention initiatives for key individuals.<br>– Fully funded bonus plan and 2-year framework in line with Market Pay review. |
| Unable to access Capital to finance Plan | (—) | – Rigorous focus on cash generation via stringent control of working capital and capital expenditure.<br>– Maintaining relationships with current banking group and building new relationships.<br>– Ensuring rigorous compliance with Group's facilities agreement. |
| Failure to deliver targeted NDW reductions | (!) | – Executive cross functional working Group established to drive the holistic programme of work to achieve the targeted reductions within the necessary timeframes. |

| Principle Risk | Trend vs last year | Mitigation |
|---|---|---|
| **External** | | |
| Cyber Attack on Internal Systems | ↑ | – A recent Cyber vulnerability review by external experts has been completed.<br>– Developing a coordinated approach and have appointed an experienced Interim Director of Security who is developing a holistic plan to reduce our vulnerability to a Cyber attack. |
| Lack of agility to respond to volatility | − | – Currently monitoring developments in trade and tariff and building agility in our supply arrangement and natural hedges in the business.<br>– A contingency plan in the event of a hard Brexit has been established and will be mobilised. |
| Lack of agility to respond to Business Interruption issues | ↓ | – A Global Crisis Management contingency plan has been developed.<br>– A Business Continuity co-ordinator has been appointed to manage and implement a robust Global Business Continuity plan. |
| **Regulatory** | | |
| A lack of compliance with global legislation | ↓ | – A robust compliance programme has been initiated and is making good progress on bringing the business into full compliance in areas where we are most susceptible to breaches. |

### Managing Risk

Our approach to Risk Management has been enhanced during 2018 and moved up to a more mature footing with the critical alignment of Risk with strategic planning. Supporting tools are in place to assist risk leaders and managers in managing monitoring and planning for risk and we continue to work on developing our Risk Management standards and guidelines. The Corporate Risk Register has been enhanced to facilitate daily monitoring of mitigating actions for both Principle and "Business as usual" risks. The leveraging of global contacts within Enterprise Risk Management and constant monitoring of world-wide intelligence helps to ensure that emerging risks are identified early where possible and mitigation introduced.

### Risk Management embedded in business processes

We strive to embed sound risk management in our strategy, planning and budgeting processes. The Audit & Executive Committees oversee and monitor the effectiveness of Risk Management processes implemented by management and detailed summaries of principle and emerging risks are provided quarterly to the both Committees. The Group Director of Risk Management will be inserted on the Boards of all major programmes key to delivering the 5 Year Strategic Plan to ensure that risks are identified early and mitigated appropriately. A Senior Risk Control Group has been established to further assist the Executive Committee in fulfilling its operational risk management responsibilities.

### Alignment of Internal Audit

The 2018 Audit programme was re-aligned to focus key activity in areas of principle risk to the strategic plan in tandem with compliance testing and key controls assurance.

### Working in Partnership

Risk Management & Internal Audit is closely aligned with the Finance, Legal and Compliance teams working in partnership to identify gaps in policies and procedures across the business with a strong focus on those areas where might appear to more vulnerable to compliance breaches. Group Compliance, Finance and Internal Audit support the Executive Committee by advising on policy and standard setting as well as reporting on the adequacy of line management processes as they apply to risk management.

### Compliance

A Head of Compliance and a Data Protection Officer have been appointed reporting to the Chief Legal Officer. Significant progress has been made in improving compliance in a number of high risks areas including Anti-Money Laundering, Sanctions, and the 2010 Bribery Act (including Gifts and Hospitality) in tandem with a revised and republished Code of Business Ethics delivered world-wide through global training. A GDPR compliance programme is in flight.

## Business resilience

We are developing a business resilience framework to govern our ability to prevent or quickly adapt to situations while maintaining continuous business operations and safeguarding our people, processes and reputation. Within this we will enhance our current business continuity plans to effectively address situations in which specific risks have the potential to severely impact our business. These plans will include training and crisis simulation for business managers.

## Brexit

### Watch Group

Clarks established a small cross-functional "Brexit Watch" group which meets periodically to discuss ongoing developments gathered regularly from a host of expert opinion. This opinion has continued to be broadly speculative until recently and has varied with emerging developments. Like most UK Retailers at the time we endeavour to address the known issues while trying to understand and quantify odds and scenarios, deconstruct Brexit into meaningful parts, assess worst case scenarios, identify trigger points and signpost, understand the signals and politics and spot the opportunities to drive change.

### Volatility

The weakening of GBP against all other currencies presented a significant known risk to the business, particularly in relation to USD product costs which are hedged using forward contracts to gain certainty of rate. On 23 June 2016 we were hedged out to SS17 and had been enjoying a USD1.55-1.60 rate for a number of seasons but had no FX cover in place for AW17 onwards. Post the Brexit result we placed FX cover for AW17 at 1.33, SS18 at 1.30 and AW18 at 1.30 which adversely impacted our P&L account compared to prior seasons as goods were sold.

- We continue to target FX planning rates for each season and ensure that the sourcing team are aware of the cover achieved to build in to the costing process
- Regular dialogue with FX desk at the banks to ensure we understand market movements and expectations
- Aim to maximise the level of natural hedges
- Regular updates are provided to the Executive Committee and Board so that the FX impact of Brexit on budget and forecasts is understood
- The Treasury committee took the decision to bring USD hedging to higher end of the permitted policy bands to mitigate the increased risk of sterling weakness as we approach March Brexit deadline.

### Trade agreements

When the UK exits the EU, there is likely to be increased cost and complexity of trading within and outside of Europe and bilateral trade agreements will need to be re-negotiated with no guarantees that such agreements would be as favourable as currently in place within the EU. At the time it was too early to make assumptions on the outcome, but the Group continued to monitor the negotiations as they progressed.

### Employment

Potential changes to the freedom of movement of people between UK and Europe are likely to have implications on our workforce and further caps on immigration could impact our ability to recruit key talent globally into the UK. While it was too early to make assumptions on the outcome at the time, we are aware of those areas within our business where we rely on European resource and those areas where we have UK employees based in Europe and will need to plan accordingly should freedom of movement be curtailed.

### Regulatory Implications

Currently we are subject to various EU laws and the UK government may decide to adopt laws which are contrary to those in force within the EU to which we will need to respond and comply as they are defined. Our Senior Customs and Tax Manager has assessed the impact for Clarks on leaving the EU Customs Union (in tandem with an assessment by KPMG commissioned at the time) which is still under debate but seems to be an inevitable outcome.

The EU Customs Union crucially enables the free movement of non-EU origin goods, which cannot be replicated by any of the versions of a UK-EU27 Free Trade Agreement (FTA) mooted. The customs implications for Clarks of leaving the EU Customs Union have been clearly assessed by Clarks Tax & Treasury and documented with mitigation measures and broadly cover:

- Continue to source footwear from the EU.
- The possible shape of the UK's future customs regime.
- Customs impact if continue to supply EU from Westway.
- Impact to EU27 Outlet business if continue to source from the UK.
- EU27 Returns to the UK.
- Continuation of Low Value Consignment Relief (LVCR).
- Servicing the EU27 market from a DC within the EU which is supplied directly from source and handle returns which supply the EU Outlet business.
- Consideration of European DC being Bonded (Customs Warehouse).
- Non-customs regulatory implications relevant to Clarks have also been considered.

**AEO Status**

During 2018 Clarks applied for and was granted Authorised Economic Operator status in 2018 – this enables Clarks to continue to use simplified customs procedures and Customs Warehouse and will enable Clarks to be treated as a 'Trusted Trader' as part of any future trade agreement between the UK and the EU post Brexit as Clarks operates approved systems for imports and exports.

**European DC**

Funding for an EU 3rd Party DC in Krefeld Germany was approved during 2018 and this is scheduled to become operational in Q3 2019.

**Footwear Panel**

Clarks has joined a government initiative Footwear Trade Panel under the Department of Business, energy and industrial strategy which met for a second occasion on January 16th, 2019. The main focus of this panel event will be to discuss a range of EU Exit scenarios going forward, in relation to the Footwear sector. In addition, as there is much alignment in terms of supply chain between the Footwear and Leather sectors, BEIS and the BFA, have also invited members of UK Leather Association to join our meeting. Representatives from the Department for Exiting the European Union, the Department for International Trade and HM Revenue & Customs will also be in attendance. The panel will broadly discuss the following scenarios in relation to how rules of origin would be used for imported and exported products within complex supply chains.

Clarks has also worked closely with the British Retail Consortium (BRC) to ensure our concerns over Brexit are considered as part of the BRC's representation to the UK Government.

## Potential Brexit Outcomes

As it currently stands there are broadly 3 possible outcomes:

1. Withdrawal Agreement (WA) approved by Parliament.
2. No-Deal.
3. Article 50 Extended or Revoked before 12 April Deadline.

## No deal mitigations

With a no deal Brexit becoming increasingly likely, we have developed an emergency mitigation plan which will be invoked if it becomes clear that a no deal is inevitable.

# CORPORATE RESPONSIBILITY

It is important that our employees, stakeholders and shareholders feel that we take our social, ethical and environmental responsibilities as a global footwear brand seriously.

We continue to drive responsible and sustainable practices across our global business. The key areas of environment, suppliers and community remain our primary areas of focus for progressive action.

Our approach to driving responsible and sustainable practices continues to be:

- Business wide.
- Leadership led through key governance forums covering Responsible Sourcing, Responsible Operations, People and Ethics and Charity & Community.
- Efficiently resourced.
- Aligned with broad yet tangible goals relevant to our sector.

In 2018, we aligned our Corporate Responsibility strategy to the United Nations Sustainable Development Goals by becoming a signatory to the BRC's Better Retail, Better World initiative.

The Sustainable Development Goals are a call for action by all countries – poor, rich and middle-income – to promote prosperity while protecting the planet. They recognize that ending poverty is closely linked with strategies that build economic growth and address a range of social needs including education, health, social protection, and job opportunities, while tackling climate change and environmental protection.

The BRC initiative brings together brands and retailers to work towards the five most relevant sustainability goals and their specific targets for our industry and operations.

We have outlined below our activities, progress and plans under these five goals.

## Decent Work and Economic Growth

### Safer supply chain practices

Our supply chain impacts thousands of people around the world. Committing to respecting human rights, supporting sustainable operations and supporting the development of skills is part of our responsibility.

Our supply partnerships operate within stringent practices and we continue to seek the highest standards of operation from our suppliers. In 2018, we extended training on our Code of Business Ethics, reiterating the high standards we expect.

As a member of the Consumer Goods Forum (CGF) we are committed to their three priority principles to prevent and mitigate the risk of forced labour. The three principles cover freedom of movement, no worker should pay for a job and no worker should be indebted or coerced to work. Our Supplier Code of Practice sets the working condition standards we expect all our suppliers to meet. This has been updated to specifically included these three priority principles and other changes to promote improved working conditions within our supply base.

In 2018 we maintained and extended the scope of our supplier audit programme to include additional suppliers of materials and components used in the production of Clarks products as well as the footwear suppliers used by our licensee in Australia. As well as introducing guidelines for suppliers on effective grievance and communication mechanisms within their facilities we have piloted the undertaking of worker surveys using relevant social media platforms in parallel with our audits for us and the factory to gain a greater insight into the worker sentiment.

Training has been provided and changes made to support our focus and efforts to ensure that our audit programme best serves to promote and develop longer term, sustainable improvement in working conditions within our supplier facilities.

## Reduced Inequalities

Inequalities are widening across the world and as a major direct and indirect employer in multiple countries we believe we have a role to play in improving equality. Our activities take three forms:

**Employment opportunities**

In our UK and US businesses we provide work experience placements and we are an accredited Apprenticeship Employer within the UK, offering apprenticeships both in retail management, product development and corporate functions. In 2019, we will consider how more of these placements can benefit young people facing one or more barriers to entering employment.

Our support for families and young people with autism continues with a primary focus of ensuring individuals on the autistic spectrum can access our retail environments confidently and comfortably. We work with autism charities and specialists to provide training for our retail store colleagues which enables them to identify and work with the needs of people with autism when they are shopping with us. In 2019 we will be implementing a 'quiet hour' everyday across all our stores – specifically designed to create a more conducive shopping environment for those individuals who benefit from it.

**Charitable Giving to increase opportunity for others**

Our charitable giving support is targeted at reducing inequality and increasing physical or social mobility.

In the UK, we have established a partnership with the National Literacy Trust and will be supporting 'Skills Academy' helping to improve children's reading ability both through funding physical movement programmes and access to increased reading support in schools and in the home. The Trusts research has shown that a child's reading ability has a direct impact on educational attainment, social mobility, earnings potential and life expectancy. Our position as the leading brand in children's school shoes in the UK enables us to partner effectively with the Trust to increase awareness and provide funding for their important work.

In China our Shanghai based team works proactively raising funds and volunteering to provide equipment and facilities for high school students living in remote areas.

Our US Retail stores also conducted their annual fundraising campaign providing the ability to make consumer donations to support two organisations:

- Sixty-percent of total proceeds from the campaign was donated to Triangle, a non-profit that empowers people with disabilities to enjoy rich, fulfilling lives. This will create job opportunities, provide loving homes and deliver safety training programs for many within Triangle's community.
- The other forty-percent of total fundraising campaign proceeds was donated to Limbs for Life, an organisation dedicated to providing fully-functional prosthetic care for individuals who cannot otherwise afford it and raising awareness of the challenges facing amputees. The single most impactful item for an amputee is a functional prosthetic limb, because it enables social interaction. Our donation will result in 22-25 individuals receiving new prosthetic limbs in 2019.

We also have a long-standing partnership with the international children's charity UNICEF. Through our Shoe Share product recycling programme, we support delivery of UNICEF's 'school in a box' which brings educational and teaching materials to children in parts of the world where traditional classroom learning proves difficult.

## Sustainable Cities and Communities

### Local community involvement and support

Our employees are key to our community investment efforts and we encourage them to engage and connect with the communities they serve. Employees are encouraged to give back and in 2018, were provided with various opportunities to volunteer their time for causes supported by Clarks and for causes meaningful to themselves.

In the UK, particularly in Street, we actively partner with local educational institutions, provide small scale funding for local community facilities and sponsor young talent awards within Somerset.

In the Americas, our support for local non-profits in 2018 included donations to the Waltham Boys and Girls Club, whose mission is to inspire and enable all young people, especially those facing significant needs, to realise their full potential as productive, responsible and caring citizens; and, to the Waltham YMCA, an organisation focused on youth development, healthy living and social responsibility.

## Responsible Consumption and Production

### Use of responsible materials in our products

In 2018, we developed and launched a Responsible Materials Roadmap, which sets our ambitions and focus for responsible sourcing and reducing our environmental footprint through proactive engagement with more sustainable materials. We continued to increase the percentage of Clarks- specified leather for footwear sourced from tanneries with bronze, silver or gold certification against the Leather Working Group Environmental Stewardship Protocol, reaching 98% for seasons developed in 2018 (AW18 and SS19).

Throughout the year, we worked on identifying and using a broader range of responsible materials, this included integrating recycled materials within key components such as foams, toe puffs and strobel socks. Additionally, our Kids range switched a key mesh to recycled polyester.

### Responsible consumption

In 2019, we will convene a Responsible Operations Committee to govern Clarks environmental obligations and drive further improvements to our waste and carbon footprints. This will build on the good work already undertaken, which includes review of our shoeboxes for AW19 which will increase the recycled paper content to 90% and reduce the amount of material used by 12%.

Our Sustainability Champions in the UK and US led an employee campaign to reduce single use plastics and coffee cups in our offices and distribution centres. By the end of the first week of the campaign we saved half a tonne of single use materials and are forecast to save 26 tonnes within the first year.

Shoe Share, our shoe takeback initiative delivered in partnership with UNICEF, continued in 2018, diverting approximately 200 tonnes of used shoes away from landfill.

## Climate Action

We operate in parts of the world that are at risk of impact from the changing climate. In 2019 we will focus on identifying and setting out a comprehensive plan to co-ordinate and communicate our actions in support of reducing these global risks.

### Energy Use and Carbon Reduction

Building on our carbon reduction programmes within our operations continues steadily, which is in turn reducing our greenhouse gas emissions. LED lighting upgrades continued within our offices, as well in 20 stores that were refreshed. Our main UK Distribution Centre lighting upgrade in 2016 continues to contribute significantly to our overall reduced electricity load. We are interested in reducing our reliance on traditional energy sources, with a few of our stores in the UK already being solar powered. From October 2018, our offices, distribution centres and stores in Great Britain are supplied by REGO-backed green energy tariffs, with the equivalent tariffs supplying our Northern Ireland, Belgium and sites in The Netherlands. We will continue to review the availability of Renewable Energy Certificates (RECs) for our North American and Asia Pacific estate in 2019 and beyond.

### Deforestation

In 2018, we undertook a mapping exercise to identify deforestation risks within the leather supply chain. As a result, we are working to extend our policies, find opportunities to collaborate and expand our programme to a wider range of forest related commodities.

# REMUNERATION REPORT

### Statement by the remuneration committee chair

The Remuneration Committee is pleased to present its report on the remuneration policy and practice over the financial year ended 2 February 2019.

The Remuneration Committee annually reviews the remuneration policy to ensure that the Company's remuneration arrangements are aligned to its strategy with strong linkage between long-term performance, reward and our shareholders' experience.

The Committee's intention is to give shareholders assurance that:
- Compensation structures are straightforward and understandable and clearly link performance expectations, outcomes and rewards;
- Incentives reward good operational and long-term decisions aligned with the Company's strategy;
- Performance measures and targets are transparent and integrated with the Company's strategic objectives;
- If discretion is used, it will be well balanced and justified; and
- All compensation programmes are aligned with the long-term interests of our shareholders.

### 2018/19 Remuneration Decisions

This year has been a challenging year and I would like to take you through 5 key decisions we made as a Remuneration Committee.

**1. What compensation was paid to Mike Shearwood when he left Clarks?**
No severance or incentive compensation was paid to Mike Shearwood. He resigned on 25 June 2018 and was paid his salary until the end of that week.

**2. How did we compensate Stella David for her service as Interim CEO?**
The unplanned departure of Mike Shearwood created an immediate need for executive leadership in the business whilst a search was undertaken for a permanent CEO. In accordance with the Board's emergency succession plan, Stella David (the Company's Senior Independent Director) was asked to take on the role of Interim CEO. We were fortunate to be able to call on such a proven CEO to stabilise the business and Clarks has benefitted enormously from Stella's extensive experience and energising leadership. Given the focus on resetting the strategy and business plans, we determined that a traditional performance

incentive-driven approach was not appropriate and elected instead to pay Stella a fixed monthly fee of £140,000. This was based on external advice on market rates for external interim support. This approach has served Clarks well in ensuring outstanding leadership in a period of considerable uncertainty.

**3. Given the poor business performance in 2018/19, did we pay any incentive compensation?**
No, we didn't pay any annual incentives to management. The Company did not meet the required performance conditions of the incentive plan, so no payments were made. This reflects our pay for performance philosophy.

Furthermore, no pay-outs or awards were made under the Company's Long-Term Incentive Plans.

Some office-based employees who took part in local market or channel-specific incentive plans did receive a pay-out, where the performance conditions were met or exceeded. Most notable of these were employees supporting Asia Pacific commercial operations, where commercial performance was broadly in line with, or ahead of targets.

Front line staff in our some of our stores and warehouses did receive pay-outs under their commission-based schemes.

**4. How should we structure compensation to align management with the interests of our shareholders and incentivise significant share price recovery?**
Given the unusually challenging state of the business and the urgent need to focus on restoring the business to profitability, we have made significant changes to the compensation of our top 60 leaders. We have discontinued our Annual Incentive and Long-Term Incentive plans for this group of leaders for the next 5 years, which is the horizon of a new Strategic Plan formulated by the Executive team.

We are putting in their place a single 5-year Strategic Incentive Plan, based on the following principles:
- A simple design based upon just one metric, the Clarks share price;
- pay-outs will be driven directly by the creation of sustainable profits for shareholders;
- pay-outs will only be made to participants if dividend payments are being made to shareholders;
- there should be direct linkage with the desired outcomes under the 5-year plan; and
- the P&L impact in 2019 should be mitigated by phasing pay-out timing.

Here are the key features of the new plan:
- Each participant receives a single award at the start of the 5 year cycle – this will be in the form of notional share units (not actual shares);
- a percentage of the awards vest each year, but only when each of the 5 increasing share price targets (£4, £5.50, £7, £8.50 and £10) is reached. The share price must be maintained for two valuations (not necessarily successive) for awards to vest;
- awards are weighted towards the achievement of the higher share price targets; and
- when share price targets are met and maintained, participants can choose to exercise their vested awards or hold onto them to benefit from the potential of a higher share price over the balance of the 5 year plan.

We are very mindful of the need for sustained dividend payments for shareholders. Therefore, no payments can be made under the plan unless dividend payments have been made to shareholders during the prior 3 month period. Vested notional shares, if held, attract dividend payments just as ordinary shares would do.

In addition to the above and in order to protect the interests of shareholders and align participants to the long-term we have also included malus and clawback provisions in line with good market practice.

The Committee believes this Strategic Incentive Plan aligns the interests of our senior leaders directly with our Shareholders by using share price as the plan metric and the use of notional share units to deliver the same economic benefits as actual ordinary shares.

Awards will be made in April 2019.

**5. How are we compensating our new CEO?**
Giorgio Presca has been appointed CEO with effect from 11 March 2019. He is a proven CEO with significant turnaround experience and expertise in the shoe industry. His compensation will be reported in full in next year's Remuneration Report, but the headlines are as follows:

| | GBP / £ |
|---|---|
| Base Salary | 850,000 |
| Pension Supplement | 170,000 |
| Sign-on bonus payable at 12 months | 165,000 |
| Sign-on bonus payable at 24 months | 165,000 |
| Commuting Allowance<br>(in place of car allowance and relocation) | 70,000 |

The total remuneration package was required to attract Giorgio to the role and there is clear alignment between Giorgio's compensation package and the interests of shareholders. Giorgio's remuneration is competitive, with a base salary necessary to attract, motivate and reward someone of his calibre and experience. Two sign-on bonuses payable after 12 and 24 months' service are designed to ensure continuity in his net cash compensation compared to his previous employment during the first 2 years of his appointment. Importantly, a significant majority of Giorgio's compensation is driven by the Clarks share price; the Strategic Incentive Plan offering a substantial opportunity if our share price returns to attractive levels. While awards under the plan are generally capped at £15 per share, the CEO's award will be capped at a maximum of £20 per share.

## Other Remuneration Committee agenda items in 2018/19

During the year, the Committee considered and made decisions on:

### Pay arrangements

- Annual review of all Executive Directors' and senior managers' base salaries and benefits in line with policies and approval of any salary increase.
- Review of, and agreement to, remuneration packages for new Executive Directors and senior managers.
- Review of, and recommendations made to the Board on, Non-Executive Directors' fees.

### Annual Incentives

- Review of achievement of annual incentive scheme 2018/19 performance outcomes against targets and approval of any bonus payments due.
- Review of the structural design, performance measures and targets for the 2019/20 annual incentive schemes.

### Long-term incentive plan

- Review and approval of awards, measures and targets for the 2018–21 LTIP cycle.
- Half-year and year-end review of all incentive scheme performance against targets.
- Review and approval of new Strategic Incentive Plan for Executives and Senior management for use from 2019, aligning to shareholder value and encouraging value creation through sustainable profitable growth and share price growth.

### Governance and external market insight

- Review of Committee's effectiveness in 2018/19.
- Consideration of external market developments and best practices in remuneration including the new corporate governance reporting requirements for all UK companies that apply for accounting periods on or after 1 January 2019.
- Review of remuneration strategy, policy and arrangements for the wider workforce.
- Review of the Company's UK Gender Pay Gap report and action plans.
- Approval of the Directors' Remuneration Report for 2018/19.

### Remuneration Committee action plan 2019/20

- Ensure the continued strategic alignment of the Executive Directors' incentive arrangements.
- Debate and agree the appropriateness of the Remuneration Policy in the context of the rest of the organisation and emerging requirements for changes in corporate governance of private companies.
- Compliance with the new corporate governance requirements and how it applies to remuneration.

We remain committed to ensuring that our remuneration arrangements support our strategy and deliver sustainable value to our shareholders.

Lucien Alziari
**Chair of the Remuneration Committee**
5 April 2019

## Remuneration policy overview

### Reward principles

All our compensation programmes are designed to align the interests of our employees with those of our shareholders. To achieve this goal, we use the following principles when determining pay and reward:

- Fairness
- Market-alignment
- Performance driven
- Long-term orientation
- Straight-forwardness

### General reward policy

The Company aims to provide a remuneration package for its employees which is market aligned and competitive. Packages are designed to reward, motivate and retain high performers in line with the risk appetite of the Company. Remuneration is considered within the overall context of our sector and the markets in which we operate.

The policy for most employees continues to be to pay around the relevant mid-market range, with a competitive package designed to broadly align the interests of employees with those of shareholders with an appropriate proportion of total remuneration directly dependent upon Company and individual performance. Overall compensation packages for Executive Directors and senior management are designed to be weighted towards the long-term performance with typically a 40:60 split between short-term and long-term compensation.

Each year, prior to reviewing the remuneration of the Executive Directors and senior management, the Remuneration Committee considers a report prepared by the Chief People Officer, detailing remuneration practices across the Group. The report provides an overview of how employee pay compares to the market and includes detailed analysis of basic and variable pay changes within the UK.

Whilst the Company does not directly consult with employees as part of the process of reviewing executive pay and formulating the remuneration policy, management and the Committee do receive an update and feedback from the broader employee population on a regular basis using an employee opinion survey which includes several questions relating to remuneration.

## Overview of key elements of remuneration

| Element | Structure |
|---|---|
| **Basic salary**<br>Support recruitment and retention of employees with the necessary experience and expertise to deliver the Company's strategy. | **Set based on:**<br>– Personal performance<br>– Size, scale and impact of the role<br>– Knowledge, skills and experience<br>– Competitive market practice<br>Salaries are reviewed annually in the context of market forecast inflation, market competition, legislative requirements and overall business affordability. |
| **Pension** | Employees are given the opportunity to save for the long-term in either a Company pension scheme or similar long terms savings plan or as a salary supplement. |
| **Benefits**<br>Provides a competitive level of benefit provision commensurate with typical market practice. | Benefits vary by type and seniority of role and typically include employee discount on products, holiday pay, company car allowance, private medical insurance and life assurance. |
| **Share Incentive Plan** | The Company operates a Share Incentive Plan. Under this plan, eligible employees may save up to 1% of their gross salary which will be used to purchase ordinary shares. One matching share will be allocated for each share purchased under the plan. |
| **Annual Incentive**<br>Incentivises employees to deliver in-year goals that are aligned with the Company's strategy and the creation of value for shareholders. | Most of our employees participate in discretionary annual incentive scheme, dependent upon their role and location with on-target earnings ranging between 10–50% base salary. The incentive scheme with the largest number of participants is the Company's Global Bonus Scheme.<br>Annual incentive schemes are set at Group and market level each year, focusing on the delivery of critical goals of the Company and the creation of value for shareholders.<br>Incentives are paid in cash shortly after the end of the financial year to which they relate.<br>Measures are typically determined by the financial objectives for the coming year in line with our budget. Targets are set to reward stretching performance.<br>The Remuneration Committee has ultimate discretion over all incentive payments. |
| **Long-term Strategic Incentive Plan**<br>Incentivises key individuals towards long-term sustainable financial results and encourages their retention by increasing their stake in the future of the business. | Executive Directors and senior management, in recognition of the strategic and influential role that they hold in terms of driving company performance as well as their individual contribution participate in the long term Strategic Incentive Plan.<br>Where appropriate, participation may also be granted to new employees who join the Company in key roles during the term of the plan.<br>In respect of the financial year 2019/20 awards will be made in the form of notional share units. Vesting is subject to the achievement of share price growth targets, which are set in accordance with the financial objectives and shareholder value creation expected over the term of the plan.<br>Share price is independently calculated at the half year and year end annually.<br>On achievement of share price targets, a proportion of awards vest, and can be 'sold', or retained against future share price growth.<br>The award is delivered in cash with actual pay-outs based on Clarks' share price at the point of 'sale'.<br>In order to ensure the performance is sustainable, the share price hurdles for each tranche must be met at two valuation dates before awards may vest.<br>The plan rules also provide there can be no encashment of a vested award unless a dividend has been paid to shareholders in the preceding 3 months.<br>Malus and Clawback apply to awards made under the Plan.<br>Participation in one long term Strategic Incentive Plan does not guarantee participation in future long-term incentive plans.<br>The Remuneration Committee has ultimate discretion over the Strategic Incentive Plan participants and payments. |

## Recruitment policy

| Component | Policy |
|---|---|
| General | Our approach to remuneration in recruitment is to pay no more than is necessary to attract appropriate candidates to the role.<br>Any new Executive Director's ongoing package should be consistent with our remuneration policy as set out in this report. |
| Replacement awards | We seek to structure any replacement awards such that they are no more generous in terms of quantum or vesting period than the awards due to be forfeited. In determining quantum and structure of these commitments, we seek to replicate the fair value and, as far as practicable, the timing and performance requirements of remuneration foregone. |
| Sign-on payments/recruitment awards | Our policy is not to provide sign-on compensation.<br>However, in exceptional circumstances, compensation for amounts lost at a previous employer may be made on a case-by-case basis and where considered by the Remuneration Committee to be necessary.<br>Where appropriate, payment may be subject to performance conditions and/or a holding period. |
| Relocation | In instances where an individual is required to move within the UK or internationally to carry out their role, the Company will pay relocation benefits in accordance with its relocation policies. |

## Loss of office policy

| Component | Policy on exit |
|---|---|
| General | When determining any loss of office payment for a departing individual we will always seek to minimise cost to the Company whilst seeking to reflect the circumstances in place at the time. Therefore, the Remuneration Committee retains overriding discretion to make loss of office payments appropriate to the circumstances and applying the overriding principle that there should be no reward for failure. |
| Basic salary, pension and benefits | Salary, pension and benefits will be paid during the notice period. The Remuneration Committee has discretion to make a lump sum payment on termination equal to the value of salary, pension and benefits payable during the notice period. |
| Annual Incentive | Should an individual leave during the annual incentive performance period, entitlement to all the annual incentive payment is forfeited, except in good leaver circumstances (e.g. retirement with agreement of the employer, ill health, injury, disability, redundancy).<br>For a good leaver during the annual incentive performance period, the payment will be pro-rated and payable after the end of the financial year. If the employing entity is sold during the performance period, the Committee may make an incentive payment for the portion of the year passed. |
| Long-term Strategic Incentive Plan | Should an individual leave for any reason during the performance period, any un-vested awards are forfeited.<br>Any vested, unpaid awards are retained and exercisable in accordance with the plan rules. |

## Remuneration policy for Non-Executive Directors

| Element | Structure | Opportunity |
|---|---|---|
| **Non-Executive Director fees**<br>Reflects level of responsibilities and time commitments required for Board and Board sub-committee meetings.<br>Supports recruitment and retention of Non-Executive Directors with the necessary experience to advise and assist with establishing and monitoring the Company's strategic objectives. | Non-Executive Directors are not eligible for pension scheme membership and do not participate in the Company's incentive schemes or other incentive schemes.<br>The Chairman, Thomas J O'Neill was also entitled to reimbursement of the costs for private medical insurance. | Fees for Non-Executive Directors are set at broadly the median of the comparator group of similar sized companies.<br>Any fee increase for the Non-Executive Directors is determined by taking account of current market practice, whilst being mindful of the overall pay award to the broader employee population.<br>The company pays reasonable expenses incurred by the Chairman and Non-Executive Directors. |

### Executive Director service contracts

The Executive Directors have service contracts terminable on six months' notice. There are no provisions in Directors' service contracts for compensation in respect of early termination of a contract. However, there is an obligation to pay for any notice period waived by the company. Dates of commencement of service for Executives who have served during the year are as follows:

- Mike Shearwood from 30 September 2016 (ceased on 25 June 2018)
- Paul Kenyon from 7th August 2017
- Stella David from 25th June 2018

## Remuneration policy application in 2019/20

The table outlines the remuneration policy and how it will be implemented for Executive Directors in 2019/20.

| Element | Opportunity in 2019/20 | Change from 2018/19 |
|---|---|---|
| Basic salary | **Base salaries from 1 April 2019** | |
| | Giorgio Presca (CEO) £850,000 | N/A |
| | Stella David (Interim CEO) Monthly payment of £140,000 (to cease 4 April 2019) | No change |
| | Paul Kenyon (CFO) £525,000 | No change |
| Pension/salary supplement | **Salary supplement** | |
| | Giorgio Presca (CEO) £170,000 | N/A |
| | Stella David (Interim CEO) not eligible | No change |
| | Paul Kenyon (CFO) £105,000 | No change |
| Benefits | As determined by the cost from year to year | No change |
| Commuting Allowance (in place of car allowance and relocation) | Giorgio Presca £70,000 | N/A |
| Annual Incentive | Not eligible | Participation excluded and reflected with participation in new Strategic Incentive Plan |
| Long-term incentive | New Strategic Incentive Plan, aligned to shareholder value, replacing all other incentive plans; | |
| | Giorgio Presca, CEO<br>Target year 1 on target earnings (10% vesting) | |
| | Stella David, Interim CEO<br>Not eligible | |
| | Paul Kenyon, CFO<br>Target year 1 on target earnings (10% vesting) | |

## Directors' pay in 2018/19

Single total figure of remuneration for Executive Directors for 2018/19.

| Director | Salary £000 | Salary supplement £000 | Benefits £000 | Annual bonus £000 | Long term incentive[3] £000 | Total 2018/19 £000 | Total 2017/18 £000 |
|---|---|---|---|---|---|---|---|
| Mike Shearwood (1) (from 30th September 2016) | 217 | 89 | 10 | – | – | 316 | 985 |
| Paul Kenyon (2) | 485 | 108 | 1 | – | – | 594 | 477 |
| Stella David (3) | 1,012 | – | – | – | – | 1,012 | – |

(1) Mike Shearwood left office on 25 June 2018 and 2018/19 figures reflect a reduced period of service.

(2) Paul Kenyon commenced office on 7 August 2017 and so 2017/18 figures reflect remuneration in relation to that period only.

(3) Stella David took up Interim CEO office on 25 June 2018 and 2018/19 figures reflect remuneration in relation to this role and period only.

### Base salaries

Mike Shearwood's salary was increased by 2.5% to £615,000 on 1 April 2018. This was consistent with the increase to the salaries of the corporate employee population during 2018.

Paul Kenyon's salary was increased by 2% to £459,000 on 1 April 2018, consistent with the increase for the corporate employee population. His salary was further increased by 14.4% to £525,000 on 3 September 2018, to reflect additional duties and responsibilities.

Stella David's compensation was set at a payment of £140,000 per month when she took up the Interim CEO role on 25 June 2018 with £40,000 of each monthly payment deferred until the end of the appointment No increase has been applied since.

### Salary supplements

Salary supplements in the above table relate to payments made in lieu of pension contributions.

As part of their service contracts, Mike Shearwood and Paul Kenyon were eligible to join the Clarks' Flexible Pension Scheme or take a salary supplement of 20% of salary. Both opted to take the salary supplements, which are subject to statutory deductions.

Stella David is not eligible to join the Clarks' pensions scheme (Clarks Flexible Savings Plan) or take a salary supplement.

### Benefits

Benefits arising from employment by the company mainly relate to the provision of company cars, health insurance and life assurance.

### Annual Incentives

Annual incentive awards accrued in 2018 were those made in the financial year 2018/19. The performance period for the Group bonus plan ended on 31 January 2019. The performance conditions for payment were Group Underlying Operating Profit, Unlevered Free Cash Flow and Net Margin, and later revised to Group Underlying Operating Profit only. Target performance was not achieved; therefore, no payment was made. The below table sets out the incentive opportunity and outcomes over the year.

| Metric | Weighting % | Proportion of maximum earned % |
|---|---|---|
| Group underlying operating profit | 50 | 0 |
| Free Cash Flow | 25 | 0 |
| Net Margin | 25 | 0 |

| Individual | Salary £000's | Maximum opportunity % of salary |
|---|---|---|
| Mike Shearwood | 615 | 0 |
| Paul Kenyon | 525 | 0 |

### Long-term incentives (LTIs)

No accrual has been made for Long-Term Incentives in financial year 2018/19. No long-term incentive payments were made during 2018.

### Loss of office

No payments were made in respect of loss of office during the financial year 2018/19, either to Executive or Non-Executive Directors.

**Long-term incentive awards granted during the year 2018/19**

No awards were granted during 2018/19.

**Replacement awards made**

No replacement awards were made in the period, but an award of £300,000 (anticipated for performance conditions) granted to Paul Kenyon on recruitment (and previously reported in last year's report) was amended such that it is now payable in two tranches conditional upon additional extended retention criteria, namely that Paul Kenyon continues to be employed by the Group on 29 February 2020 (£200,000) and secondly, 28 February 2021 (£200,000). There are further conditions to these payments; namely no adverse performance reviews and the group being profitable at an Underlying Operating level in the immediately preceding annual financial period. This amendment was made shortly after the departure of Mike Shearwood.

**Appointment of new Executive Directors and senior management**

The Remuneration Committee used in-depth competitor and market comparator benchmarking information provided by their external advisors, PwC, to construct overall compensation packages for each of these appointments, with each element appropriately positioned against the market.

Stella David was appointed into the role of Interim CEO on 25 June 2018.

Louise Franchomme was promoted into the role of Chief Merchandising Officer on 3 September 2018 and her remit was extended to Chief Product & Merchandising Officer on 5 November 2018.

Tara McRae was appointed into the role of Interim Chief Marketing Officer on 21 January 2019 and was confirmed in role as Chief Marketing Officer upon successful completion of the relevant visa processes.

**Changes in CEO pay in 2018/19 compared to that of the UK workforce**

The average pay increase to the UK workforce during 2018/19 was 4.4%, largely driven by the statutory uplift in the National Minimum Wage and National Living Wage rates, mainly applied to Retail store employees. The salary increases applied in April 2018 for Mike Shearwood (2.5%), and Paul Kenyon (2.0%) were in line with the recommended increases for office-based staff, based on positioning within pay ranges, and individual performance rating.

The further salary increase applied in September 2018 for Paul Kenyon, reflective of extended responsibilities was in line with typical increases applied to office-staff in promotion situations or scenarios of significant increased responsibility.

**National Living Wage**

The Group elected to implement the "age 25 and over" National Living Wage rate from 1 April 2016, to all eligible employees, even those under the age of 25. This has been at a cost to the Company of £2.4m in 2018 and is of benefit to 4,200 employees. The Company intends to continue to implement the National Living Wage on this basis going forward, in line with the rates set by the UK government, the most recent rise being in April 2019 to £8.21 per hour and a cost to the Group of £1.2m.

**Gender pay gap**

The committee has noted that the Company is obligated to publish its gender pay gap figures annually at 5 April 2018 and annually thereafter at or before 4 April on the following year. The Group has published these figures for 2018 on its website.

The Committee notes that the reported gender pay gap for the Company is not far out of line with the national average and for the retail sector, where the flexibility of part-time working in stores attracts a predominantly female employee base. The Committee is however committed to continuing to work with the executive team in reducing the gap and of the business to optimise gender balance at each work level.

## Non-Executive Director fees

The table below sets out Non-Executive Director fees paid by the Company in respect of the financial year 2018/19.

| Director | Basic annual fees £000 | Additional fees and benefits £000 | Total fees 2018/19 (actual) £000 | Total fees 2017/18 (actual) £000 |
|---|---|---|---|---|
| Thomas J O'Neill | 206 | 41 (6) | 247 | 245 |
| Lucien Alziari (1) | 52 | 15 | 67 | 54 |
| Walker Boyd (2) | 52 | 10 | 62 | 56 |
| Timothy Campbell (3) | 43 | – | 43 | 46 |
| Stella David (4) | 21 | 4 | 25 | 51 |
| Tobias Zimmerer | 52 | – | 52 | 27 |
| Tanya Cordrey | 52 | – | 52 | 27 |
| Ben Lovell | 52 | – | 52 | 46 |
| Peter Clark (5) | 10 | – | 10 | – |

(1) Lucien Alziari's remuneration includes £10k (2017/18 - £8k) for his role as Chair of the Remuneration Committee, and £5k (2017/18 - £0k) for his role as Senior Independent Director from 25 June 2018.

(2) Walker Boyd's remuneration includes £10k (2017/18 - £10k) for his roles as Chair of the Audit and Share Valuation Committees.

(3) Timothy Campbell resigned from the Board on 20 November 2018.

(4) Stella David's 2018/19 total reflects the fact that she ceased Non-Executive Director duties on 25 June 2018. Her remuneration includes £4k (2017/18 - £5k) for her role as Senior Independent Director, up to 25 June 2018.

(5) Peter Clark was appointed to the Board on 20 November 2018.

(6) Anticipated reimbursement of private health care costs.

Having taken external advice from its advisors, PwC, the Remuneration Committee noted that the Non-Executive Director fees of the company were below market median levels. The Company increased fees to reflect market median levels on 1 February 2018

## Additional fees to Non-Executive Directors

Fees payable to Non-Executive Directors for various Board activities are as follows:

- Chairman's fee: £206,000
- Non-Executive Director basic fee: £52,000
- Senior Independent Director fee: £10,000
- Audit Committee / Share Valuation Committee Chair: £10,000
- Remuneration Committee Chair fee: £10,000

## Non-Executive Directors' agreements for service

Non-Executive Directors are required by the Company's constitution to resign after a maximum of three years of service but may be re-elected by an ordinary resolution of the shareholders at the AGM. After nine years' service any re-election is for one year only and must be by special resolution of the shareholders. Service can also be terminated by either the director or the Company giving notice to the other.

The table below sets out the dates of appointment for current members of the Board.

## Directors' dates of appointment and share interests

The table below sets out the dates of appointment and share interests for members of the Board as at 2 February 2019.

There is no requirement that a director own shares in the Company. The Company's Articles of Association permit a director to acquire up to 10,000 ordinary shares.

| Director | Date of appointment | Ordinary Shares in the capital of C&J Clark Limited |
|---|---|---|
| Thomas J O'Neill | 10th May 2004 | 10,000 |
| Lucien Alziari | 4th January 2016 | 5,000 |
| Walker Boyd | 4th January 2016 | 2,500 |
| Timothy Campbell | 6th May 2010 (1) (3) | 2,621,361 |
| Stella David | 1st March 2012 (Interim CEO from 26th June 2018) | 100 |
| Tobias Zimmerer | 1st July 2017 | – |
| Tanya Cordrey | 1st July 2017 | – |
| Ben Lovell | 17th November 2016 (2) (3) | 2,076,426 |
| Peter Clark | 20 November 2018 (3) | 303,348 |
| Paul Kenyon | 7 August 2017 | 10,000 |

(1) Tim Campbell resigned on 20 November 2018.

(2) Ben Lovell previously served as Non-Executive Director between 1999 - 2005.

(3) Shares owned other than by reason of directorship.

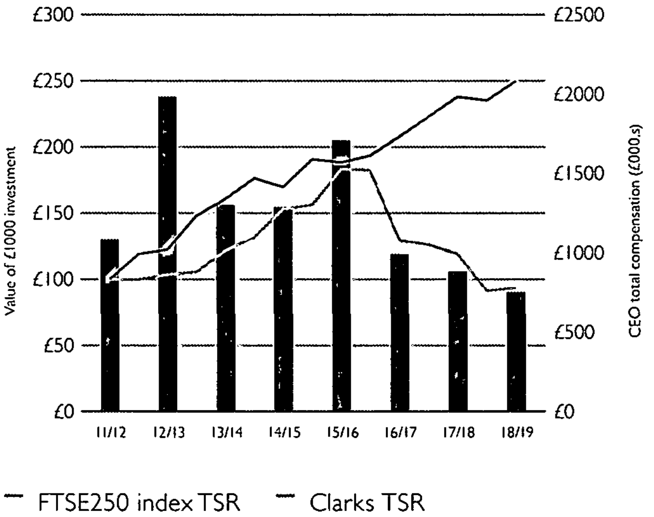
## Performance and CEO remuneration comparison

Total Shareholder Return (TSR) represents the return on investment in shares of a company over a given period if all dividends are re-invested and any rights issues were taken up.

TSR is a metric used predominantly for publicly traded companies to allow comparisons between public companies' performance and therefore is not an entirely comparable measure for a private company such as Clarks. However, a comparison provides a useful indication of how an investment in a share in Clarks compares to a share in the public capital market. The external share valuation for Clarks conducted by PwC assumes a willing buyer and seller, is based on a minimal volume of transactions and does not fully account for external market forces.

The below chart is based on the purchase of £100 of shares in both Clarks and the FTSE 250 index in September 2011 and uses share valuations between this date and September 2018.

In addition to TSR information, the chart illustrates the total annual compensation paid to the CEO during the last seven years:




Mike Shearwood was appointed CEO in September 2016. CEO total compensation for FY 18/19 reflects Mike Shearwood's potential earnings, annualised over 12 months.

## Remuneration Committee meetings

The following independent Non-Executive Directors were members of the Committee during 2017/18:

| Director | Member since | Number attended (as a member) |
|---|---|---|
| Lucien Alziari (Chair) | January 2016 | 9 |
| Timothy Campbell | November 2016 | 7 |
| Stella David [1] | March 2012 | 3 |
| Tobias Zimmerer | July 2017 | 8 |
| Peter Clark [2] | November 2018 | 2 |

The Committee met on nine occasions during 2017/18.

[1] Ceased Non-Executive Director role June 2018.

[2] Joined November 2018.

## Committee advisers

In carrying out its responsibilities, the Committee is independently advised by external advisers. The Committee was advised by PwC during the year.

PwC provides independent commentary on matters under consideration by the Committee and updates on legislative requirements, best practice and market practice. PwC's fees are typically charged on an hourly basis with costs for work agreed in advance. During the year, PwC charged £55,200 for Remuneration Committee matters. This is based on an agreed fee for business-as-usual support, with additional work charged at hourly rates. PwC has provided tax, consultancy and risk consulting services to the Group in the financial year.

The Committee also seeks internal support from the CEO, CFO, Company Secretary, Chief People Officer and the Head of Global Reward as necessary. All may attend the Committee meetings by invitation but are not present for any discussions which relate directly to their own remuneration.

The Committee also reviews external survey and bespoke benchmarking data including that published by Mercer, PwC and Willis Towers Watson.

This report will be laid before shareholders for approval at the Annual General Meeting to be held on 3 May 2019.

Approved by the Board on 5 April 2019
On behalf of the Board,

Lucien Alziari
**Chair of the Remuneration Committee**
5 April 2019

# DIRECTORS' REPORT

The Directors present their Annual Report to shareholders together with the audited financial statements for the year ended 2 February 2019.

## Registration Number

The Company is a private company limited by shares and has the registered number 3314066.

## Principal activities

The principal activities of the Company and its subsidiaries are worldwide shoe retailing and wholesaling and related trades. Further details of the operations and the trading results are set out on pages 66 to 98 covering consolidated income statement to note 24. The loss after tax for the Group for the year was £82.9m. A list of all subsidiaries of the Group can be found on pages 99 to 100. A review of the Group's performance during the year, expected future developments and principal risks and uncertainties facing the Group are contained in the Interim Chief Executive Officers Report and the Chief Financial and Transformation Officers Review.

## Dividends

The Board recommend a dividend payment of 3p per share. This sum will be paid as an interim dividend in April 2019. An interim dividend of 3p per share was declared and paid in September 2018.

## Directors

The Directors of the Group as at the year end are listed on pages 30 to 33.

Having served on the Board since May 2004, Thomas J O'Neill and the Board concluded during the year that it was time to select a successor as Chair of the Board. Thomas J O'Neill will not, therefore, offer himself for re-election at the Annual General Meeting and will resign at the end of said meeting. It is intended that Stella David will succeed him as Chair of the Board.

Subsequent to the year-end, and with a view to maintaining the level of independence on the Board, two additional independent Non-Executive Directors, namely Stephen Bolton and Victor Herrero, were appointed to the Board.

Giorgio Presca joined the Board as an Executive Director upon taking up his duties as CEO on 11 March.

## Share register

As at 2 February 2019 the composition of the share register of C&J Clark Limited was:

**Share breakdown as at 2 February 2019**

| | £ | % |
|---|---|---|
| Family | 50,086,266 | 84.8 |
| Institutions | 666,510 | 1.1 |
| Share Schemes | 632,377 | 1.1 |
| Trusts associated with CJC | 2,835,094 | 4.8 |
| Employees (including ex & families) | 4,818,550 | 8.2 |
| Non family board members | 27,600 | 0.0 |
| | **59,066,397** | **100** |

No shares were purchased or acquired by the company under section 659 of the Companies Act 2006 during the financial period. Nor were any shares acquired by a nominee for the company or by another with company financial assistance. No shares were made subject to a lien or other charge taken by the company and permitted by section 670(2) or (4) of the Companies Act 2006.

## Directors' interests

The share interests of the Directors in office at 2 February 2019.

**Directors' interest as at 2 February 2019**

| | As at 2 February 2019 | As at 3 February 2018 | % |
|---|---|---|---|
| Thomas J O'Neill | 10,000 | 10,000 | 0.02 |
| Stella David | 100 | 100 | 0.0 |
| Walker Boyd | 2,500 | 2,500 | 0.0 |
| Lucian Alziari | 5,000 | 5,000 | 0.01 |
| Ben Lovell | 2,076,426 | 2,050,893 | 3.52 |
| Peter Clark | 303,348 | | 0.51 |
| Tanya Cordrey | – | – | – |
| Tobias Zimmerer | – | – | – |
| Paul Kenyon | 10,000 | – | 0.02 |
| | **2,407,374** | **2,068,493** | **4.08** |

## Asset Values

There is no significant difference between the carrying value and market value of land held by the Group.

## Events since the balance sheet date

There have been the following important events affecting the Company (or its subsidiaries) since the balance sheet date:

The Group engaged in discussions with its banking group to reset the fixed charge cover covenant. These negotiations were conducted satisfactorily and will be enforced from the 3 April 2019.

Appointment of Giorgio Presca as CEO of the Company effective as from 11 March 2019.

## Likely future developments in the business

As part of its ongoing strategy the Company is considering all options with regards its bricks and mortar full price retail estate across the globe. The Company will be taking opportunities to exit unprofitable stores.

## Research and Development

The company participates in research and development relating to the products of footwear. The 2018/19 spend was £0.2m (2017/18 £0.3m).

## Donations

Donations for charitable purposes made by the Group during the year amounted to £0.5m. (2018: £0.5m) No donations were made for political purposes.

## Branches outside the UK

The Group has branches in Ireland, Sweden, United Arab Emirates, Isle of Man, Jersey, Belgium and Switzerland. A branch has also been established in France subsequent to the balance sheet date.

## Financial instruments

Details of financial instruments are provided in the Chief Financial and Transformation Officer Review on page 23.

**Employees**

The Board subscribes to the principle of fairness through equality of treatment and opportunity and believes it to be of fundamental importance. Its long-held aim is to provide just and fair treatment for all employees.

**Disabled persons**

The Group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job.

Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

**Creditor payment policy**

The Group's policy is to use standard payment terms, payment typically being 60 days from the date of invoice. For all trade creditors it is the Group's policy to:

- Agree payment terms prior to receipt of goods or services.
- Ensure that suppliers are aware of those agreed payment terms through a signed written contract or other legally binding documents.
- Adhere to agreed payment dates provided that the supplier complies with its contractual obligations.

**Corporate governance**

The Group remains committed to maintaining high standards of corporate governance. As a privately-owned company, it adopts what it considers to be a best-practice approach to corporate governance on a voluntary basis.

**Going concern**

In assessing the ability of the Group and the Company to continue as a going concern, the Board has as normal reviewed forecasts of the Group's borrowing requirements against available bank and financing facilities. The forecasts are prepared and reviewed in the context of the latest Board approved Budgets and Business plans adjusted where appropriate to reflect known variations. The Board applies sensitivity analysis to these forecasts to assess the impact of potential risks and opportunities in order to provide additional comfort on the level of headroom against available banking agreements.

This Board's review also includes a forecast of the covenants associated with the Group's bank and private placement facilities to provide comfort that covenants will continue to be met.

The Directors consider that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

**Director's responsibilities**

So far as each of the Directors is aware, there is no relevant audit information (information needed by the Group's auditors regarding their report) of which the Company's auditors are unaware. Each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of The Companies Act 2006.

**Auditors**

A resolution to re-appoint EY as auditors of the Company and a resolution to enable the Directors to determine their remuneration will be proposed at the Annual General Meeting.

**Annual General Meeting**

The Annual General Meeting of the Company will be held at 11.30am on 3 May at the Company's offices at 40 High Street, Street, Somerset, BA16 0EQ.

By Order of the Board,

Paul Wakefield
**Company Secretary**
5 April 2019

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group and parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102. The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

- Select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

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

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF C&J CLARK LIMITED

## Opinion

We have audited the financial statements of C&J Clark Limited ('the parent company') and its subsidiaries (the 'group') for the period ended 2 February 2019 which comprise the consolidated income statement, other comprehensive income statement, group and company statement of financial position, statement of changes in equity, statement of cash flow and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).
In our opinion, the financial statements:

- Give a true and fair view of the group's and of the parent company's affairs as at 2 February 2019 and of the group's loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report. We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements 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

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 62, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the 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 the directors 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 for the audit of the financial statements

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 error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### Use of our report

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.

Ernst & Young LLP

Julie Carlyle (Senior Statutory Auditor)
**For and on behalf of Ernst & Young LLP**
**Statutory Auditor,**
London
8 April 2019

# FINANCIAL STATEMENTS

## Consolidated Income Statement

| | | 52 weeks to 2 February 2019 | | | 53 weeks to 3 February 2018 | | |
|---|---|---|---|---|---|---|---|
| | | Continuing Operations | Discontinued Operations | Total | Continuing Operations (as restated) | Discontinued Operations (as restated) | Total |
| | Notes | £m | £m | £m | £m | £m | £m |
| **Group turnover** | 1(b) | **1,465.9** | **2.9** | **1,468.8** | 1,536.9 | 3.0 | 1,539.9 |
| Cost of sales | | **(791.4)** | **(1.5)** | **(792.9)** | (810.9) | (1.4) | (812.3) |
| **Gross profit** | | **674.5** | **1.4** | **675.9** | 726.0 | 1.6 | 727.6 |
| Distribution costs | | **(454.4)** | **(1.3)** | **(455.7)** | (467.5) | (1.8) | (469.3) |
| Administrative costs | | **(294.6)** | **(1.3)** | **(295.9)** | (230.1) | 1.1 | (229.0) |
| **Group operating (loss)/profit** | | **(74.5)** | **(1.2)** | **(75.7)** | 28.4 | 0.9 | 29.3 |
| Share of operating loss in Joint Venture | 2 (e) | **(0.5)** | **–** | **(0.5)** | (0.5) | – | (0.5) |
| **(Loss)/profit before interest** | 1(a) | **(75.0)** | **(1.2)** | **(76.2)** | 27.9 | 0.9 | 28.8 |
| Interest receivable and other similar income | 3(a) | **1.8** | **0.1** | **1.9** | 2.9 | 0.1 | 3.0 |
| Interest payable and other similar charges | 3(b) | **(10.1)** | **–** | **(10.1)** | (12.0) | (0.1) | (12.1) |
| **(Loss)/profit before taxation** | | **(83.3)** | **(1.1)** | **(84.4)** | 18.8 | 0.9 | 19.7 |
| Tax on profit | 4 | **1.5** | **–** | **1.5** | (51.0) | – | (51.0) |
| **(Loss)/profit for the financial year** | | **(81.8)** | **(1.1)** | **(82.9)** | (32.2) | 0.9 | (31.3) |
| Earnings per ordinary share | 6 | **(138.4p)** | **(1.9p)** | **(140.3p)** | (54.5p) | 1.5p | (53.0p) |

| | | |
|---|---|---|
| Non-GAAP measures: Adjusted profit after tax | | |
| **(Loss) after tax** | **(82.9)** | (31.3) |
| Adjusted for: | | |
| Fair value of non-hedge accounted derivatives | **0.3** | (1.4) |
| Tax on fair value of non-hedge accounting derivatives | **(0.1)** | 0.3 |
| Reduction in US deferred tax asset | **–** | 44.7 |
| **Adjusted (loss)/profit after tax** | **(82.7)** | 12.3 |
| Adjusted Earnings per ordinary share | **(140.0p)** | 20.8p |

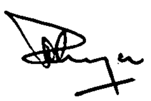
## Other Comprehensive Income Statement

| | Notes | 52 weeks to 2 February 2019 £m | 53 weeks to 3 February 2018 £m |
|---|---|---|---|
| **(Loss)/profit for the year** | | **(82.9)** | (31.3) |
| **Other comprehensive income** | | | |
| Currency translation adjustments | | – | (12.7) |
| Actuarial gain/(loss) on pension schemes | 16 | 30.1 | (24.1) |
| Deferred tax on actuarial loss/(gain) on pension schemes | | (8.4) | (3.6) |
| Deferred tax on investment hedge | | 0.6 | – |
| Effective portion of changes in fair value of cash flow hedges | 22 | 41.0 | (21.1) |
| Deferred tax on fair value of cash flow hedges | | (8.0) | 4.0 |
| **Other comprehensive income for the year, net of income tax** | | **55.3** | (57.5) |
| **Total comprehensive income for the year** | | **(27.6)** | (88.8) |

## Statement of Financial Position

| | Notes | Group 2 February 2019 £m | Group 3 February 2018 Restated £m | Company 2 February 2019 £m | Company 3 February 2018 £m |
|---|---|---|---|---|---|
| Fixed assets | | | | | |
| Intangible assets | 7 | **53.9** | 55.2 | **–** | – |
| Tangible assets | 8 | **197.9** | 243.6 | **–** | – |
| Investments | 9 | **–** | – | **80.7** | 80.3 |
| Deferred tax asset | 15 | **2.3** | 7.1 | **1.6** | – |
| Financial derivatives | | **4.7** | 0.7 | **–** | – |
| | | **258.8** | **306.6** | **82.3** | **80.3** |
| **Current assets** | | | | | |
| Inventory | 10 | **378.7** | 376.2 | **–** | – |
| Debtors due within one year | 11 | **156.2** | 147.4 | **127.8** | 102.5 |
| Cash at bank and in hand | | **48.3** | 137.1 | **2.0** | 70.2 |
| | | **583.2** | 660.7 | **129.8** | 172.7 |
| Creditors – amounts falling due within one year | 12 | **(309.9)** | (302.6) | **(104.5)** | (133.4) |
| **Net current assets** | | **273.3** | 358.1 | **25.3** | 39.3 |
| **Total assets less current liabilities** | | **532.1** | 664.7 | **107.6** | 119.6 |
| Creditors – amounts falling due after more than one year | 13 | **(57.2)** | (162.4) | **–** | – |
| Deferred tax liability | 15 | **(12.1)** | (5.6) | **–** | – |
| Provisions for liabilities and charges | 14 | **(60.6)** | (25.1) | **–** | – |
| **Net assets excluding pension asset** | | **402.2** | 471.6 | **107.6** | 119.6 |
| Pension asset | 16 | **66.8** | 32.3 | **–** | – |
| **Net assets including pension asset** | | **469.0** | 503.9 | **107.6** | 119.6 |
| **Capital and reserves** | | | | | |
| Called up share capital | 17 | **59.1** | 59.1 | **59.1** | 59.1 |
| Share premium account | 18 | **0.8** | 0.8 | **0.8** | 0.8 |
| Capital redemption reserve | 18 | **18.4** | 18.4 | **18.4** | 18.4 |
| Merger reserve | 18 | **15.1** | 15.1 | **–** | – |
| Cash flow hedge reserve | | **11.4** | (21.6) | **–** | – |
| Profit and loss account | | **364.2** | 432.1 | **29.3** | 41.3 |
| **Equity shareholders' funds** | | **469.0** | 503.9 | **107.6** | 119.6 |

The notes on pages 77 to 98 form part of these financial statements.
The financial statements of C&J Clark Ltd, registered number 3314066, were approved by the Board of Directors and signed on their behalf on 5 April 2019.



Paul Kenyon

**Director**

## Group Statement of Changes in Equity

| | Called up share capital £m | Share premium account £m | Capital redemption reserve £m | Merger reserve £m | Cash flow hedge reserve £m | Profit and loss account £m | **Total equity £m** |
|---|---|---|---|---|---|---|---|
| Balance at 29 January 2017 | 59.1 | 0.8 | 18.4 | 15.1 | (4.5) | 511.8 | **600.7** |
| **Total comprehensive income for the period** | | | | | | | |
| Loss for the period | – | – | – | – | – | (31.3) | **(31.3)** |
| Other comprehensive income | – | – | – | – | (17.1) | (40.4) | **(57.5)** |
| Total comprehensive income for the period | – | – | – | – | (17.1) | (71.7) | **(88.8)** |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| Equity-settled share based payment transactions | – | – | – | – | – | 0.3 | **0.3** |
| Dividends | – | – | – | – | – | (8.3) | **(8.3)** |
| Total contributions by and distributions to owners | – | – | – | – | – | (8.0) | **(8.0)** |
| **Balance at 3 February 2018** | **59.1** | **0.8** | **18.4** | **15.1** | **(21.6)** | **432.1** | **503.9** |

| | Called up share capital £m | Share premium account £m | Capital redemption reserve £m | Merger reserve £m | Cash flow hedge reserve £m | Profit and loss account £m | **Total equity £m** |
|---|---|---|---|---|---|---|---|
| Balance at 4 February 2018 | 59.1 | 0.8 | 18.4 | 15.1 | (21.6) | 432.1 | **503.9** |
| **Total comprehensive income for the period** | | | | | | | |
| Loss for the period | – | – | – | – | – | (82.9) | **(82.9)** |
| Other comprehensive income | – | – | – | – | 33.0 | 22.3 | **55.3** |
| Total comprehensive income for the period | – | – | – | – | 33.0 | (60.6) | **(27.6)** |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| Equity-settled share based payment transactions | – | – | – | – | – | 0.4 | **0.4** |
| Dividends | – | – | – | – | – | (7.7) | **(7.7)** |
| Total contributions by and distributions to owners | – | – | – | – | – | (7.3) | **(7.3)** |
| **Balance at 2 February 2019** | **59.1** | **0.8** | **18.4** | **15.1** | **11.4** | **364.2** | **469.0** |

## Company Statement of Changes in Equity

| | Called up share capital £m | Share premium account £m | Capital redemption reserve £m | Profit and loss account £m | Total equity £m |
|---|---|---|---|---|---|
| Balance at 29 January 2017 | 59.1 | 0.8 | 18.4 | 50.9 | **129.2** |
| **Total comprehensive income for the period** | | | | | |
| Loss for the period | – | – | – | (1.6) | **(1.6)** |
| Other comprehensive income | – | – | – | – | – |
| Total comprehensive income for the period | – | – | – | (1.6) | **(1.6)** |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Equity-settled share based payment transactions | – | – | – | 0.3 | **0.3** |
| Dividends | – | – | – | (8.3) | **(8.3)** |
| Total contributions by and distributions to owners | – | – | – | (8.0) | **(8.0)** |
| **Balance at 3 February 2018** | **59.1** | **0.8** | **18.4** | **41.3** | **119.6** |

| | Called up share capital £m | Share premium account £m | Capital redemption reserve £m | Profit and loss account £m | Total equity £m |
|---|---|---|---|---|---|
| Balance at 4 February 2018 | 59.1 | 0.8 | 18.4 | 41.3 | **119.6** |
| **Total comprehensive income for the period** | | | | | |
| Loss for the period | – | – | – | (4.7) | **(4.7)** |
| Other comprehensive income | – | – | – | – | – |
| Total comprehensive income for the period | – | – | – | (4.7) | **(4.7)** |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Equity-settled share based payment transactions | – | – | – | 0.4 | **0.4** |
| Dividends | – | – | – | (7.7) | **(7.7)** |
| Total contributions by and distributions to owners | – | – | – | (7.3) | **(7.3)** |
| **Balance at 2 February 2019** | **59.1** | **0.8** | **18.4** | **29.3** | **107.6** |

## Statement of Cash Flow

| | Notes | 52 weeks to 2 February 2019 £m | 53 weeks to 3 February 2018 £m |
|---|---|---|---|
| Net cash flows from operating activities | 19 | 57.1 | 132.1 |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of tangible fixed assets | | – | 0.3 |
| Additions to investments | | – | (2.4) |
| Acquisition of tangible fixed assets | | (21.1) | (22.7) |
| Acquisition of intangible fixed assets | | (12.6) | (2.3) |
| Net cash flows from investing activities | | (33.7) | (27.1) |
| **Cash flows from financing activities** | | | |
| Increase/(decrease) in expired banking facility | | – | 41.4 |
| Repayment of expired banking facility | | – | (194.3) |
| Drawdown of new banking facility | | – | 180.8 |
| Repayment of new banking facility | 20 | (109.2) | (7.4) |
| Dividends paid | 5 | (7.7) | (8.3) |
| Transaction costs relating to financing | | – | (2.3) |
| Net cash flows from financing activities | | (116.9) | 9.9 |
| **Net increase in cash and cash equivalents** | | (93.5) | 114.9 |
| Cash and cash equivalents at 4 February | | 129.7 | 19.2 |
| Effect of exchange rate fluctuations on cash held | 20 | 1.6 | (4.4) |
| **Cash and cash equivalents at 2 February** | 20 | 37.8 | 129.7 |

| | | | |
|---|---|---|---|
| Opening net borrowings | 20 | (27.3) | (133.7) |
| Net increase in cash and cash equivalents | | (93.5) | 114.9 |
| Currency translation adjustments on cash held and bank loans | 19 | (6.1) | 9.7 |
| (Increase)/decrease in bank loans | | 109.2 | (20.5) |
| Transaction costs relating to financing | | – | 2.3 |
| **Closing net borrowings** | 20 | (17.7) | (27.3) |

# ACCOUNTING POLICIES

**Statement of Compliance**
C&J Clark Limited (the "Company") is a company limited by shares and incorporated and domiciled in England. The registered office is 40 High Street, Street, Somerset, BA16 0EQ.

The financial statements are prepared on the historical cost convention as modified to include the revaluation to fair value of certain financial instruments, in accordance with the Companies Act 2006 and Financial Reporting Standard 102 (FRS 102) applicable in the UK and Republic of Ireland.

Basis of preparation and change in accounting policy
All amounts in the financial statements are in Pounds Sterling (£) being the Group's functional currency and rounded to the nearest £million.

**Basis of consolidation**
The Group financial statements consolidate the financial statements of C&J Clark Limited and all its subsidiary undertakings drawn up to the nearest Saturday to the 31 January each year in line with retail industry practice.

The year to 2 February 2019 constitutes a 52 week period and referred to in headings as 2019 (prior year 3 February 2018 - 53 week period and referred to in headings as 2018). No income statement is presented for C&J Clark Limited as permitted by section 408 of the Companies Act 2006.

The parent Company is included in these consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The Company has elected to take the exemption available under FRS 102 in respect of certain disclosures for parent Company financial statements not to present separate parent Company Statement of Cash Flow with related notes.

**Basis for preparation of financial statements on a going concern basis**
Information on the business environment in which the Group operates in, including factors underpinning the shoe industry's future growth prospects, is included in the strategic report on page 3 to 25.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Financial and Transformation Officers Review on pages 19 to 25.

As at 2 February 2019, the Group has £37.8m in cash balances and a further £269.4m of undrawn and committed bank facilities that are available until 2022.

In assessing the ability of the Group and the Company to continue as a going concern, the Board has as normal reviewed forecasts of the Group's borrowing requirements against available bank and financing facilities. The forecasts are prepared and reviewed in the context of the latest Board approved Budgets and Business plans adjusted where appropriate to reflect known variations. The Board applies sensitivity analysis to these forecasts to assess the impact of potential risks and opportunities in order to provide additional comfort on the level of headroom against available banking agreements.

This Board's review also includes a forecast of the covenants associated with the Group's bank and private placement facilities to provide comfort that covenants will continue to be met.

The Directors consider that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements

### Alternative performance measures

Alternative performance measures are measures not prescribed by FRS 102 and deemed as non-GAAP. They are used by the Directors throughout the Annual Report and Accounts and are fully defined in the glossary on pages 103 to 104. The key measures are:

### Underlying operating profit

Underlying operating profit is the profitability of the Group that is considered comparable from year-to-year as it is reported before translation foreign exchange movements, non-underlying items, Senior Managers Long-Term Incentives and includes 100% share of the joint venture results.

### Non-underlying items

Non-underlying items includes items which are one-off or exceptional in nature, large and unusual or would distort the interpretation of the underlying business performance. All non-underlying items are agreed by the Audit Committee.

### Adjusted (loss)/profit after tax

Adjusted (loss)/profit after tax excludes the financial impact including tax of the fair value adjustment of financial derivatives that do not qualify for hedge accounting and other one-off adjustments relating to tax (either deferred or current tax as a result of government tax policy changes) or any other material one off items that in the Directors opinion would positively or negatively impact the year on year comparison.

### Constant exchange rate (CER) growth rates

This measure removes the effects of currency movements by retranslating the prior year's performance at the current year's internal exchange rate and presenting the subsequent outcome as a % CER growth rate from the prior years reported results at internal rates.

## Key accounting policies

### Revenue

The Group's revenue relates to the supply of products direct to consumer within stores, online or through third party sales concessions, and to wholesale customers. It also includes royalties from franchisees.

Revenue is recognised when the significant risks and rewards of ownership of products sold have transferred to the third party, generally in exchange for consideration in stores or based on despatch from a warehouse or specific customer delivery terms for wholesale sales.

Digital sales are recognised after taking into account transit prices if dispatched from a warehouse, or upon collection if delivered to store

The following general measurement principles apply:

- Sales are recorded net of (i.e. reduced by) returns and returns provisions
- Sales are net of (i.e. reduced by) unconditional discounts
- Sales exclude VAT and other sales-related taxes

### Other income

Income received as rental income is accounted for on a straight line basis net of the cost associated with the head lease rental payments made by the Group (if any) and included within administrative costs unless material.

Profit/(loss) on the sale of property are recognised on completion. Income from sales of Property, Plant and Equipment is shown net of the residual asset value and included within administration costs unless material.

Income from insurance recoveries is recognised once receipt of monies is virtually certain. Insurance receipts are accounted for as a net position against the costs the insurance recovery relates to, unless the insurance recoveries are received in a future period, in which case the income will be disclosed separately.

### Joint ventures

The Group has ventures over which it has joint control under a contractual arrangement and which qualify as a joint venture under FRS 102 (Section 15). In the Group financial statements, joint ventures are accounted for using the equity method with the net liabilities of the joint venture recognised in provisions. In the parent company financial statements investments in joint ventures are accounted for at cost less impairment.

### Employee benefits
The Group accounts for pensions under FRS102 (section 28).

### Defined contribution plans and other long term employee benefits
A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

### Defined benefit plans
A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted.

The Group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the year-end date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Group obligations. A valuation is performed by a qualified actuary using the projected unit credit method. The Group recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in the income statement in the period in which it occurs.

Re-measurement of the net defined benefit liability/asset is recognised in Other Comprehensive Income (OCI).

### Share-based payments
The Group operates a Share Incentive Plan (SIP). Under the scheme employees are given a free matching share for each share purchased at market value. This has been accounted for under FRS 102 (section 26). Under the standard the matching shares qualify as equity-settled share-based payments to be recognised at the date of grant. The fair value of a matching share is equal to the market value of share purchased. The cost of the share-based payments must be spread over the period until the shares are owned by the employee (the vesting period). The vesting period for the matching share is three years.

The Group also operates a cash settled Long-Term Incentive Plan. Vesting is subject to the achievement of financial performance targets, which are set in accordance with the financial objectives and shareholder value creation expected over the term of the plan. The award is delivered in cash with actual pay-outs being adjusted in line with the movement in Clarks' share price over the term of the awards. Costs will be provided for over the term of the provision based on actual performance against targets. Please see the remuneration report on pages 47 to 58 for further details.

### Taxation
The tax on 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 OCI, in which case the tax impact of those items is also recognised directly in equity or OCI.

The current tax payable or receivable is based on the taxable profit or loss for the year. Taxable profit or loss may differ from reported profit or loss because of items that are not taxable or due to timing differences. The Group's current tax assets and liabilities are calculated using tax rates that have been enacted by the reporting date. Current tax may also include adjustments to tax payable for previous reporting periods.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the year-end date. Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

**Tangible assets**
Tangible assets are stated at cost less accumulated depreciation and impairments. Such cost includes costs directly attributable to making the asset capable of operating as intended. The Group's policy is to write off the difference between the cost of each item of property, plant and equipment and its residual value over its estimated useful life on a straight line basis. Assets under construction are not depreciated.

Reviews are made annually of the estimated remaining lives and residual values of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear. Under this policy it becomes impractical to average lives exactly. However the total lives range from approximately 30 to 50 years for buildings, 15 - 20 years for plant, 5 - 15 years for shop-fits and office-fits and 3 - 7 years for computer hardware and other equipment.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, for example land is treated separately from buildings. All items of property, plant and equipment are tested for impairment where there are indications that the carrying value may not be recoverable. Any impairment losses are recognised immediately in the income statement. An impairment loss recognised for all assets is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply.

## Intangible assets

**Software**
Where software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Capitalised software costs include external direct costs of goods and services, as well as internal payroll related costs for employees who are directly associated with the project.

Capitalised software development costs are amortised on a straight line basis over their expected useful lives, normally between 3 and 20 years. Computer software under development is held at cost less any recognised impairment loss. Any impairment in value is recognised within the income statement.

**Trademarks**
Acquired trademarks are initially recognised at cost and amortised on a straight line basis over the expected useful life of 20 years.

**Inventories**
Inventories are valued on a weighted average cost basis and carried at the lower of cost or net realisable value. Cost includes the direct expenditure and other direct import costs incurred in bring inventories to their present location and condition. Certain purchases of inventories may be subject to cash flow hedges for foreign exchange risk. The Group applies a basis adjustment for those purchases in a way that cost is initially established by reference to the hedged exchange rates and not the spot rate at the day of purchase.

**Borrowing costs**
The Group has no borrowing cost with respect to the acquisition or construction of qualifying assets. Borrowing costs includes the transaction costs associated with the current borrowing facilities. These fees are amortised over the term of the facility and reported against long term loans. All other borrowing costs are recognised in the income statement as incurred.

**Leases**
Rentals payable under operating leases are recognised in the income statement on a straight line basis over the lease term. The value of any lease incentive received upon taking up an operating lease (for example a rent free period or capital contribution) are released to the income statement over the lease term, except where the incentive was received before 31 January 2014, in which case, in line with the exemption contained in FRS 102 (section 35) for first time adopters of FRS 102, the incentive is taken to the break point of the lease.

**Investments in subsidiaries**
A subsidiary is an entity controlled directly or indirectly by C&J Clark Limited. Control is regarded as the exposure or rights to the variable returns of the entity when combined with the power to affect those returns.

The financial results of subsidiaries are consolidated from the date control is obtained to the date that control is ceded and significant influence ceases.

Investments in subsidiaries are held at historical cost less provisions for impairment.

**Trade and other payables and receivables**
Trade and other payables and receivables with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

**Financial instruments**
The Group's financial instruments include interests in leases, trade and other receivables and trade and other payables. The Group's other financial instruments comprise:
- cash and cash equivalents
- bank and other borrowings
- derivatives

**Cash and cash equivalents**
Cash and cash equivalents comprise cash in-hand, current balances with banks and similar institutions and highly liquid investments which are readily convertible into known amounts of cash and are held at amortised cost. For the purpose of the consolidated cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**Bank and other borrowings**
Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.
**Derivatives**
The Group uses forward foreign currency contracts to reduce exposure to foreign exchange rates. The Group also uses interest rate swaps to adjust interest rate exposures. In both cases the derivatives used are not designated as hedges and are measured at fair value through the income statement.

**Cash flow hedges**
Derivative financial instruments and hedging derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered in to and then subsequently measured at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement, except where derivatives qualify for hedge accounting, in which case recognition of any resultant gain or loss depends on the recognition of item being hedged.

Where the hedged risk is the cash flow risk in a firm commitment or a highly probable forecast transaction, the Group recognises the effective part of any gain or loss on the derivative financial instrument in OCI. Any ineffective portion of the hedge is recognised immediately in the income statement.

The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with similar maturity profiles. The fair value of interest rate swap contracts are determined by calculating the present value of the estimated future cash flows based on observable yield curves.

The hedging gains or losses recognised in OCI are reclassified to the income statement when the hedged item is recognised or when the hedging relationship ends.

**Foreign currency**
Foreign currency transactions, being transactions denominated in a currency other than an individual Group entity's functional currency, are translated at the weekly average foreign exchange rates, which approximates to actual rates. Where a material transaction occurs, the spot rate is used or a hedged rate of exchange, if the transaction is expressly hedged by a derivative financial instrument and that hedge had been deemed effective.

In the case of transactions within subsidiaries, transactions are translated into the Group's functional currency using a monthly average rate of exchange. Monetary assets and liabilities denominated in foreign currencies at the year-end date are retranslated to the functional currency at the foreign exchange rate ruling at that date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction, or measured at the hedged rates where the non-monetary transaction was originally hedged by a derivative financial instrument and that hedge has been deemed effective.

Foreign exchange differences arising on translation are recognised in the income statement except for differences arising on the retranslation of qualifying cash flow hedges and items which are fair valued with changes taken to OCI. Foreign exchange differences arising on consolidation are recognised in OCI.

**Provisions**
A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date and are discounted to present value where the effect is material. Note 14 contains details of the year end provision.

**Critical judgements and estimates**
The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the date of the financial statements and the amounts reported for revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

The following items are considered the key sources of estimation uncertainty:

### Revenue recognition
Accruals for sales returns for all channels are based on historical trends, confirmed returns authorisations or contractual obligations. Estimated provision for unconditional rebates and other wholesale customer deductions are based on historical trends, contractual obligations or aged deductions on receivables ledgers.

### Impairments
Property, plant and equipment are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carry amount may not be recoverable. When an asset review is conducted the recoverable amount is determined based on value in use calculations. This method requires the Group to determine the period over which to assess future cashflows, the value of the cash flows and their growth, nature and value of overhead to allocate to the cash generating unit and the discount rate assumptions.

### Inventory provisioning
Inventory provisions are recognised where the net realisable value from the sale of inventory is estimated to be lower than its carrying value, requiring estimation of the expected future sale price. The estimation includes judgement and estimate on a number of factors including historic sales patterns, expected sales profiles, potential obsolescence and shrinkage.

### Onerous lease provisions
Provisions relating to onerous leases are reviewed in tandem with the impairment review of property, plant and equipment. This requires the Group to determine, the value of the cash flows, the growth rates of cashflows, the unavoidable costs associated with the lease and the discount rate assumptions.

### Post-retirement benefits
The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases.

Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country.

### Taxation
The Group establishes provisions based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

The following items are considered key accounting judgements:

### Operating lease commitments
The Group enters leases as a lessee from which it obtains the use of property, plant and equipment. The classification of such leases as operating or finance lease requires the Group to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the statement of financial position.

## Notes to the financial statements

### 1. Analysis of turnover and profit

The turnover and profits of the Group derive from its activities in the shoe trade.

a) Analysis of (loss)/profit by ultimate geographical market

| | 2019 £m | 2018 £m |
|---|---|---|
| UK & ROI | **42.0** | 77.4 |
| Americas | **59.2** | 52.3 |
| Europe | **24.1** | 24.0 |
| Asia Pacific | **46.3** | 45.8 |
| Group Items | **(149.1)** | (166.7) |
| Non-underlying Items | **(98.2)** | (3.5) |
| **Group operating (loss)/profit** | **(75.7)** | 29.3 |
| Share of Joint Venture | | |
| Asia Pacific | **(0.5)** | (0.5) |
| **(Loss)/profit before interest and tax** | **(76.2)** | 28.8 |

Group items comprise central logistics and supply chain costs, global brand strategy and product range development costs, global IT costs and other global administrative functions (finance and HR).

b) Analysis of turnover

| | Turnover by ultimate geographical market 2019 £m | Turnover by ultimate geographical market 2018 £m | Turnover by geographical area of origin 2019 £m | Turnover by geographical area of origin 2018 £m |
|---|---|---|---|---|
| UK & ROI | **549.6** | 585.6 | **643.8** | 683.7 |
| Americas | **606.9** | 639.8 | **606.9** | 639.9 |
| Europe | **127.9** | 137.2 | **70.7** | 81.1 |
| Asia Pacific | **185.8** | 180.6 | **148.8** | 138.5 |
| Group Items | **(1.4)** | (3.3) | **(1.4)** | (3.3) |
| **Group turnover** | **1,468.8** | 1,539.9 | **1,468.8** | 1,539.9 |
| Share of Joint Venture | | | | |
| Asia Pacific | **7.5** | 9.2 | **7.5** | 9.2 |
| **Turnover** | **1,476.3** | 1,549.1 | **1,476.3** | 1,549.1 |

c) Reconciliation of Group operating (loss)/profit and underlying Group operating profit

| | 2019 £m | 2018 £m |
|---|---|---|
| Group operating (loss)/profit | **(75.7)** | 29.3 |
| Foreign exchange movements | **8.1** | 10.9 |
| Non underlying items | **98.2** | 3.5 |
| Senior managers long term incentive | **–** | 2.0 |
| Joint venture trading elimination | **(0.5)** | (0.5) |
| **Underlying Group operating profit** | **30.1** | 45.2 |

The breakdown of non underlying items is disclosed in the table contained within the Chief Financial and Transformation Officers review on page 22

## 2. Group operating profit and costs

a) Other costs charged in arriving at operating (loss)/profit include:

| | 2019 £m | 2018 £m |
|---|---|---|
| Depreciation of tangible assets | **35.3** | 32.1 |
| Amortisation of intangible assets | **15.7** | 19.3 |
| Net impairment of tangible and intangible assets | **24.0** | 17.3 |
| Loss/(profit) on disposal of tangible assets | **16.0** | 3.6 |
| Auditor's remuneration | | |
| Audit of Group financial statements | **0.3** | 0.3 |
| Audit of subsidiaries financial statements | **0.4** | 0.3 |
| Other services relating to taxation | **–** | – |
| Other services | **0.0** | – |
| Operating lease rentals | | |
| Land and buildings – Fixed | **102.7** | 110.6 |
| Land and buildings – Variable | **6.8** | 5.3 |
| Plant and equipment | **0.9** | 1.1 |
| Operating lease rental income | | |
| Land and buildings | **(1.4)** | (1.6) |
| Share-based payment | | |
| Equity-settled | **0.4** | 0.3 |
| Realised foreign exchange gain/(loss) | **(1.6)** | 13.2 |
| Unrealised foreign exchange (loss)/gain | **(6.3)** | (29.4) |

Parent Company audit fees were paid by a subsidiary undertaking in both years.

b) Average number of full-time and part-time employees

| | 2019 Number | 2018 Number |
|---|---|---|
| Sales and distribution | **11,123** | 11,834 |
| Administration | **2,049** | 2,062 |
| Manufacturing | **46** | 1 |
| | **13,218** | 13,897 |

The average number of employees has been calculated on a monthly weighted average. The total number of employees at the year end was 11,760 (2018 – 13,127).

## 2. Group operating profit and costs (continued)

c) Employment costs in respect of the foregoing:

| | 2019 £m | 2018 £m |
|---|---|---|
| Wages and salaries | **243.1** | 238.8 |
| Social security costs | **29.5** | 30.4 |
| Pension current service cost – defined benefit scheme (see note 16) | **5.6** | 10.5 |
| Pension contributions – defined contribution scheme (see note 16) | **1.6** | 2.0 |
| Long-Term Incentive Plans – (see note 14) | **(2.0)** | 2.0 |
| | **277.8** | 283.7 |

Included within wages and salaries are £6.8m (2018: – £7.6m) of costs relating to the business reorganisation announced in April 2017.

d) Aggregate emoluments of the Directors

| | 2019 £m | 2018 £m |
|---|---|---|
| Non-Executive Directors' fees and benefits | **0.6** | 0.6 |
| Executive Directors' services | | |
| Salaries and benefits | **2.0** | 1.6 |
| Compensation for loss of office | **–** | – |
| Pension paid to past directors | **–** | 0.1 |
| | **2.6** | 2.3 |

In respect of the highest paid director:

| | 2019 £m | 2018 £m |
|---|---|---|
| Salaries and benefits | **1.1** | 0.9 |
| Long-term incentives | **–** | 0.3 |
| | **1.1** | 1.2 |

More detailed information concerning Directors' share entitlements and emoluments is shown in the Remuneration Report on pages 47 to 58

e) Share of operating loss in joint venture

| | 2019 £m | 2018 £m |
|---|---|---|
| Share of operating loss of Indian joint venture, Clarks Future Footwear Limited | **(0.5)** | (0.5) |
| | **(0.5)** | (0.5) |

Share of operating loss in the joint venture represents 50% of the results of Clarks Future Footwear Limited. Clarks Future Footwear Limited began trading in April 2011.

During the year no capital injections were made to the joint venture (2018 - £2.4m). The investment in the joint venture has been impaired in full within C&J Clark International Limited.

f) Discontinued Operations

As per the board statement dated 19 December 2018 the decision was taken to exit the Turkish market

## 3. Interest receivable and payable

a) Interest receivable and other similar income

| | 2019 £m | 2018 £m |
|---|---|---|
| Interest receivable on bank loans and overdrafts | **0.9** | 0.7 |
| Net interest receivable on assets and liabilities of pension scheme (see note 16) | **1.0** | 0.9 |
| Fair Value of non-hedge accounted derivatives | **–** | 1.4 |
| | **1.9** | 3.0 |

b) Interest payable and other similar charges

| | 2019 £m | 2018 £m |
|---|---|---|
| Interest payable on bank loans and overdrafts | **(8.9)** | (10.8) |
| Unwind discount on Provisions | **(0.1)** | (0.4) |
| Fair value of non-hedge accounted derivatives | **(0.3)** | 0.0 |
| **Group** | **(9.3)** | (11.2) |
| Joint Venture | **(0.8)** | (0.9) |
| | **(10.1)** | (12.1) |

## 4. Taxation on (loss)/profit

a) Analysis of charge in the year:

| | 2019 £m | 2018 £m |
|---|---|---|
| Current taxation: | | |
| **UK taxation** | | |
| UK corporation tax at 19.0% (2018 - 19.2%) | **1.0** | 1.3 |
| Double taxation relief | **–** | – |
| Adjustments in respect of prior years | **(3.0)** | (0.7) |
| **Total UK taxation** | **(2.0)** | 0.6 |
| **Overseas taxation** | | |
| Current taxation on income for the year | **4.9** | 5.5 |
| Adjustments in respect of prior years | **–** | 0.5 |
| **Total overseas taxation** | **4.9** | 6.0 |
| **Total current taxation** | **2.9** | 6.6 |
| **Movement in deferred taxation** | | |
| Effective change in tax rate | **(0.1)** | 12.4 |
| Adjustment in respect of prior years (see note below) | **5.1** | – |
| Other origination and reversal of timing differences | **(9.4)** | 32.0 |
| **Total deferred taxation (see note 15)** | **(4.4)** | 44.4 |
| **Taxation on (loss)/profit on ordinary activities** | **(1.5)** | 51.0 |

## 4. Taxation on (loss)/profit (continued)

| | 2019 Current Tax £m | 2019 Deferred Tax £m | 2019 Total Tax £m | 2018 Current Tax £m | 2018 Deferred Tax £m | 2018 Total Tax £m |
|---|---|---|---|---|---|---|
| Recognised in Income Statement | **2.9** | **(4.4)** | **(1.5)** | 6.6 | 44.4 | 51.0 |
| Recognised in other comprehensive income | **–** | **15.8** | **15.8** | – | (0.4) | (0.4) |
| **Total tax** | **2.9** | **11.4** | **14.3** | **6.6** | **44.0** | **50.6** |

b) Factors affecting tax charge:

The taxation assessed for the year is higher than the standard rate of corporation tax in the UK which is 19.0% (2018 - 19.2%).

The differences are explained below:

| | 2019 £m | 2018 £m |
|---|---|---|
| **(Loss)/profit before taxation** | **(84.4)** | 19.7 |
| At standard rate of corporation tax in the UK | **(16.0)** | 3.8 |
| Higher taxation rates on overseas earnings | **(1.9)** | (0.1) |
| Depreciation on items not qualifying for capital allowances | **1.8** | 0.4 |
| Profit on disposal of assets not qualifying for capital allowances | **0.2** | (0.1) |
| Current year movements on timing differences for which no deferred tax asset is recognised | **9.0** | (1.1) |
| Derecognition of deferred tax assets | **1.9** | – |
| Impact of US tax reform and revaluation of deferred tax assets | **–** | 44.7 |
| Gain on Canadian transfer | **–** | 1.1 |
| Adjustments in respect of prior years | **2.1** | (0.2) |
| Other | **1.4** | 2.5 |
| **Total tax (see note 4 (a))** | **(1.5)** | **51.0** |

The Group tax credit is £1.5m for the year ended 2 February 2019 with an effective tax rate of 1.8%

The cash tax paid for the year was £5.8m (2018 - £10.0m). Cash tax was significantly lower than the prior year due to refunds in respect of earlier years and a reduction to tax payments on account for the current year.

Taxation has been provided at current rates on the profits earned for the periods covered by Group Financial Statements. The adjustments in respect of prior years have arisen on finalisation of corporation tax computations when compared with the estimated tax provision previously calculated. This is offset by a corresponding prior year deferred tax movement.

To the extent that dividends remitted from overseas subsidiaries are expected to result in additional taxes, appropriate amounts have been provided for. Deferred tax of £2.2m (2018 - £2.8m) has been provided on unremitted earnings of China and Canada on the basis that earnings are expected to be remitted in the near future.

A reduction in the UK corporate tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015 and an additional rate reduction to 17% (effective 1 April 2020) was substantially enacted on 6 September 2016. Accordingly, UK deferred tax has been provided and recognised at the rates applicable when the timing differences are expected to reverse.

## 5. Dividends paid

| | 2019 £m | 2018 £m |
|---|---|---|
| **Equity dividends paid in the period** | | |
| Second Interim ordinary share dividend for the year ended 3 February 2018 of 10.0p (2018 - 14.0p) | **5.9** | 8.3 |
| First interim ordinary share dividend for the year ended 2 February 2019 of 3.0p (2018 - 0.0p) | **1.8** | – |
| **Ordinary dividends paid** | **7.7** | **8.3** |

The second interim ordinary share dividend proposed for the year ended 2 February 2019 is 3.0p per share (2018 - 10.0p).

## 6. Earnings per ordinary share

Basic earnings per ordinary share have been calculated by dividing the loss after taxation of £82.9m (2018 loss £31.3m) by the weighted average number of ordinary shares in issue during the year of 59,066,397 (2018 - 59,066,397).

Adjusted earnings per ordinary share have been calculated by dividing the adjusted loss after taxation of £82.7m (2018 profit £12.3m) by the weighted average number of ordinary shares in issue during the year of 59,066,397 (2018 - 59,066,397).

## 7. Fixed assets – Intangible assets

| | Software costs £m | Trademark £m | Total £m |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 4 February 2018 | 108.2 | 0.7 | 108.9 |
| Exchange rate adjustment | 2.7 | – | 2.7 |
| Reclassification | 6.2 | – | 6.2 |
| Capital expenditure | 12.6 | – | 12.6 |
| Disposals | (7.9) | – | (7.9) |
| Impairment | – | – | – |
| **At 2 February 2019** | **121.8** | **0.7** | **122.5** |
| **Amortisation** | | | |
| At 4 February 2018 | 53.4 | 0.3 | 53.7 |
| Exchange rate adjustment | 0.9 | – | 0.9 |
| Charge for the year | 15.7 | – | 15.7 |
| Impairment | 2.8 | – | 2.8 |
| Disposals | (4.5) | – | (4.5) |
| **At 2 February 2019** | **68.3** | **0.3** | **68.6** |
| **Net book value** | | | |
| **At 2 February 2019** | **53.5** | **0.4** | **53.9** |
| At 4 February 2018 | 54.8 | 0.4 | 55.2 |

The trademark relates to the Clarks brand name in Brazil.

On 12 August 2013 C. & J. Clark Overseas Limited acquired 100% of the share capital of EFA Ticaret ve Pazarlama A.S, a company incorporated in Turkey. The acquisition resulted in goodwill of £0.7m being recognised in the Group accounts. There were no fair value adjustments to book values on acquisition. The goodwill was impaired to a nil value in 2015.

The £2.8m impairment charge relates to merchandise systems not expected to be utilised.

## 8. Fixed assets – Tangible assets

| | Land and buildings £m | Plant and equipment £m | Total £m |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 4 February 2018 | 156.3 | 390.5 | 546.8 |
| Exchange rate adjustments | 7.3 | 9.0 | 16.3 |
| Capital expenditure | 1.0 | 20.1 | 21.1 |
| Reclassification | – | (6.2) | (6.2) |
| Disposals | (9.3) | (34.0) | (43.3) |
| **At 2 February 2019** | **155.3** | **379.4** | **534.7** |
| **Depreciation** | | | |
| At 4 February 2018 | 50.1 | 253.1 | 303.2 |
| Exchange rate adjustments | 2.7 | 5.1 | 7.8 |
| Charge for the year | 7.7 | 27.6 | 35.3 |
| Impairment | 7.3 | 13.9 | 21.2 |
| Reclassification | – | – | – |
| Disposals | (6.5) | (24.2) | (30.7) |
| **At 2 February 2019** | **61.3** | **275.5** | **336.8** |
| **Net book value** | | | |
| **At 2 February 2019** | **94.0** | **103.9** | **197.9** |
| At 3 February 2018 | 106.2 | 137.4 | 243.6 |

**Impairment loss and subsequent reversal**
During the year impairment losses of £7.0m (2018 - £6.7m) have been subsequently reversed within administrative expenses in the consolidated Income Statement as a result of retail stores previously impaired returning to profitability. Additional impairment of £17.2m (2018 - £24.0m) has been recorded within administrative expenses as a result of new retail stores becoming impaired.

The impairment charge this year relates to store impairments and assets held in the UK manufacturing facility.

### Land and Buildings

The net book value of land and buildings comprises:

| | 2019 £m | 2018 £m |
|---|---|---|
| Freehold | **67.0** | 75.7 |
| Long leasehold | **9.3** | 9.3 |
| Short leasehold | **17.7** | 21.2 |
| | **94.0** | 106.2 |

## 9. Fixed assets – Investments

| | Company Shares in subsidiary undertakings 2019 £m | Company Shares in subsidiary undertakings 2018 £m |
|---|---|---|
| Net book values at 4 February 2018 | **80.3** | 80.0 |
| Addition/increase in net assets | **0.4** | 0.3 |
| Disposals | **–** | – |
| **Net book values at 2 February 2019** | **80.7** | 80.3 |

## 10. Inventory

| | 2019 £m | 2018 £m |
|---|---|---|
| Finished goods and goods held for resale | **378.7** | 376.2 |
| | **378.7** | 376.2 |

Included within inventory in 2018 are inventory provisions of £6.5m (2018 – £6.8m) relating to inventory shrink losses and inventory being sold at net realisable value. Inventory recognised as an expense during the year totalled £746.8m. (2018: £752.8m)

## 11. Debtors

| | Group 2019 £m | Group 2018 £m | Company 2019 £m | Company 2018 £m |
|---|---|---|---|---|
| Trade debtors | **93.8** | 102.8 | **1.4** | 1.8 |
| Amounts owed by Group undertakings | **–** | – | **126.4** | 100.7 |
| Amounts owed by joint venture undertakings | **3.5** | 2.3 | **–** | – |
| Current taxation | **4.8** | 2.4 | **–** | – |
| Prepayments | **27.5** | 25.3 | **–** | – |
| Other debtors | **11.9** | 13.0 | **–** | – |
| Financial derivatives | **14.7** | 1.6 | **–** | – |
| | **156.2** | 147.4 | **127.8** | 102.5 |

The provision for doubtful debts is £0.4m (2018-£1.7m)

## 12. Creditors – amounts falling due within one year

| | Group 2019 £m | Group 2018 £m | Company 2019 £m | Company 2018 £m |
|---|---|---|---|---|
| Bank loans and overdrafts | **10.5** | 7.4 | **1.9** | – |
| Trade creditors | **217.0** | 200.1 | **–** | – |
| Amounts owed to other Group undertakings | **–** | – | **102.3** | 133.2 |
| Current taxation | **4.8** | 5.3 | **–** | – |
| Social security | **0.7** | 0.5 | **–** | – |
| Other creditors | **12.3** | 17.3 | **–** | – |
| Accruals | **62.2** | 47.5 | **0.3** | 0.2 |
| Financial derivatives | **2.4** | 24.5 | **–** | – |
| | **309.9** | 302.6 | **104.5** | 133.4 |

## 13. Creditors – amounts falling due after more than one year

| | Group 2019 £m | Group 2018 £m | Company 2019 £m | Company 2018 £m |
|---|---|---|---|---|
| Long-term loans | **55.5** | 157.0 | **–** | – |
| Financial derivatives | **1.7** | 5.4 | **–** | – |
| | **57.2** | 162.4 | **–** | – |

## 14. Provisions for liabilities and changes

| | At 4 February 2018 £m | Exchange rate adjustment £m | Provided in year £m | Unwind discounting £m | Released £m | Utilised £m | At 2 February 2019 £m |
|---|---|---|---|---|---|---|---|
| Long-Term Incentive Plan | 2.0 | – | – | – | (2.0) | – | **–** |
| Dilapidation provision | 0.8 | – | 6.4 | – | (0.8) | – | **6.4** |
| Onerous lease provision | 16.1 | 0.9 | 35.3 | 0.1 | (4.6) | (3.8) | **44.0** |
| Joint venture liability | 2.7 | – | 1.2 | – | – | – | **3.9** |
| Other | 3.5 | 0.1 | 6.3 | – | (3.6) | – | **6.3** |
| | 25.1 | 1.0 | 49.2 | 0.1 | (11.0) | (3.8) | **60.6** |

**Dilapidation provision**
A provision is recognised for expected costs required to restore leased properties to their original condition. It is expected that these costs will be incurred at the end of the lease agreement.

**Onerous lease provision**
A provision has been recognised for the unavoidable net cash losses of leased stores. The provision will be utilised in line with the forecasted cash losses.

As described in the Chief Financial and Transformation Officer's review on pages 19 to 25, there is a £49.8m non-underlying charge in the year for onerous leases and asset impairments, of which £32.6m relates to onerous leases. This charge drives the increase in the provision.

**Joint venture liability**
Provision for the net liability for the Group's joint venture, Clarks Future Footwear Limited. The movement in the year has been driven by an increased share of gross liabilities. During the year the Group made a capital injection of £nilm (2018: £2.4m).

**Other Provisions**
Other provisions comprise of restructuring costs and sales returns.

## 15. Deferred Taxation

| | Assets 2019 £m | Assets 2018 Restated £m | Liabilities 2019 £m | Liabilities 2018 Restated £m | Net 2019 £m | Net 2018 Restated £m |
|---|---|---|---|---|---|---|
| Accelerated capital allowances | **0.1** | (11.3) | **(10.8)** | 1.2 | **(10.7)** | (10.1) |
| Holdover relief | **–** | – | **(4.2)** | (4.2) | **(4.2)** | (4.2) |
| Pension fair value and timing differences | **–** | 2.7 | **(14.0)** | (7.7) | **(14.0)** | (5.0) |
| Liquidation of LIFO inventory reserves | **0.2** | – | **2.2** | 1.8 | **2.4** | 1.8 |
| Trading losses | **0.4** | 1.3 | **5.2** | – | **5.6** | 1.3 |
| Short-term timing differences | **1.6** | 14.4 | **9.5** | 3.3 | **11.1** | 17.7 |
| | **2.3** | 7.1 | **(12.1)** | (5.6) | **(9.8)** | 1.5 |

| | Group £m |
|---|---|
| Provision at 4 February 2018 | 1.5 |
| Exchange rate adjustment | 0.1 |
| Deferred taxation charge in other comprehensive income (see note 4(a)) | (15.8) |
| Deferred taxation charge in the profit and loss account for the year (see note 4(a)) | 4.4 |
| **Provision at 2 January 2019** | **(9.8)** |

A deferred tax asset has not been provided for £160.9m of tax losses carried forward primarily US losses of £136.4m and other territories including Australia £11.9m and Germany £7.4m on the basis that uncertainty as to recoverability exists in the foreseeable future.

Deferred tax assets on £48.9m of onerous lease, store impairment provisions and other deferred tax assets have not been recognised to the extent there are not sufficient deferred tax liabilities and there is uncertainty about future recoverability.

The prior year taxation figures in the Statement of Financial Position have been restated. This is to show the net deferred tax position (£1.7m prior period adjustment to decrease deferred tax assets) and gross up current tax positions (£2.4m increase to current tax assets and liabilities).

## 16. Retirement Benefits

The Group operated two defined benefit schemes in the UK; the C&J Clark Pension Fund (the Fund) and the Clarks Flexible Pension Scheme (the Scheme). A full actuarial valuation of the Fund was carried out at 31 July 2016 and an actuarial report of the Scheme was carried out at 5 April 2015. These were updated to 2 February 2019 by a qualified independent actuary. The Group operates a single defined benefit scheme in the USA; the C&J Clark Company Pension Plan (the Plan). A full actuarial valuation of the Plan was carried out at 1st January 2017 and updated to 2 February 2019 by a qualified independent actuary.

| | Group 2019 £m | Group 2018 £m |
|---|---|---|
| **Change in benefit obligation for defined benefit sections** | | |
| Benefit obligation at the beginning of the year | **1,199.8** | 1,192.6 |
| Current service cost | **5.6** | 10.5 |
| Administration costs | **1.8** | 1.6 |
| Interest cost | **31.8** | 34.5 |
| Plan participants' contributions | **0.3** | 0.5 |
| Past service costs | **4.3** | 0.1 |
| Actuarial (gain)/loss | **(13.7)** | 44.5 |
| Curtailments | **(11.4)** | (14.1) |
| Benefits paid | **(72.7)** | (56.5) |
| Exchange rate adjustment on US scheme | **8.3** | (13.9) |
| **Benefit obligation at the end of the year** | **1,154.1** | 1,199.8 |
| **Analysis of benefit obligation for defined benefit sections** | | |
| Plans that are wholly or partly funded | **1,153.9** | 1,199.6 |
| Plans that are wholly unfunded | **0.2** | 0.2 |
| **Total** | **1,154.1** | 1,199.8 |
| **Change in plan assets for defined benefit sections** | | |
| Fair value of plan assets at the beginning of the year | **1,232.9** | 1,221.9 |
| Expected return on plan assets | **32.7** | 35.5 |
| Actuarial gain | **16.4** | 20.5 |
| Transfer from defined contribution section of the Fund | **–** | – |
| Employer contribution | **5.2** | 26.5 |
| Member contributions | **0.2** | 0.5 |
| Curtailments | **–** | (4.0) |
| Benefits paid | **(72.7)** | (56.5) |
| Administration costs | **(0.5)** | (0.4) |
| Exchange rate adjustment on US scheme | **7.5** | (11.1) |
| **Fair value of plan assets at the end of the year** | **1,221.7** | 1,232.9 |
| **Funded status** | **67.6** | 33.1 |
| Unrecognised past service cost (benefit) | **–** | - |
| **Net amount recognised** | **67.6** | 33.1 |

## 16. Retirement Benefits (continued)

| Components of pension cost | Group 2019 £m | Group 2018 £m |
|---|---|---|
| Current service cost – defined benefit scheme | **5.6** | 10.5 |
| Administration costs | **2.3** | 2.7 |
| Contribution – defined contribution scheme | **1.6** | 2.0 |
| Interest cost | **31.8** | 34.5 |
| Expected return on plan assets | **(32.7)** | (35.5) |
| Past service costs | **4.3** | 0.1 |
| Effect of curtailments | **(11.4)** | (10.2) |
| ***Total pension cost recognised in the Income Statement*** | **1.5** | 4.1 |
| Actuarial gains/(losses) immediately recognised | **30.1** | (24.1) |
| **Total pension gains/(losses) recognised in other comprehensive income** | **30.1** | (24.1) |
| Cumulative amount of actuarial losses immediately recognised since 1 February 2005 | **(0.4)** | 29.7 |

| Movement in surplus during the year | Group 2019 £m | Group 2018 £m |
|---|---|---|
| Surplus in the scheme at the beginning of the year | **33.1** | 29.3 |
| Current service cost | **(5.6)** | (10.5) |
| Administration costs | **(2.3)** | (2.0) |
| Contributions | **5.2** | 26.5 |
| Past service costs/curtailments | **(4.3)** | 10.1 |
| Gains on curtailments and settlements | **11.4** | – |
| Net return/(interest cost) on assets | **1.0** | 0.9 |
| Actuarial gain/(loss) | **30.1** | (24.1) |
| Exchange rate adjustment on US scheme | **(1.0)** | 2.9 |
| **Surplus in the scheme at the end of the year** | **67.6** | 33.1 |
| Unfunded unapproved retirement benefit scheme | **(0.8)** | (0.8) |
| **Pension asset at the end of the year** | **66.8** | 32.3 |

## 16. Retirement Benefits (continued)

### Plan assets

The weighted average asset allocations at the year end were as follows:

| Asset category | UK plan assets 2019 % | UK plan assets 2018 % | North America plan assets 2019 % | North America plan assets 2018 % |
|---|---|---|---|---|
| Equities | **16.6** | 22.4 | **62.6** | 70.7 |
| Bonds | **76.7** | 72.1 | **37.3** | 28.8 |
| Real estate | **4.9** | 4.1 | **–** | – |
| Cash | **1.8** | 1.4 | **0.1** | 0.5 |
| | **100.0** | 100.0 | **100.0** | 100.0 |

| | Group 2019 £m | Group 2018 £m |
|---|---|---|
| Actual return on plan assets | **49.2** | 56.0 |

| Weighted average assumptions used to determine benefit obligations | | UK 2019 % | UK 2018 % | North America 2019 % | North America 2018 % |
|---|---|---|---|---|---|
| Discount rate | | **2.60** | 2.60 | **4.20** | 3.90 |
| Rate of increase in salaries | Senior Executives | **–** | 3.20 | **n/a** | 2.50 |
| | Others | **–** | 3.20 | **n/a** | 2.50 |
| Rate of increase in pensions in payment | Fund | **3.05** | 3.10 | **n/a** | n/a |
| | Scheme | **2.15** | 1.80 | **n/a** | n/a |
| Rate of increase in pensions in deferment | | **2.15** | 2.20 | **n/a** | n/a |
| Inflation assumption | | **3.15** | 3.10 | **2.50** | 2.50 |

| Weighted average assumptions used to determine net pension cost for the year end | | UK 2019 % | UK 2018 % | North America 2019 % | North America 2018 % |
|---|---|---|---|---|---|
| Discount rate | | **2.60** | 2.85 | **4.20** | 3.90 |
| Expected long-term return on plan assets | | **2.60** | 2.85 | **n/a** | 3.90 |
| Rate of increase in salaries | Senior Executives | **3.20** | 3.95 | **n/a** | 3.50 |
| | Others | **3.20** | 3.45 | **n/a** | 3.50 |
| Rate of increase in pensions in payment | Fund | **3.10** | 3.30 | **n/a** | n/a |
| | Scheme | **2.20** | 1.90 | **n/a** | n/a |
| Rate of increase in pensions in deferment | | **2.20** | 2.45 | **n/a** | n/a |
| Inflation assumption | | **3.20** | 3.30 | **2.50** | 2.50 |

## 16. Retirement Benefits (continued)

| | | UK 2019 % | UK 2018 % | North America 2019 % | North America 2018 % |
|---|---|---|---|---|---|
| **Weighted average life expectancy for mortality tables used to determine benefit obligations** | | | | | |
| Member age 65 (current life expectancy) | Male | **22.4** | 22.3 | **20.7** | 21.5 |
| | Female | **24.2** | 24.1 | **22.7** | 23.7 |
| Member age 45 (life expectancy at age 65) | Male | **22.1** | 22.3 | **22.3** | 23.3 |
| | Female | **24.5** | 24.7 | **24.3** | 25.4 |

| | UK 2019 £m | UK 2018 £m | UK 2017 £m | UK 2016 £m | UK 2015 £m |
|---|---|---|---|---|---|
| **Five year history** | | | | | |
| Benefit obligation at the end of the year | **(1,045.3)** | (1,095.3) | (1,059.3) | (910.5) | (1,030.5) |
| Fair value of plan assets at the end of the year | **1,127.8** | 1,140.7 | 1,119.4 | 985.4 | 1,008.3 |
| **Surplus/(Deficit) in the scheme** | **82.5** | 45.4 | 60.1 | 74.9 | (22.2) |

| | North America 2019 | North America 2018 | North America 2017 | North America 2016 | North America 2015 |
|---|---|---|---|---|---|
| Benefit obligation at the end of the year | **(108.8)** | (104.5) | (133.3) | (111.3) | (119.2) |
| Fair value of plan assets at the end of the year | **93.9** | 92.2 | 102.5 | 85.0 | 89.8 |
| **Surplus/(Deficit) in the scheme** | **(14.9)** | (12.3) | (30.8) | (26.3) | (29.4) |

| | Group 2019 £m | Group 2018 £m | Group 2017 £m | Group 2016 £m | Group 2015 £m |
|---|---|---|---|---|---|
| Benefit obligation at the end of the year | **(1,154.1)** | (1,199.8) | (1,192.6) | (1,021.8) | (1,149.7) |
| Fair value of plan assets at the end of the year | **1,221.7** | 1,232.9 | 1,221.9 | 1,070.4 | 1,098.1 |
| **Surplus/(Deficit) in the scheme** | **67.6** | 33.1 | 29.3 | 48.6 | (51.6) |
| Actual return less expected return on scheme assets | **16.4** | 20.5 | 136.3 | (69.3) | 137.9 |
| Percentage of year-end scheme assets | **1.3%** | 1.7% | 11.2% | (6.5%) | 12.6% |
| Experience gains/(losses) arising on scheme liabilities | **13.7** | (44.5) | (156.3) | (132.3) | (139.0) |
| Percentage of year-end scheme liabilities | **1.2%** | (3.7%) | (13.1%) | (12.9%) | (12.1%) |

**Contributions**

Under the current schedule of contributions, the Group expects to make contributions towards pension deficits of £10.7m to the UK schemes and $nil to the US schemes in the year ended 3 February 2020.

The GMP charge of £4.3m is explained fully in the Chief Financial and Transformation Officer's review on pages 19 to 25.

## 17. Share capital

| | Issued and fully paid 2019 £m | Issued and fully paid 2018 £m |
|---|---|---|
| **Ordinary shares of £1 each** | **59.1** | 59.1 |

## 18. Reserves

**Share premium account**
This reserve records the amount above the nominal value received for shares sold, less transaction costs.

**Capital redemption reserve**
This reserve records the nominal value of shares. The capital redemption reserve was originally created in 2003 as a result of an ordinary share buy back.

**Merger reserve**
The merger reserve of £15.1m (2018 - £15.1m) arises from the adoption of merger accounting in the year ended 31st January 1998 in relation to the Group reconstruction which followed the demerger of the Factory Outlet Centres.

## 19. Reconciliation of operating (loss)/profit items to operating cash flows

| | 2019 £m | 2018 £m |
|---|---|---|
| Operating (loss)/profit | **(75.7)** | 29.3 |
| Depreciation | **35.3** | 32.1 |
| Impairments | **24.0** | 17.3 |
| Amortisation | **15.7** | 19.3 |
| Decrease in inventory | **11.2** | 41.9 |
| Decrease in debtors | **12.5** | 4.2 |
| Increase in creditors | **19.7** | 26.2 |
| Increase/(decrease) in provisions | **33.3** | (13.4) |
| Exchange gains/(losses) on currency bank accounts | **6.1** | (9.7) |
| Unrealised exchange (gains)/losses | **(22.9)** | 26.2 |
| Loss on sale of tangible fixed assets | **16.1** | 3.3 |
| Pension deficit funding | **–** | (16.0) |
| Difference between pension charge and cash contributions | **(4.4)** | (8.1) |
| Interest paid | **(8.0)** | (10.5) |
| Tax paid | **(5.8)** | (10.0) |
| **Net cashflow from operating activities** | **57.1** | 132.1 |

## 20. Analysis of net borrowings

| | At 4 February 2018 £m | Cash flow £m | Translation adjustment £m | **At 2 February 2019 £m** |
|---|---|---|---|---|
| Cash at bank and in hand | 137.1 | (92.5) | 3.7 | **48.3** |
| Bank overdrafts | (7.4) | (1.0) | (2.1) | **(10.5)** |
| Cash and cash equivalents | 129.7 | (93.5) | 1.6 | **37.8** |
| Bank loans | – | – | – | **–** |
| Long-term loans | (157.0) | 109.2 | (7.7) | **(55.5)** |
| [illegible] | (27.3) | 15.7 | (6.1) | **(17.7)** |

Deducted from long-term loans are £1.8m (2018 – £2.3m) of pre-paid transactions costs relating to financing.

On 21 May 2018 the Group completed the amend and extend of its debt facilities. On that date the existing $150m Term loan facility was repaid in full and cancelled. The current $155m multicurrency Revolving Credit Facility was increased to $231.9m (with maturity of 30 April 2022 and extendable with mutual consent to 30 April 2023). On 30 August 2018, the local USD Revolving Credit Facility was increased to $25m (2018 - $15m). There were no other changes on any overdraft or other borrowing facilities.

## 21. Interest-bearing loans and borrowings

The nominal value of interest bearing loans and borrowings included within creditors are analysed as follows:

| | Group 2019 £m | Group 2018 £m | Company 2019 £m | Company 2018 £m |
|---|---|---|---|---|
| **Creditors falling due within one year** | | | | |
| Short term loan | **10.5** | 7.4 | – | – |
| | **10.5** | 7.4 | – | – |
| **Creditors falling due more than one year** | | | | |
| Revolving credit facility | **57.3** | 159.3 | – | – |
| | **57.3** | 159.3 | – | – |

| | Currency | Nominal interest rate | Year of maturity | Group 2019 £m | Group 2018 £m |
|---|---|---|---|---|---|
| $231.9m Revolving Credit Facility | US Dollar | LIBOR plus 2-2.5% | 2022 | – | – |
| $150m Term Facility | US Dollar | LIBOR plus 2-2.5% | Closed | – | 106.2 |
| $75m Private Placement (PRICOA) | US Dollar | 0.054 | 2022 | **57.3** | 53.1 |
| $25m Revolving Credit Facility | US Dollar | LIBOR plus 1.75% | 2019 | **2.7** | – |
| 700m JPY Debt Facility | Japan Yen | 0.53% | 2019 | **4.9** | 4.5 |
| 400m JPY Debt Facility | Japan Yen | 0.93% | 2019 | **2.9** | 2.6 |
| | | | | **67.8** | 166.4 |

Terms shown above are for the Group's debt facilities and do not include bank overdrafts.

On 21 May 2018 the Group completed the amend and extend of its debt facilities. On that date the existing $150m Term loan facility was repaid in full and cancelled. The current $155m multicurrency Revolving Credit Facility was increased to $231.9m (with maturity of 30 April 2022 and extendable with mutual consent to 30 April 2023). On 30 August 2018, the local USD Revolving Credit Facility was increased to $25m (2018 - $15m). These facilities are secured by a floating charge over the net assets of certain group companies and are also subject to cross company guarantees within the Group. All are included within the above financial liabilities.

Further guarantees are provided in relation to £5m, $2m and €1m overdraft facilities in the UK. The Group also provides an INR 1bn corporate guarantee to support 50% of an INR 2bn loan facility for Clarks Future Footwear Private Limited, a 50% owned Joint Venture.

## 22. Financial Instruments and Risk Management

a) Carrying amount of financial instruments

| | Group 2019 £m | Group 2018 Restated £m |
|---|---|---|
| Assets measured at fair value through profit or loss | | |
| Swaps and Options | – | 0.1 |
| Assets measured at fair value through cash flow hedge reserve | | |
| Forward exchange contracts | **19.4** | 2.2 |
| Assets measured at amortised cost | | |
| Other debtors | **141.5** | 145.8 |
| Liabilities measured at fair value through profit or loss | | |
| Swaps and Options | – | - |
| Liabilities measured at fair value through cash flow hedge reserve | | |
| Forward exchange contracts | **(4.1)** | (29.9) |
| Liabilities measured at amortised cost | | |
| Bank overdraft | **(10.5)** | (7.4) |
| Long term loans | **(55.5)** | (157.0) |
| Other creditors | **(297.0)** | (270.7) |

During the year £19.3m of gains (2018 - £17.3m gain) were recycled from the cash flow hedge reserve to the Income Statement. The change in the fair value of financial instruments recognised through the cash flow hedge reserve in the year was a gain of £21.7m (2018 - £38.4m loss.)

b) Financial instruments measured at fair value

**Derivative financial instruments**
The Group does not engage in foreign currency speculation but covers its future trading requirements through use of forward exchange contracts and options. Due to short-term fluctuations in exchange rates, the year end rates will always be different from contract rates.

**Forward exchange contracts**
The fair value of forward exchange contracts is based on their market price on the relevant date. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

**Options**
The fair value of option contracts is based on their market price on the relevant date.

**Interest rate swaps**
The fair value of interest rate swaps is based on market prices. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

## 22. Financial Instruments and Risk Management (continued)

c) Hedge accounting

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur:

| | 1 year or less 2019 £m | 1 to<2 years 2019 £m | 2 to<5 years 2019 £m | 5 years and over 2019 £m | Carrying amount £m | 1 year or less 2018 £m | 1 to<2 years 2018 £m | 2 to<5 years 2018 £m | 5 years and over 2018 £m | Expected cash flows £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Forward exchange contracts** | | | | | | | | | | |
| Assets | **343.3** | **140.8** | **7.4** | **–** | **491.5** | 73.2 | 75.2 | – | – | 148.4 |
| Liabilities | **(66.4)** | **(90.6)** | **–** | | **(157.0)** | (349.0) | (125.7) | | | (474.6) |
| | **276.9** | **50.2** | **7.4** | **–** | **334.5** | (275.7) | (50.5) | – | – | (326.2) |

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to affect profit or loss:

| | 1 year or less 2019 £m | 1 to<2 years 2019 £m | 2 to<5 years 2019 £m | 5 years and over 2019 £m | Carrying amount £m | 1 year or less 2018 £m | 1 to<2 years 2018 £m | 2 to<5 years 2018 £m | 5 years and over 2018 £m | Expected cash flows £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Forward exchange contracts** | | | | | | | | | | |
| Assets | **296.9** | **172.4** | **22.2** | **–** | **491.5** | 73.2 | 75.2 | - | - | 148.4 |
| Liabilities | **(58.8)** | **(75.4)** | **(22.8)** | **–** | **(157.0)** | (280.2) | (194.4) | - | - | (474.6) |
| | **238.1** | **97.0** | **(0.6)** | **–** | **334.5** | (207.0) | (119.2) | - | - | (326.2) |

The Group's treasury management policies are outlined in the Chief Financial and Transformation Officer's review on pages 19 to 25.

d) Currency profile and interest rates at nominal value

| | Gross borrowings 2019 £m | Cash at bank and in hand 2019 £m | Net (cash) / borrowings 2019 £m | Gross borrowings 2018 £m | Cash at bank and in hand 2018 £m | Net (cash) / borrowings 2018 £m |
|---|---|---|---|---|---|---|
| **Currency:** | | | | | | |
| Sterling | **–** | **(64.9)** | **(64.9)** | 0.1 | (159.1) | (159.0) |
| US dollar | **2.7** | **21.8** | **24.5** | – | 29.2 | 29.2 |
| Euro | **–** | **27.2** | **27.2** | 0.2 | 40.5 | 40.7 |
| Other | **7.8** | **(32.4)** | **(24.6)** | 7.1 | (47.3) | (40.6) |
| | **10.5** | **(48.3)** | **(37.8)** | 7.4 | (137.1) | (129.7) |
| **Borrowings for financing purposes:** | | | | | | |
| Sterling | **–** | **–** | **–** | – | – | – |
| US Dollar liabilities | **57.3** | **–** | **57.3** | 159.3 | – | 159.3 |
| Japanese Yen | **–** | | **–** | – | – | – |
| | **57.3** | **–** | **57.3** | 159.3 | – | 159.3 |
| | **67.8** | **(48.3)** | **19.5** | 166.7 | (137.1) | 29.6 |

Except for the fixed rate private placement of £57.3m (2018 - £53.1m), the remainder of the Group's net borrowing facilities amounting to £211.9m (2018 - £241.4m) are available at floating rates. These include the Revolving Credit Facility of £177.2m (2018 - £109.7m), the Term debt of £nil (2018 – 106.2m) and overdraft or other borrowing facilities in the UK and overseas totalling £34.7m (2018 - £25.5m). Under the Revolving Credit Facility, interest rates are based upon LIBOR appropriate to the tenor of the loan. The interest rates on facilities in the UK are based on the UK base rate for sterling borrowings and the relevant LIBOR rate for currency borrowings.
The interest rates on the short-term facilities in the USA are based on LIBOR and those in Japan are based on local rates.

## 22. Financial Instruments and Risk Management (continued)

The maturity of the Group's gross borrowings at 2 February was as follows:

| | 2019 £m | 2018 £m |
|---|---|---|
| In one year or less or on demand | **10.5** | 7.4 |
| In more than one year but not more than two years | **–** | – |
| In more than two years but not more than five years | **57.3** | 159.3 |
| | **67.8** | 166.7 |

At 2 February the Group had the following undrawn net committed borrowings facilities available:

| | 2019 £m | 2018 £m |
|---|---|---|
| Expiring in one year | **24.4** | 18.4 |
| Expiring in more than one year but not more than two years | **–** | – |
| Expiring in more than two years but not more than five years | **177.2** | 109.7 |
| | **201.6** | 128.1 |

## 23. Financial commitment

Commitments by the Group for capital expenditure not provided in the financial statements are:

| | **2019** **£m** | 2018 £m |
|---|---|---|
| Contracted but not provided for | 2.7 | 2.0 |

Annual commitments by the Group in respect of non-cancellable operating leases are:

| | **Land and buildings 2019 £m** | Land and buildings 2018 £m | **Plant and equipment 2019 £m** | Plant and equipment 2018 £m |
|---|---|---|---|---|
| Expiring within one year | **88.5** | 94.9 | **0.6** | 1.0 |
| Expiring between two and five years | **251.2** | 272.2 | **0.4** | 1.1 |
| Expiring after five years | **119.6** | 127.2 | **–** | – |
| | 459.3 | 494.3 | 1.0 | 2.1 |

## 24. Related party transactions

**Control**

The Group holding company is C&J Clark Limited. Members of the Clark family hold 84.8% of the Company's ordinary shares.

**Transactions with directors and officers**

There were no transactions with directors and officers during the year.

**Transactions with senior management**

During the year salaries and social security costs of £3.8m were paid relating to senior management (2018 – £2.8m)

**Transactions with subsidiaries and joint venture**

The Group has taken advantage of the exemptions in respect of transactions with wholly owned subsidiaries. Therefore, transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Please see note 11 and 12 for balances outstanding at the year end date between the parent Company and its subsidiaries. Transactions between the Group and its joint venture are disclosed below:

| | **Sales to related parties 2019 £m** | Sales to related parties 2018 £m | **Amounts Owed by related parties 2019 £m** | Amounts Owed by related parties 2018 £m | **Injection of equity funding 2019 £m** | Injection of equity funding 2018 £m |
|---|---|---|---|---|---|---|
| **Clarks Future Footwear Private Limited** | **8.1** | 5.3 | **3.5** | 2.3 | **–** | 2.4 |

Sales to related parties consist of footwear.

## C&J Clark Limited and Subsidiaries

The following is a full list of all subsidiaries of the Group. All are wholly-owned with the exception of the joint venture and are engaged in the shoe trade.

Companies Act 2006 require that the address of the registered office for all undertakings be included in the Annual report. The registered offices have been cross referenced to the footnote on the following page.

| | Registered office | Country of incorporation | Ordinary shares | % |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| C&J Clark (No1) Limited | 1 | England | £ each | 100 |
| C. & J. Clark (Holdings) Limited | 1 | England | £ each | 100 |
| C & J Clark International Limited (trading as Clarks International) | 1 | England | £ each | 100 |
| C. & J. Clark Overseas Limited | 1 | England | £ each | 100 |
| C. & J. Clark Trustee Limited | 1 | England | £ each | 100 |
| C. & J. Clark (Street) Limited | 1 | England | £ each | 100 |
| Clarks Americas Inc. | 2 | USA | US $ each | 100 |
| Clarks Shoes Vertriebs GmbH | 3 | Germany | € each | 100 |
| C&J Clark Hong Kong Limited | 4 | Hong Kong | HKD each | 100 |
| Clarks India Services Private Limited | 5 | India | INR each | 100 |
| Clarks America Canada Retail Limited | 6 | Canada | CAD each | 100 |
| C & J Clark Latin American, Inc | 2 | USA | US $ each | 100 |
| Clarks Dongguan Footwear Services Company Limited | 7 | China | ¥ each | 100 |
| C & J Clark Pension Fund Trustees Limited | 1 | England | £ each | 100 |
| Hallco 367 Limited | 1 | England | £ each | 100 |
| C. & J. Clark America, Inc. | 2 | USA | US $ each | 100 |
| C.J.C Financial Company | 2 | USA | US $ each | 100 |
| C. & J. Clark Retail, Inc | 2 | USA | US $ each | 100 |
| C. & J. Clark Manufacturing, Inc | 2 | USA | US $ each | 100 |
| C. & J. Clark Canada Limited | 6 | Canada | CAD each | 100 |
| Bostonian Shoe Company of New York | 2 | USA | US $ each | 100 |
| Clarks of England, Inc | 2 | USA | US $ each | 100 |
| Clarks Shoes Benelux BV | 8 | Holland | € each | 100 |
| Clarks Shoes Handelsgesellschaft m.b.H | 9 | Austria | € each | 100 |
| C & J Clark China Trading Company Limited | 10 | China | ¥ each | 100 |
| C & J Clark Ticaret ve Pazarlama A.S | 11 | Turkey | TRL each | 100 |
| Clarks Shoes Australia PTY | 12 | Australia | AUD each | 100 |
| Clarks Shoes PTY Limited | 12 | Australia | AUD each | 100 |
| Clarks Shoes Australia Superannuation PTY Limited | 12 | Australia | AUD each | 100 |
| Clarks Shoes Limited | 13 | New Zealand | NZD each | 100 |
| C & J Clark (S) Pte. Limited | 14 | Singapore | SGD each | 100 |
| C. & J. Clark Polska Sp. z o.o. | 15 | Poland | PLN each | 100 |
| C&J Clark (M) Sdn Bhd | 16 | Malayasia | MYR each | 100 |
| Clarks Shoes Iberia S.A | 17 | Spain | € each | 100 |
| Clarks Ireland Sales Limited | 18 | Ireland | € each | 100 |

## C&J Clark Limited and Subsidiaries (continued)

| Subsidiaries | Registered office | Country of incorporation | Ordinary shares | % |
|---|---|---|---|---|
| Clarks Japan Company Limited | 19 | Japan | ¥ each | 100 |
| Clarks Properties Limited | 1 | England | £ each | 100 |
| C. & J. Clark Retail Properties Limited | 1 | England | £ each | 100 |
| Clarks Retail Properties Limited | 1 | England | £ each | 100 |
| C. & J. Clark Pension Funds (Trustee) Limited | 1 | England | £ each | 100 |
| K Shoes Contributory Pension Scheme (Trustee) Limited | 1 | England | £ each | 100 |
| K Shoes Limited | 1 | England | £ each | 100 |
| Street Estates Limited | 1 | England | £ each | 100 |
| C. & J. Clark Investment Properties Limited | 1 | England | £ each | 100 |
| C. & J. Clark Main Pension Fund (Trustees) Limited | 1 | England | £ each | 100 |
| C. & J. Clark Senior Executive Pension Scheme (Trustee) Limited | 1 | England | £ each | 100 |
| Clarks Limited | 1 | England | £ each | 100 |
| Warners Limited | 1 | England | £ each | 100 |
| Clarks Vietnam Footwear Services LLC | 21 | Vietnam | VND each | 100 |
| C&J Clark Korea Limited | 22 | South Korea | KRW each | 100 |

| Joint Ventures | Registered office | Country of incorporation | Ordinary shares | % |
|---|---|---|---|---|
| Clarks Future Footwear Private Limited | 20 | India | RUP each | 50 |

**Registered offices**

1. 40 High Street, Street, Somerset, BA16 0EQ
2. 60 Tower Road, Waltham, Massachusetts, 02451
3. Albstraße 16-18, 72764 Reutlingen, Germany
4. Office 05, 18/F., Hip Kwan Commercial Building, 38 Pitt Street,Yau Ma Tei, Kowloon, Hong Kong
5. TVH Beliciaa Towers, Suite905, 9th Floor, Phase II, MRC Nagar, R.A. Puram, Chennai – 600028,Tamil Nadu, India.
6. 2881 Brighton Road, Oakville, Ontario, L6H 6C9 Canada
7. 3A Heng Zheng Plaza, Station Road North,Yuan Wu Bian, Nancheng District, Dongguan City, Guangdong Province, China
8. Chasseveld 15 f, 4811DH Breda, Holland
9. Moosfeldstrasse 1, 5101 Bergheim bei Salzburg, Austria
10. Room 625, 88 Taigu Road, Waigaoqiao Free Trade Zone, Shanghai, China
11. Halil Rifat Pasa mah.Teoman sk.Aksu IsMerk. 2/2 PK34384 Okmeydani, Sisli Istanbul, Turkey
12. 29 Macedon Avenue, Balwyn North, VIC 3104 Australia
13. C/O KPMG, 18 Viaduct Harbour Avenue, Maritime Square , Auckland, New Zealand
14. 11 Chang Charn Road, #02-01 Shriro House, Singapore 159640
15. ul. Aleje Jerozolimskie, lokal 56 C, kod 00-803, poczta Warszawa, kraj Poland
16. 38D-2A, Jalan Radin Anum, Bandar Baru Seri Petaling, 57000 Kuala Lumpur, Malaysia
17. Plaza Pablo Ruiz Picasso, 1, Torre Picasso, Floor 38, Madrid (28020), Spain
18. Building 1, Swift Square, Northwood Business Park, Santry, Dublin 9, Ireland
19. 11f, Shin-Aoyama Tokyu Building, 3-11-13 Minami Aoyama, Minato-ku,Tokyo, 107-0062 Japan
20. Future Group, Plot No.82, Sector-32, Gurgaon-122001, Haryana, India
21. 10th Floor, TNR Tower , 180-192 Nguyen Cong Tru Street, Nguyen Thai Binh Ward, District 1, Ho Chi Minh City, Vietnam
22. 4 Floor, 5-3, Eonju-ro 149-gil, Gangnam-gu, Seoul

## Group Financial Record

| | Notes | 2019 £m | 2018 £m | 2017 £m | 2016 £m | 2015 £m |
|---|---|---|---|---|---|---|
| **Group trading results for the year ended 31 January** | | | | | | |
| Total Group turnover | | **1,468.8** | 1,539.9 | 1,654.7 | 1,533.6 | 1,494.4 |
| Turnover including share of joint venture | 1 | **1,476.3** | 1,549.1 | 1,661.8 | 1,540.0 | 1,499.8 |
| (Loss)/profit before interest and Joint Venture | | **(75.7)** | 29.3 | 41.4 | 45.8 | 112.7 |
| (Loss)/profit before interest | | **(76.2)** | 28.8 | 40.0 | 45.2 | 112.1 |
| Net interest | | **(8.2)** | (9.1) | (17.8) | (10.2) | (13.3) |
| (Loss)/profit before tax | | **(84.4)** | 19.7 | 22.2 | 35.0 | 98.8 |
| (Loss)/profit after tax | | **(82.9)** | (31.3) | 26.5 | 36.0 | 80.0 |
| Adjusted (loss)/profit after tax | | **(82.7)** | 12.3 | 34.5 | 38.6 | 85.3 |
| **Group financial position at 31 January** | | | | | | |
| Capital employed | | **407.9** | 525.1 | 663.2 | 762.7 | 674.2 |
| Net borrowings | | **(17.7)** | (27.3) | (133.7) | (183.3) | (66.8) |
| Equity shareholders' funds | | **469.0** | 503.9 | 600.7 | 624.8 | 589.6 |
| **Ratios** | | | | | | |
| Return on sales | 2 | **(5.2)%** | 1.9% | 2.5% | 3.0% | 7.5% |
| Return on capital employed | 3 | **(20.3)%** | (6.0)% | 4.0% | 5.9% | 16.6% |
| Net assets per ordinary share | 4 | **£7.94** | £8.53 | £10.17 | £10.99 | £9.93 |
| Net borrowings/equity | | **3.8%** | 5.4% | 22.3% | 28.2% | 11.3% |
| Basic earnings per ordinary share | 5 | **(140.3)p** | (53.0)p | 44.9p | 60.7p | 134.6p |
| Adjusted earnings per share | | **(140.0)p** | 20.8p | 58.4p | 65.0p | 143.5p |
| Dividends declared during the year excluding special dividend | | **6.0p** | 10.0p | 21.0p | 32.5p | 46.5p |
| Dividends paid during the year per ordinary share excluding special dividend | 6 | **7.7p** | 14.0p | 28.0p | 46.5p | 44.5p |
| Dividends paid during the year per ordinary share | 6 | **7.7p** | 14.0p | 28.0p | 71.5p | 44.5p |
| Dividend cover on a declared basis excluding special dividend | 7 | **(23.4)** | (5.3) | 2.1 | 1.9 | 2.9 |
| Adjusted dividend cover on a declared basis excluding special dividend | 7 | **(23.3)** | 2.1 | 2.8 | 1.3 | 3.0 |
| Interest cover | 8 | **(8.7)** | 2.7 | 5.1 | 4.4 | 8.4 |

1. Turnover includes 100% of the turnover in the Indian Joint Venture.
2. Return on sales is the profit before interest expressed as a percentage of turnover.
3. Return on capital employed is the profit after tax expressed as a percentage of capital employed at the year end.
4. Net assets per ordinary share is the amount of the equity shareholders' funds divided by the number of ordinary shares in issue.
5. Basic earnings per ordinary share have been calculated as per note 6 in the notes to the financial statements.
6. Dividends paid during the year per ordinary share reflect the actual payments made during the year rather than the dividend declared in respect of the year.
7. Dividend cover is the earnings per share divided by dividends declared during the year.
8. Interest cover is the profit before interest divided by net interest.

## Facts at your Fingertips

| | UK | America | Europe | Rest of the World | Group |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Turnover (£millions)† | 549 | 607 | 128 | 186 | 1,470 |
| Employees (number at year-end)* | 7,377 | 3,361 | 591 | 431 | 11,760 |
| Pairs sold (millions) | 16.4 | 21.2 | 3.8 | 4.8 | 46.2 |
| Shops | | | | | |
| Full Price | 332 | 155 | 9 | 21 | 517 |
| Concessions | 35 | – | – | 23 | 58 |
| Outlets | 43 | 121 | 17 | 28 | 209 |
| Bostonian | – | – | – | – | – |
| Total owned shops | 410 | 276 | 26 | 72 | 784 |
| Franchise stores | 111 | 3 | – | – | 114 |
| International Clarks shops** | – | 14 | 117 | 348 | 479 |
| Total shops | 521 | 293 | 143 | 420 | 1,377 |

| | UK | America | Europe | Rest of the World | Group |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Turnover (£millions)† | 586 | 640 | 137 | 181 | 1,544 |
| Employees (number at year-end)* | 8,361 | 3,777 | 575 | 414 | 13,127 |
| Pairs sold (millions) | 18.1 | 20.7 | 4.1 | 4.7 | 47.6 |
| Shops | | | | | |
| Full Price | 332 | 189 | 9 | 24 | 554 |
| Concessions | 43 | – | – | 26 | 69 |
| Outlets | 44 | 127 | 17 | 29 | 217 |
| Bostonian | – | – | – | – | – |
| Total owned shops | 419 | 316 | 26 | 79 | 840 |
| Franchise stores | 114 | – | – | – | 114 |
| International Clarks shops** | – | 12 | 135 | 352 | 499 |
| Total shops | 533 | 328 | 161 | 431 | 1,453 |

* Including part-time employees.

** Monobranded partnership stores.

Excluding Group items.

The prior year figures above have been restated to exclude the Joint Venture stores from the totals.

# GLOSSARY

## Alternative performance measures (APM)

Throughout the report and accounts the Directors use alternative performance measures to allow the true underlying performance and trends to be communicated to stakeholders.

Alternative performance measures may not be defined in FRS102 and may not be calculated and measured in the same way as other companies, but they are consistently applied in these financial statements. Our auditors do not express an opinion on whether the alternative performance measures are appropriate, but they do ensure that the underlying data for those measures is not misleading and is congruent with the audited financial statements.

| APM | Closest equivalent statutory measure | Reconciling items to statutory measure | Definition and purpose |
|---|---|---|---|
| **Income statement measures** | | | |
| Earnings per share (EPS) | None | Not applicable | Profit/(loss) after tax of the Group, divided by the weighted average number of shares in issue during the financial year. |
| Adjusted Earnings per share (AEPS). | Earnings per share | Non-GAAP measures | Profit/(loss) after tax of the Group excluding items included in non-GAAP measures, divided by the weighted average number of shares in issue during the financial year. |
| Regional net margin and net margin rate (%) | Gross Profit | Outbound distribution costs | A comparable measure of performance across all regions, with each regions margin being made up of the same component elements. We report this in our narrative section on a translation currency neutral basis. |
| Like-for-like sales | Group turnover | Wholesale sales, non-like-for-like sales and translation currency | Like for like sales are reported for stores that have been opened for at least one full year. This is a measure of sales performance that strips out movements due to openings, closings and relocations of stores, that may otherwise distort the true sales performance. |
| Constant exchange rate (CER) | None | Not applicable | This measure removes the effects of currency movements by retranslating the current year's performance at the previous year's management exchange rate. and presenting the subsequent outcome as a % CER growth rate from the prior years reported results at management rate. |
| Adjusted tax rate | Taxation | Non-GAAP measures | Rate of taxation as a % of Profit Before Tax excluding Non-GAAP measures. |
| Underlying operating profit | Group Operating profit | Non-underlying items | The profitability of the Group before foreign exchange movements, non-underlying items and including 100% share of the Joint venture results |
| Non-underlying items | None | Not applicable | Items which are one-off in nature, large and unusual or would distort the interpretation of the underlying business performance. All non-underlying items are agreed by the Audit Committee. |
| Adjusted profit after tax | Profit after tax | Items defined as non-GAAP and the tax effect | Amounts in the income statement, the timing of which does not match with the underlying result, such as fair value adjustments of non-hedge accounted financial derivatives included within finance costs and large one-off tax adjustments relating to government policy changes. |

| APM | Closest equivalent statutory measure | Reconciling items to statutory measure | Definition and purpose |
|---|---|---|---|
| **Statement of financial position measures** | | | |
| Net Debt | Net Borrowings | None | Comprises cash and cash equivalents, unamortised bank facility fees, overdrafts, term loans and revolving credit facilities. |
| Capital employed | Net assets | Net assets excluding net borrowings, deferred tax, pension asset and fair value of financial derivatives | Items which are one-off in nature, large and unusual or would distort the interpretation of the underlying business performance. All non-underlying items are agreed by the Audit Committee. |
| **Cash flow measures** | | | |
| Unlevered free cashflow | None | Net cash flow from operating activities adjusted for interest and tax paid less Net cash flow from investing activities | Comprises cash and cash equivalents, unamortised bank facility fees, overdrafts, term loans and revolving credit facilities. |
| EBITDA | Profit before interest and tax | Adjusted for depreciation and amortisation | Items which are one-off in nature, large and unusual or would distort the interpretation of the underlying business performance. All non-underlying items are agreed by the Audit Committee. |
| Cash conversion | None | Not applicable | Unlevered free cash flow divided by EBITDA %. This is a measure of the conversion of cash profits into free cash flow, the higher the percentage the better the conversion. |
| **Other measures** | | | |
| Return on capital employed | None | Not applicable | This is a measure of the profit/(loss) after tax expressed as a percentage of the capital employed in the business. |
| Capital expenditure | None | Not applicable | Costs of acquiring tangible fixed assets such as property, plant and equipment and intangible fixed assets such as software |

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