FINAL TRANSCRIPT

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SIG - Preliminary 2005 Signet Group Earnings Conference Call

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the Signet Group preliminary results conference call. For your information today's conference is being recorded. I will now hand the call over to your host today, Mr. Term -- Terry Burman. Please go ahead, sir.

Terry Burman - *Signet Group - CEO*

Hi. Good afternoon. I'm pleased to welcome all of you in the room and those joining us by the webcast and conference call. I'm Terry Burman, Group Chief Executive. And with me is Walker Boyd, our Group Finance Director; and sitting in the front row is Rob Anderson, our U.K. Jewelry Chief Executive; who I am pleased to announce has just been appointed as a Director of the Company. I'll present an overview of the business and then Walker will summarize our financial results and discuss the impact resulting from next years adoption of international accounting standards. We'll then all be happy to answer any questions that you may have. And as we have U.S. investors attending, I'd like to ask Walker to give the Safe Harbor Statement.

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Walker Boyd - *Signet Group - Group Financial Director*

[Inaudible - microphone inaccessible] which are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based upon management's beliefs as well as on assumptions made by and data currently available to management and appear in a number of places throughout this presentation. They include statements regarding, amongst other things, our results of operation, financial condition, liquidity, prospects, growth, strategies and the industry in which the Company operates. These forward-looking statements are not guarantees of future performance and are subject to a number much (ph) risks and uncertainties which are more fully described in slide two of this preliminary results presentation and in the risk and other factors section of the Company's 2003-4 annual report on form 20-F filed with the U.S. Securities and Exchange Commission on April 22, 2004, and other filings made by the Company with the commission.

Actual results may differ materially from those anticipated in such forward-looking statements even if experience of future changes make it clear that any projected results expressed or implied therein may not be realized. The Company undertakes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances.

Additionally, certain financial information used during this presentation are considered to be non-GAAP financial measures. For a reconciliation of these to the most directly comparable GAAP financial measures please refer to slides 49 and 50 of the preliminary presentation or to the Company's earnings release dated 6th of April, 2005, available on financial -- on the financial information section of the Company's website at ww (ph).signetgroupplc.com.

Terry Burman - *Signet Group - CEO*

Thanks, Walker. The group's strong underlying performance is partially offset by the adverse movement of the U.S. dollar exchange rate. Total sales were 1.6 billion pounds, an underlying increase of 7.8%, and a reported increase of 0.6%. Like-for-like sales were up by 5%. Profit before tax rose to 210.3 million pounds, up 12.1% at constant exchange rates. Earnings per share grew to 8.2% -- 8.2 P, up 9.3% on a reported basis and 15.5% at constant exchange rates. Return on capital employed was 26.5%.

The board recommends a 21.5% increase in the final dividends, bringing the total for the year for 3 P per share. Dividend cover of 2.7 times remains strong with scope to continue the progressive dividend policy.

Group like-for-like sales were up 5%, in line with the average of the last five years. The stability of the groups performance is helped by the -- the -- by operating in two geographic arenas. The U.S. division was up 5.9% on a like-for-like basis and saw sales increase above the average of the last five years. The U.K. division like-for-like sales were up 3%, reflecting a retail market that became increasingly challenging as the year progressed. In both markets we outperformed our main competition and the retail sector in general.

The group continues to deliver stable growth across a range of financial measures. These four graphs demonstrate our five-year record to 29 January, 2005. Consistent like-for-like sales growth -- contin -- consistent like-for-like sales and space growth is reflected in the 12% increase in earnings per share at constant and exchange rates and in fiscal 2005 we were slightly ahead of the average. Our operating margins remain industry leading and increased last year. Return on capital employed remains in the 23 to 27% range.

Turning now to the U.S. business. The 10.3% increase in U.S. dollar sales was driven by the 5.9% like-for-like sales growth in the sales contribution from new space. Operating profit grew by 17.1% at constant exchange rates, to 147.3 million pounds. Operating margin rose to 13.4% with expense control and leverage from like-for-like sales growth. Gross margin was maintained with the benefit of management initiatives including price changes offsetting higher commodity prices. We markedly outperform the competition and increased our share of the specialty market to 7.2%.

U.S. operating profit has increased by over 75% since fiscal 2000. The 10.3% increase in dollar sales was slightly below the five-year average which was boosted by the Marks and Morgan acquisition in July 2000. Over the same period operating margin

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has improved from 12.4 to 13.4%. Return on capital employed has been maintained in the range of 20 to 23% despite the increasing proportion of immature space. In 2004 the jewelry sector sales shown in yellow grew by 6.9% in line with other major sectors. Since 1998 jewelry has been one of the better performing categories and has grown faster than retail -- than general retail sales. Signet's U.S. division, shown a red at chart, outperformed in each year and since 1998 sales have more than doubled while overall jewelry has increased by over 40% over the same period. Driven by strong underlying growth in our -- in both our mall stores and Jared, our market share of the specialty jewelry sector has increased from 4.9 to 7.2%.

This growth in market share is based on our proven strategy which I'll now outline. In summary, our U.S. objective is to achieve like-for-like increases of mid single digits over the economic cycle and to grow net new store space by 7 to 9% per annum. Critical factors affecting our ability to add space include its availabil -- our ava -- the availability of trained staff, sites meeting our stringent real estate criteria, and our investment hurdle of a 20% IRR over a five-year period. While we have invested in additional resources in both training and real estate to support this pace of growth, and now let's look at the individual strategy for each of our brands.

During 2004-5, Kay became the number one specialty retailer -- retail jeweler by sales which total nearly $1.2 billion. They have increased by a compound annual growth rate of 9.6% over the last five years. We've added almost 200 Kay stores over the five-year period and average sales per store have increased by 17%. Since the "Every Kiss begins with K" advertising campaigns was introduced for Christmas 2000 there's been a very significant increase in brand name awareness. Growth in store numbers has resulted in a major boost to the Kay marketing budget and strengthened the benefits of national TV advertising. Now I'd like to show you one of our Kay commercials that contributed to our Christmas 2004 results.

Video Presentation - *Signet Group*

[Video Presentation] This holiday, how do you give her as much joy as she has given you? Mom likes it. Diamonds [INAUDIBLE] from Kay jewelers would be a good start. Wow. She really likes it. [INAUDIBLE] I think they're going to kiss now. I think you're right. Every kiss begins with Kay. [End Video Presentation]

Terry Burman - *Signet Group - CEO*

We continue to develop opportunities to further leverage the Kay brand through national television, radio and print advertising. In the long term there's opportunity to nearly double the number of Kay stores. In the mall format we're planning to open net 20 to 30 stores in the current year. We are encouraged by the performance of power strip and life style centers and we plan to open a further 10 in -- in fiscal 2006. This month the first Kay in a major metropolitan area will be open in Chicago, followed by store on 34th Street in Manhattan in June. We expect to open up to four such stores by the year end.

The regional brands consist of 321 stores with sales of over $450 million. While growth has not been as fast as Kay, store productivity is similar. We plan to open net 20 to 30 regional stores a year. National TV advertising would require about 550 stores. We can achieve this over time by new store openings. However, we are also prepared to accelerate the process by taking advantage of acquisition opportunities provided they meet our real estate and investment criteria.

Jared is our fastest growing brand with 93 stores achieving sales of over $400 million. During the past seven years we've opened 12 to 15 stores per annum, excuse me, and plan to accelerate to between 15 and 20 stores per annum beginning this year. During 2004, TV advertising was increased to cover over 90 percent of sales and by Christmas 2006 we anticipate having sufficient scale to benefit from national TV advertising. This year Jared is expected to become a top five specialty retail jewelry brand by sales. 28 Jared stores have reached maturity and their performance is validated on our investment model. This calls for Jared sales to increase from about 3.25 million in year one to between 5 and $6 million in year five. The mature stores have achieved average sales of $5.6 million in year five with the store contribution from the mature Jared stores being in line with that of the average of the mall stores. Reflecting the strong sales performance in fiscal 2005 Jared sales in total were broadly in line with their pro forma's, recovering the marginal deficit in fiscal 2004.

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Our new store investment program will amount to between 40 and $45 million of capital expenditure and around $75 million of associated working capital. A further 100 to $120 million will be invested in the existing store base to support its cont -- continued growth. This investment program of just over $200 million per annum will be largely funded by cash flow.

I'd now like to turn to the implication of commodity price increases on the jewelry sector, first looking at the factors underlying those increases. Over the last two years the price of fine gold which accounts for approximately 17% of U.S. cost of goods rose by about 32%. Over the same period rough diamonds, which account for some 40% of our cost of goods, have increased in price by over 25%. However, the quality and size stones we generally use have risen by less than that. While there's been pressure from commodity costs, our gross margin has declined by just 40 basis points over the last two years. So we've been able to offset nearly all of the pressure by initiatives to improve the efficiency of our supply chain and by increasing our retail prices.

So looking first at supply chain initiatives, our size and expertise gives us -- give us a strategic signi -- a significant strategic advantage. For example, by negotiating better prices we were -- we were able to actually force some of the increase back on the supply chain. And while the cost of rough diamonds has gone up, ancillary costs such as labor, have risen significantly less. Our sourcing expertise has enabled to us identify lower cost suppliers and there is potential to increase the percentage of direct source diamonds. In addition, by moving up the supply chain the cost associated with intermediary tra -- traders in rough and polished stones can be reduced. We are also entering into longer commitments to buy polished diamonds to ensure greater certainty of supply in pricing. Another benefit is the development of marketing partnerships with diamond manufacturers such as Leo Schachter. The DeBeer supplier of choice initiative is also driving the supply chain to improve its efficiency.

The other area where retailers can take action is on pricing. Historically, commodity price increases have been passed on to the customer. For most consumers trust in the retailer and sales associate, selection and customer service are more important than price on their decision on where they're going to make their purchases. The pressure to increase prices is also felt most strongly by those retailers with the lowest operating margins and therefore other operators are likely to move before Signet's required to move. Our objective is to remain competitive and not be a price -- and not be a price leader. The slow inventory turn in jewelry also means that jeweler -- that retailers can take time before increasing retail prices. In 2003 when consumers were uncertain, prices were little changed. However, there was a general increase in 2004 including ourselves.

We believe higher commodity prices will re -- will reinforce our comparative strengths in the sh -- in the supply chain. The results in competitive advantage is mostly reinvested in providing better quality merchandise to the consumer than our competitors. This is crystallized by our well trained sales staff who into above average like-for-like sales growth which drives store productivity and helps offset gross margin pressure. The resulting operate -- operational leverage allows us to continue to invest in the quality of our store staff and support our brands with increased advertising. Many of our competitors are seeking savings in these areas to offset pressure on their profitability. This results in further opportunities for to us gain market share and to leverage our cost base. Sector consolidation is likely to be accelerated with the independents continuing to lose market share.

Looking at the general outlook on U.S. trading. In the year-to-date U.S. like-for-like sales performance is a little ahead of that of the fourth quarter last year. This is an excellent performance given the strong start to last year when like-for-likes were up 9.5% in our first quarter. The general economic environment is currently stable. However, the increase in oil prices and interest rates are a concern as is the double deficit. However, unemployment is reasonable and the jobs market is still positive. We continue to execute our proven strategy by increasing new store space by around 8%, building on our competitive strengths with the objective of profitabil -- profitably gaining market share, leveraging our operating cost base while maintaining tight control of costs and gross margins.

Now I'd like to turn to our U.K. business. In a slowing retail environment, the U.K. business performed very satisfactorily, achieving a 3% like-for-like sales growth and outperforming the retail sector. Operating profit increased to 78.2 million pounds, after expensing -- after expensing a restructuring charge of 1.7 million pounds. Operating margin was little changed. Gross margin saw some improvement with the weak dollar more than offsetting higher dollar commodity costs. The strategy to increase store productivity by lifting the average transaction value, predominantly through greater diamond participation, continued to be successful and the diamond mix rose by 2 percentage points to 28%. At 2.7%, sales growth was below the five-year average

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reflecting a slowing trend in the retail market. Operating profit again increased a good performance given the sales growth and the restructuring charge. Leverage of the cost base has seen operating margin improve from 11.8 to 15.2% over the last five years. And return on capital employed remains a very attractive -- remains very attractive at nearly 45%.

In the last five years, we have significantly increased diamonds in the sales mix and raised the overall average selling price in both brands; while maintaining the differential and the value of the average diamond transaction. Sales per store have risen markedly driving the operating margin and the profit. In 2004 the diamond range was enhanced again with a wider selection of sizes and qualities. We further developed the Leo diamond range in Ernest Jones while the Forever diamond was expanded to all H.Samuel stores last Christmas. We also had success with increased ranges of diamonds set in white gold and white metal jewelry. Other merchandise in -- initiatives in H.Samuel included the development of Fashion watch brands and the continuing rationalization of the gift selection.

In-store training remains a primary focus and we're making good progress with our multi-year program. For example, the proportion of managers and assistant managers that have passed the initial - National Association of Goldsmiths qualification has increased to over two-thirds from 56% at the end of 2004. A commission system based on the individual sales and the overall performance of the store was successfully tested in Er -- in three Ernest Jones regions during the fourth quarter of last year. The commission structure has been aligned to that which operates in the U.S. and has now been rolled out to a further four Ernest Jones regions and is now being tested in H.Samuel.

We are also testing an enhanced inventory including a selection of higher priced diamonds in certain stores. This is being matched with better trained staff. An e -- as an example, some Ernest Jones stores now have personnel trained in how to use a diamond scope.

Marketing spend in the U.K. has been increased significantly and now accounts for 3% of sales. The execution of catalogs continues to be improved and they remain the primary marketing tool. Ernest Jones successfully inc -- introduced a customer relationship marketing program in 2004 which will be expanded this year. The development of television advertising for both H.Samuel and Ernest Jones continues. For Christmas 2004 the coverage for H.Samuel increased to over 65% of sales from about 40% last year, and for Ernest Jones to nearly 60% from about 25%. New creative work was developed and now we'd like to show you an H.Samuel Christmas 2004 commercial.

Video Presentation - *Signet Group*

[Video presentation - Music and singing]. To get the gift you want this Christmas, remind them about H.Samuel, with more stores and great choice, it's easy to find something for everyone. H.Samuel, the nations's favorite jeweler. [End video presentation]

Terry Burman - *Signet Group - CEO*

The new store formats supports the repositioning of the U.K. division as it is much better suited to selling diamonds. For Christmas 2004, 142 stores, mostly H.Samuel, representing around 30% of the U.K. division sales, traded in the new format. 2004 was the first year of the roll-out and we now plan to refit or relocate about 90 stores a year over the medium term. In the next two years most of the refits remain predominantly H.Samuel. We plan to open 5 to 10 new stores each year, mostly Ernest Jones, and close a similar number of H.Samuel sites. The vast majority of the capital expenditure will be on the stores with information technology being the other significant category. In total, capital expenditure is expected to be 30 to 35 million pounds per annum over the medium term.

Now looking at the general outlook on U.K. trading. In the year-to-date against the background of a difficult marketplace, the U.K. division has experienced negative mid single-digit like-for-like sales. The U.K. was also up against some very strong comparable figures with last year's first quarter like-for-likes up 6.7%, which included a particularly strong Valentine's Day. For the balance of this year comparatives will be easier but the outlook for the consumer is still very uncertain. However, it is in the current type

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of environment when you often have the best opportunity to gain market share and to be well-positioned for the next upturn. Therefore we will manage costs and gross margins tightly while we continue to implement our established strategy of enhancing our merchandise selection, improving our staff training, creating a more appropriate store environment in which to conduct our -- in which we conduct our business and to communicate all of the above to our consumers through better marketing.

In summary, Signet's the largest specialty retail jeweler in the world with leading brands in both the U.K. and the U.S. and a record of consistent outperformance in the jewelry sector. We built sustainable competitive advantages in the key areas of the business and our culture of continuous improvement and excellence in execution means we're always looking for ways to drive the business forward. We see significant growth potential in both the U.K. and the U.S., subject to the wider economic environment in any particular year. We have a great cash flow, a healthy bal -- and a healthy balance sheet with which to finance our proven growth strategy. And now I'd like to turn over the presentation to Walker Boyd for the financial review and to discuss the impact resulting from the adoption of international accounting standards.

Walker Boyd - *Signet Group - Group Financial Director*

Good afternoon. The highlights for 2004-5, shows a [INAUDIBLE] of solid increase in EPS to 8.2 pounds despite the significant adverse effect of exchange translation. At constant exchange rate the increase in earnings per share was 15.5%, helped by a lower than anticipated tax charge. The board -- the board continues its aggressive dividend policy and recommends a 21.5% increase in final dividend making 3 P for the full year. Dividend cover of 2.7 times remains above the U.K. retail sector average, leaving further scope for our progressive dividend policy. Balance sheet ratios also continued their positive trends with fixed charge cover improving to 2.2 times and gaining of 11% at the year end.

You will recall at the interim stage we adopted a revised revenue recognition policy in respect of our extended serve -- extended warranty program in the U.S. following the publication of Regulation G as an amendment to = FRS 5. And at that stage we had reflected a non-cash previous period adjustment of 7.2 million pounds. At the year end we have updated our policy to take account of the accelerating trend towards conformity of U.K. and IAS GAAP to U.S. GAAP. As a result. the prior period adjustment now increases to 12.1 million pounds. The impact of this update on 2004-5 is a reduction in profit before-tax of 4 million from that anticipated at the time of the Christmas trading statement.

Two changes have been made in this updated policy. Firstly, we now recognize revenue at the time of sale only against expenses incremental to the sale of each individual contract as opposed to direct selling expenses. And secondly, we recognize the balance of revenue in proportion to the period anticipated claims arising. Instead of previously recognizing proportionately less in the latter years of the contract. I would again reiterate the changes reflect only timing differences of revenue recognition and have no cash flow implications.

Group like-for-like sales for the year grew by 5%, reflecting a strong U.S. outcome and a good performance in the U.K. in an increasingly difficult marketplace. Our new store space in the U.S. saw non-comp sales growth of 4.4% with total sales up 10.3% in dollar terms. The deterioration in the exchange rate from 168 to 186 had a 10.7% adverse impact in sterling terms. In the U.K. like-for-like growth of 3% was underpinned by another strong performance in -- from Ernest Jones where like-for-like sales rose by 4.5% with H.Samuel achieving a respectable 1.9% increase in like-for-like sales. Space had a negative impact in the U.K. primarily due to the increase in its refurbishment program with sales closed for about four weeks, sorry, with stores closed for about four weeks.

Reported group pre-tax profits grew by 5.3%. Absent the adverse impact of exchange translation the growth was 12.1%. On a similar basis, U.S. jewelry shows a 17.1% increase reflecting leverage from the like-for-like growth. The 2.1% increase in the U.K. is after a charge of 1.7 million for the relocation and consolidation to improve efficiency of cent -- certain central administration functions which would result in cost savings of about 600,000 pounds per annum. Group expenses increased by 900,000 as a result of a property provision of 400,000 and increased corporate and governance compliance costs. Interest charges at constant

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rates showed a reduction of 500,000 pounds reflecting a small increase in the credit from the U.K. pension scheme under FRS 17.

Group operating margin increased to 13.6%. In the U.S. margin is ahead of last year at 13.4% with gross margin flat. Expense leverage of 120 basis points from the like-for-like sales growth more than compensates from the adverse impact of new space. In the U.K., gross margin show an increase helped by a net benefit to cost of goods, with the exchange benefit more than offsetting the increase in dollar commodity costs. Higher advertising, training and depreciation costs plus the adverse impact of 30 basis points due to the restructuring charge meant U.K. operating margin was little changed.

Moving on to performance of our U.S. credit portfolio. The proportion of sales through the in-house credit card increased slightly but remained within the range of the last seven years at 50.1%. Our credit offer was again unaltered reflected in the unchanged monthly collection rate of 14.8%. And the bad debt charge at 5.7% of credit sales remain near the bottom end of the historic range.

Turning to the balance sheet. Last year saw largely stable underlying debt position with closing net debt of just over 80 million pounds reflecting a 6.4 million benefit from the weaker dollar. The net outflow from equity reflects buying of shares in the market to satisfy the exercise of options. Inflow from operations decreased to 172.6 million during the year, reflecting higher working capital investment, primarily as a result of additional new space and the small increase in credit participation in the U.S. Capital spend increased reflecting the 8% new store space growth in the U.S. and the roll-out of the modernization program in the U.K. The lower tax costs reflects reduced payments in the U.S. as a result of timing differences. Overall the broadly neutral cash flow was in line with our operating parameter.

The strength of the groups underlying cash generation is highlighted by our five-year performance. Over that period our net debt is broadly neutral after investing over 600 million pounds in the business, acquiring Marks and Morgan for cash of 102 million and the distribution of 164 million pounds in dividends. We would expect to be broadly cash neutral going forward, leaving scope to continue our progressive dividend policy. Any opportunistic acquisition would probably be debt financed.

I'll now turn briefly to look at the expected impact of international accounting standards which we will be adopting for our first quarter of fiscal 2006. The IFI's which impact the P&L of those on share based payments, leases and business combinations. In future, options will be expensed using the binormal -- binomial evaluation method and this will be applied retrospectively. The annual cost for 2004-5 will be about 3.9 million. And this is likely to be in this region going forward.

In line with the U.S. GAAP and following the SEC announcement of 7 February of this year, leases which have predetermined range increases will be charged evenly over the lease under IFRS The majority of our U.S. leases have such increases and the additional non-cash charge in 2004-5, would have been 3.5 million pounds.

The other change has a small positive impact with goodwill which with Signet is represented by the Marks and Morgan acquisition no longer being amortized. IFRS will also result in some reclassifications within the P&L but with no charge -- no change to pre-tax profits. For example, U.S. receivable interest will now been recognized as other operating income rather than as a credit to expenses. In fiscal 2005 this amounted to about 38 million pounds. Insurance related to the receivables portfolio will als -- will now be recognized in sales. But also in the U.S. the cost of our promotion run over Christmas -- over the Christmas period will in future be treated as a deferral of revenue rather than as a cost accrual. This amount is similar in size to the insurance related to the receivables so the nen -- net impact of these two items is a reduction in revenue of 1.6 million pounds.

In the U.K., where warranty sales are conducted on behalf of a third party and our IFRS only the commission element will be included as revenue rather than total value of the warranty. If you pull this together from the P&L perspective, the implementation of IFRS will have a small negative effect on the reported pre-tax profit somewhere around about 6.5 million pounds or somewhere in the region of 3%. The net reduction in sales is 8.3 million. Again none of these changes have any cash flow impact.

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Turning now to the balance sheet. The impact in shareholders funds and the cumulative profit changes I've discussed is a reduction of 15.4 million net of deferred tax. The other major change is that dividends will now been treated as a liability only after approval by shareholders and therefore the proposed final dividend will not be charged to profits at January 2005, so increasing shareholder funds by 45 million pounds. The overall impact on shareholders funds is therefore minimal with the negatives from the P&L reserves being more than offset by the change in treatment of the final dividend. I'll now hand you back to Terry and we'll be very happy to take any questions.

Terry Burman - *Signet Group - CEO*

Thanks, Walker. We'd first like to take -- we -- we have a simulcast here so we'd like to take questions from the room. Be sure you have a microphone before you ask a question so that those listening in on the conference call can -- can here the question. Then we will take questions from anybody on the conference call and then we'll come back to the room for any final questions.

QUESTIONS AND ANSWERS

Faise Ramsen - *Lehman Brothers - Analyst*

Good afternoon, Faise (ph) Ramsen (ph) at Lehman Brothers. Just one question really about the new U.K. incentive program in-store. What's your experience from the U.S. as to how this affects sort of employee behavior and employee selling processes and what's your experience been so far in the U.K.?

Terry Burman - *Signet Group - CEO*

The experience in the U.S. is that it increases enthusiasm and motivation, that it certainly helps retention and that it makes people more bought into, they kind of own -- own the results. In terms of -- maybe we could get a microphone up to Rob here. And Rob could speak about some of the impact on our U.K. employees.

Faise Ramsen - *Lehman Brothers - Analyst*

And -- and -- sorry, could I just add as well, is there any expectation in your mind that that behavior might change as a result of sales declines? Because obviously you're now in a negative like-for-like environment? And if you're being incentivized on the performance of the whole store that might also have some kind of impact. I'm just trying to figure out what that might be.

Terry Burman - *Signet Group - CEO*

What we -- we haven't -- we haven't -- I -- I speak about the U.S. and than ask Rob to speak about the U.K. employees. I don't think that there's going to be much of a difference because the program's new in the U.K. But, in terms of the U.S., no, people are -- people are -- act like adults if you treat them like adults they act like adults. They understand when sales go down that their -- that their incentive compensation is going to be impacted for it probably much like just about everybody in this room. Including myself.

Rob Anderson - *Signet Group - Jewelry Chief Executive*

The experience in the U.K. mirrors very much what's happening in the States. We actually looked at the insensitive scheme in the States and our scheme -- well they're slightly different, it's basically very similar to that to the States. The significant thing I would say about it is that it pays out on the first thing you sell. So you don't have to reach a score target in order to -- for the

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scheme -- scheme to start to kick in. So although at the moment we're unfortunately experiencing negative like-for-likes. People are still earning commission on that basis. There's a huge amount of enthusiasm in the business for it. We're getting requests from individual stores that aren't part of the trial at the moment asking if they could be part of the trial. They focus on it in the stores on a daily basis. So the store manager will sit down with his staff every day and they will review how much commission each individual person has received for the previous day. So it's all part of a -- of a tool kit, if you like, of things that we can use to motivate and to adjust after (ph) sell more. And it also encourages them to want to be trained better. Because clearly the better that you're trained the more you're going to be able to sell, et cetera, et cetera. So it all forms part of a virtuous circle.

Terry Burman - *Signet Group - CEO*

Thanks, Rob. Any other questions?

Lisa - - *Analyst*

With the negative like-for-like you've got in the U.K., I was wondering how much of the cost base you can flex, so what is variable, what is fixed that you can take down?

Terry Burman - *Signet Group - CEO*

The -- Lisa (ph) as you know over of the last five, six years we've significantly increased our like-for-like sales. And along with it our operating margin has been driven up from about 10% to about 15%. As we -- as we increased our -- as we increased our sales and our operating margin, one of the reasons that a lot that came through to operating margin, a lot of the sales increase came through the operating margin is because we were -- consider it about increasing out costs. We did it on a very measured basis. We didn't layer in whole new level -- levels of -- of cost into our business. It would be wrong to now try and take out costs by -- by cutting back layers of staff which were -- were not incremental. It would be wrong because it would fundamentally damage the business and we're not going to -- we're going to take -- we -- we look at the business over a longer period of time than -- than -- than just the year.

So we look at it -- we know we've got a strong business sense, that the metrics on it speak for themselves including the re -- returns and the return on capital. And we don't want to fundamentally damage the business. We want to contin -- a matter of fact we want to continue to make progress with it and drive it forward.

Having said that, we can opportunistically manage our costs. We can opportunistically send stuff home early, we can run with a little shortage in departments as we have some attrition. We can, when -- when times get more difficult like this, you do tend to more fo -- do more focusing on the cost side and the supply chain to see where you can drive out cost. So, but, we're going to have to -- we're going to have to manufacture those opportunities. We will be able to find some and we will take out as much as we can. But when -- what -- but, the thing that we're going to av -- the thing we are going to stick true to is the fundamental strength and positive -- and continue the positive development of the business.

Eric Prenoun - *Merrill Lynch - Analyst*

Good -- good afternoon, I'm Eric Prenoun (ph) from Merrill Lynch. You've -- you've been talking about making acquisitions in the U.S. for -- for a full year and I -- I was wondering what -- what -- if you could update us on the progress there and also a, I guess of a bit of a feel for the -- the size of the type of acquisition you're looking at as well as what would trigger your decision, what [Inaudible] would trigger that --that decision?

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Terry Burman - *Signet Group - CEO*

Sure. We've actually been talking about it, in defense of your question, we've actually been talking about an acquisition for a couple years now. Frankly, and have -- have -- any candidate for an acquisition that -- that we would consider a candidate or a target, knows of our -- knows of -- does know of our interest. Frankly, we would have expected something to have occurred by now but you can't force these things and it's not all of our own timing. The -- the size of the acquisition is, really, we would do a super regional acquisition of 50 or 100 stores or we'd do a company that might have a national presence of two, three, 400 stores. So we would do either as long they met our acquisition criteria. And those are real estate that we would acquire for ourselves and when we'e doing [Inaudible] stores that are in our sector of the marketplace, minimum of geo -- geographical overlap and a price that would be such that we could earn our -- our -- our returns for our investment.

So we -- we continue to have, as an objective, building a second national mall brand for our regional division. And the reason for that is pretty simple. Kay's growth rate compared to our regional mall stores is about 3 or 4% higher. And the only real difference between them, be -- besides design or subjective kind of things, is national TV advertising versus local radio advertising. If you want a second check on the benefit of TV advertising you can look at -- one only just has to look at the boost that we got to Jared figures when we turned on TV which was primarily radio. So we know the media works. We know we're effective at using it and it's a -- certainly a reason we believe which will -- to do an acquisition which will benefit not only, we think --, we think we can add value to any target that we acquire but it'll also synergistically add benefit to our -- to our existing stores and then we'll have a cost base so we can leverage.

Jamie Isenwater - *Dresdner Kleinwort Wasserstein - Analyst*

Hi, Jamie Isenwater from Dresdner. Terry you mentioned on the Christmas conference call that you'd wait till after Valentine's Day to see what pricing activity was in the U.S. Can you give us an update on what you've seen so far and your expectations for the year as a whole, please?

Terry Burman - *Signet Group - CEO*

We're seeing some of our major competitors are putting up some prices. We're doing some studying on that. We're also looking at -- we're also looking commodity prices and how they're behaving. Our expectation for how they'll behave through the rest of the year and the success of some of our new supply chain initiatives that we've put in to see the move and with both the opportunity for price increases. So, we continue to study it. There's no -- commodity prices have behaved in a way that there's no urgent pressure on us in terms of margin issues to -- to rush to judgment here. And we've got some time. We've got a little more time to wait and make a decision. So we're still evaluating.

Unidentified Audience Member - *Long Lake Capital - Analyst*

[Inaudible], Long Lake Capital. Can you say if -- of there's been any significant discounting at the end of the season, if -- if that structurally is -- is a part of your business and -- and if so what kind of impact it had during the Christmas trading season?

Terry Burman - *Signet Group - CEO*

U.S., U.K. or both?

Unidentified Audience Member - *Long Lake Capital - Analyst*

Both.

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Terry Burman - *Signet Group - CEO*

Both. Well, actually, we didn't see -- we didn't see any significant discounting in either market, either the U.S. or the U.K. I think jewelers have figured out that it's not -- we can get consumers to react to price decreases but they don't react -- the sales uplifts aren't such that they cover the margin cost of -- of reducing the prices. So jewelers have mostly been cured of that. We didn't see really any -- any meaningfully -- meaningful amount of price discounting. There's a little -- a little of that going on right now because a couple chains in the U.S. are in bankruptcy. So they're running going out of business sales. But, it's not -- it's not a -- it's -- it's not a real meaningful -- a meaningful impact but there's -- it's just a kind of a little skirmish going on.

Mark Charnock - *Investec - Analyst*

Mark Charnock from Investec. Just on the U.K., I was just wondering if you could just talk through what your thoughts are for, what growth opportunities there might be in the longer term in the U.K.? I've been thinking, particularly. of whether you might trials, sort of, out of term formats in the same, where you got the -- got the Jared format in -- in the -- in the U.S., also where the [Inaudible - heavy accent] acquisition opportunities in -- in the U.K. as well?

Terry Burman - *Signet Group - CEO*

For the kind of effort -- well, in terms of trying out of town stores we are trialing retail park stores. We've got three? Three -- three right now, and if you want the locations you can see Rob after the -- after the meeting. A lot of things called [Inaudible] that the -- in terms of our mall stores in the U.S. the acquisitions we're looking for are bolt-on acquisitions to -- which -- which are going to be the most synergistic. They're going to give us the most operating leverage when -- when you acquire a bolt-on acquisition. Especially when you sector the marketplace.

You start increasing the risk level as you -- as you stray from your own format. And in the U.K. we're so broad-based that there's not -- we're -- we're already covering the market with both of our formats so there's no bolt-on opportunities. So, we'll be a little more discrete or -- exercise a little more discretion on a U.K. format because we'd either have to go up-market or down-market, or we'd have to find just another kind of format for selling jewelry in -- in doing an acquisition. So, we would be open or consider doing one in the U.K. but it's a -- it's a more difficult proposition in the U.K. because the market's not big enough for us to do a bolt-on.

Charles Allen - *Credit Agricole Asset Management - Analyst*

Yes, Charles Allen (ph), Credit Agricole Asset Management. Forgive me, I may have missed this as a previous presentation but you seem to have just accepted that the Kay out of town store is now working and have set quite an aggressive target for medium-term openings there. Could you just explain a little bit more about the economics of why that's now working and also why you're so sure that being able open a lot of stores like that will not have an -- an impact on your ability to continue to open stores in mall?

Terry Burman - *Signet Group - CEO*

You said U.K., do you mean U.S.

Charles Allen - *Credit Agricole Asset Management - Analyst*

Sorry, I -- I said Kay, sorry.

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Terry Burman - *Signet Group - CEO*

Oh, Kay. The -- we've had the off-mall stores in Kay for now about year and a half, year and three -- it's pushing two years. And we've got enough results so that we know. If you remember there were three kind of formats - the traditional strips, the powers and the life style. And we're not opening traditional strips any more so we have determined that the powers and the life style are the way we want to go forward. We've analyzed the opportunities for us, we know that -- that there's up to about 500 opportunities, or locations, in which we'd like -- like to have a store and we've had a long -- we've had long enough with the format to know that to satisfy ourselves that it's a good -- that's it's good and appropriate format for us.

The thing we're still refining, however, is now that we've figured out the format, the location selection which is part art, part science, figuring out do you want to be near the big box, do you want to be on a corner. Is it -- these things with which we have -- either that we have great expertise in the malls we're still refining that expertise for ourselves. Understanding, do these stores perform better, cold weather, warm weather climates. Do they perform better in -- which demographics are best for us to -- to open stores. Are we better on corners or in line? Those are all issues, close to malls, far a way from malls? Those are all issues that we need to understand. We're -- we're -- we're deliberate in that which we do. But, bad real estate's very easy to get into, it's very hard to get out of. So we want -- we want to be careful. And we've got plenty of other opportunities for -- for investment.

In terms of its impact on mall store openings, we don't think there's an impact on it. But, in fact, as you saw on that chart, we're kind of running out of Kay locations and the Kay opportunities in the malls. There's only a little over 100 more malls that we look at that we'd want to put a Kay in and there's not a lot of malls being built in the U.S. right now. So -- and not -- and won't be for the foreseeable future. So, we needed to develop these other formats. We think the metro stores are going to be a good format, less scope for opportunity, should have a higher average sales per door in those -- in those metro stores. And we believe that we've developed through these off-mall formats opportunities for expansion.

Jim Targett - *Goldman Sachs - Analyst*

Hi there, I'm Jim Targett from Goldman's. As seeming that -- sorry, as to seeing your chart, you had you about a 40 basis point margin impact in the U.S. from our new space. If your like-to-likes continue at about 5% for this year in the U.S., what sort of impact -- are you expecting a similar impact this year or? On gross margin.

Terry Burman - *Signet Group - CEO*

On -- on gross margins?

Jim Targett - *Goldman Sachs - Analyst*

On EBIT margin. you said a 40 basis point, an equitive EBIT margin impacts than you expect.

Walker Boyd - *Signet Group - Group Financial Director*

Well, the -- the -- the adverse impact of 40 basis points on margins reflects that we're adding revenue with -- with non-comp sales for obviously the -- well these new stores are -- are not [Inaudible] and we clearly contribute at -- at lower levels of -- of operating margins. So I think, yes, we would expect that the same sort of percentage space, where if you'd expect the same sort of adverse effect on operating margin. The leverage that we would get from the like-for-like sales growth, that depends on -- on clearly a -- a number of things. I think 120 basis points this year was -- was an exceptionally good performance and I don't think that'd necessarily be -- be as high as that going forward.

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Terry Burman - *Signet Group - CEO*

Any other questions from the floor? Okay, now I'd like to open it up to anyone on the conference call that may have a question. It's always an adventure.

Operator

Thank you. [Caller Instructions]. It appears there are no questions at this time.

Terry Burman - *Signet Group - CEO*

They're a lot of curious lot those Americans. And I guess they all understand all this IFRS stuff. Good for them. Any other -- any other -- any other questions from the floor? Okay. Thank you all for attending. Thank you for listening on -- in on the conference call.

Operator

Ladies and gentlemen, that will conclude today's conference call. Thank you for your participation. You may now disconnect.

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