FINAL TRANSCRIPT

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SIGY - Signet Group Christmas Trading Statement Conference Call

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PRESENTATION

Operator

Welcome to the conference call and Signet's Christmas trading statement conference call. For your information, this call is being recorded. At this time I would like to turn the call over to your host today, Mr. Terry Burman.

Terry Burman - *Signet Group PLC - Chief Executive Officer*

Welcome to the conference call and Signet's Christmas trading statement. I am Terry Burman, group chief executive, and I have with me Walter Boyd, group finance director, Tim Jackson, corporate secretary and IR director.

I will comment on the group's's performance, then we will be available for questions. But first I will ask Tim to give the safe harbor statement.

Timothy Jackson - *Signet Group PLC - Secretary and Director of Investor Relations*

This call includes statements which are forward-looking statements within the meaning of the private securities litigation reform act of 1995. These statements based upon management's beliefs as well as on assumptions made by and data currently available to management appear in a number of places throughout this call and include statements regarding among other things our results of operation, financial condition, liquidity, prospect, growth, strategies, and the industry in which the group operates.

Our use of the words expects, intends, anticipates, estimates, may, forecast, objective, plan, or target and other similar expressions are intended to identify forward-looking statements.

These forward-looking statements are not guarantees of future performance and are subject to a number of risks and uncertainties, including but not limited to general economic conditions, the merchandising, pricing, inventory policies followed by the group, the reputation of the group, the level of competition until jewelry sector, the price and availability of diamonds, gold, and other pressures metals, seasonality of the groups's business, and financial market risks.

For a discussion of these and other risks and uncertainties which could cause actual results to differ materially see risk and other factors section of the company's 2002/03 annual report on Form 20-F filed with the U.S. Securities and Exchange Commission on April 24, 2003, 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 or 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.

I would also draw your attention to note 1 in the release which provides a reconciliation between audited numbers and numbers at constant exchange rate.

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Thank you.

Terry Burman - *Signet Group PLC - Chief Executive Officer*

Thank you, Tim.

I'd like to start with a brief group overview. Like for like sales increased by 6.5% in the 8-week period, to 24 December 2003. Building further on the group's well established growth record. In the same period total sales were up by 9.2% at constant exchange rates and by 3% on a reported basis.

In the 48 weeks to 3 January 2004 like-for-like sales rose by 4.7%, total sales increased by 7.1% at constant exchange rates and by 0.7% on a reported basis.

Group profit before tax for the 52 weeks ending 31 January 2004 is anticipated to be ahead of last year and meet analysts' expectations, notwithstanding the recent sharp fall in the U.S. dollar exchange rate. The average U.S. dollar exchange rate which has an impact often the translation of U.S. operating profit and the group interest charge will have weakened by some 10% in the year to about $1.68.

The full year should again see better than expected cash flow. Further enhancing the group's strong balance sheet. This reflects not only the benefit of improved trading but also lower than anticipated level of capital expenditure and some timing differences. Net debt will also show an additional reduction given the expected year end dollar U.S. exchange rate.

Turning to the detail of the Christmas trading period, taking the U.S. first, there was a generally improving retail environment in the fourth quarter of 2003. However, there was some uncertainty about the consumer who again shopped late.

In contrast to 2003, promotional activity was generally less aggressive than in 2002, although in the jewelry sector some of our competitors did run a number of new promotional events. In the 8-week period to 2004, -- I'm sorry, in the 8-week period to 24 December 2003, U.S. like-for-like sales increased 6.4% despite facing challenging comparatives.

Last Christmas our like for like sales were up 4.7% which represented a strong outperformance of our main competition. The 6.4% like-for-like sales growth was driven by our mall stores which account for about 85% of the like for like store base. Over the past five years Signet's mall stores have outperformed their competitors in like-for-like sales growth and this is reflect in our industry leading sales per mall store and superior EBIT margin.

The Jared stores continued their excellent sales growth which partly reflects their immaturity. Jared benefited from new merchandising and marketing initiatives. Total sales at constant exchange rates rows rose by 10.4% and by 1.4% on a reported basis for the eight-week period. Our business continued to benefit from its competitive strengths in merchandising, store operations, and marketing, and our focus on continuous improvement in these areas.

In the 48 weeks to 3 January 2004 U.S. like-for-like sales increased by 4.4% with total sales up 7.8% at constant exchange rates and down by 1.3% on a reported basis.

Looking at the Christmas performance in more detail our excellent sales staff once again were critical to our success. Over time we have built up a well-trained and highly motivated team. In 2003 a record number of staff attended training courses at our home office facility and our in-store training again proved effective.

Our multi-year systems to increase staff focus on serving customers and decrease the time they spend on administrative tasks again resulted in enhanced efficiency in store operations. This Christmas we had particular success in the mall stores with diamond solitaire earrings, three-stone diamond jewelry, and the expanded Leo diamond rings.

New product initiatives including right-hand rings, the adoree rings, and fashion products in gold and multicolored gemstones will be expanded in 2004. In Jared luxury watches such as Rolex and omega perform well as did the Leo diamond rings.

New product tests such as hearts on fire diamonds and Scott Kay proved successful. During the Christmas period the average unit selling price in mall stores increased by 7% and in Jared by 3%.

Our ability to have the right products and the right place at the right time with thorough testing and rapid replenishment of successful styles continue to play an important part in our performance.

The number of television impressions for Kay increased by 7% over Christmas, and the Leo range was featured strongly.

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Both our research and customer feedback about our appreciation and romance-based "Every kiss begins with Kay" campaign continue to be positive.

The television advertising for Jared included a new commercial and was expanded to 22 markets this year from 10 last year and three in 2001. It now covers about 75% of Jared's sales and contributed to a successful Christmas.

The ratio of marketing spend to sales in '03/'04 is expected to be in line with last year. Our total U.S. dollar sales increased of 10.4% over the holiday period reflects the continuing success of our long-term growth strategy.

This year's store investment program crewed opening 12 Jared stores, 47 new mall stores, and 10 Kay off-mall stores. We expect to have closed 16 stores in 2003 compared to 23 stores last year. Overall space are have increased by about 7% from last year end, and by some 20% over the last three years, which is significantly above the industry average.

At the same time, the quality of our mall store portfolio has been further improved. It is anticipated that in 2004 our space increase will be at the top end of our 6 to 8% range. Although at an early stage the Kay off-mall test showed some encouraging results. We will be continuing the test in 2004 as planned with a further 10 stores being opened.

Our mall store performance, store development infrastructure, strong balance sheet, and the proven Jared format give us a space growth opportunity that few, if any, in our specialty jewelry category -- that few, if any of our specialty jewelry competitors can match. As anticipated the gross margin is expected to have eased over the holiday period as a result of the increase in the gold price, in changes in the merchandise mix.

For the year as a whole the impact of these factors is expected to have been somewhat offset by management initiatives. Year end inventories will be on plan.

Credit sales participation over the holiday season was flat on last year. The credit portfolio continued to perform well in the eight-week period with the bad dead percentage expected to be in line with last year. In summary, our U.S. business continued to gain further benefit over the Christmas period from its successful long-term growth strategy.

And now turning to the U.K. business. In the eight-week period to 24 December 2003, against a background of generally challenging -- of a generally challenging retail environment, U.K. like to like sales rose by 6.7% and total sales increased by 6.6%. We believe that the like-for-like performance will be ahead of the general retail market in the U.K.. As in the U.S. the consumer shopped late with December being the stronger of the two months.

In contrast to the U.S. discounting was much more prevalent in the retail market in the run up to Christmas. The U.K. division did not participate in this, and the gross margin should be somewhat ahead of last year.

Earnest Jones did particularly well outperforming its main competition with a 10.3% like-for-like sales increase building on its five-year like-for-like sales growth of 9.8%. Like-for-like in H. Samuel were 4.3% ahead and also above its five-year growth trend.

For the year to date U.K. jewelry division like-for-like sales rose 5.5% and total sales increased by 5.6%. On a like-for-like basis H. Samuel sales were up 3.6% and Earnest Jones by 8.3%.

The strategy of improving average transaction prices by focusing on fast growing product categories, particularly diamond jewelry, still improving store productivity and achieving operational leverage, continues to be successful. There is still much to be achieved, and this is reflected in the number of important initiatives and an early stage of implementation.

For example, this Christmas we had 52 stores trading in the new format. By counting for approximately 10% of space. The stores are did he signed for greater interaction between the sales person and the customer. Their performance continues to be encouraging and accomplish the objective of diamond sales.

We plan to refurbish about 80 stores in 2004 and open up to 10 new stores. Most of the refurbished stores will be H. Samuel and the new stores Earnest Jones. Catalogs continue to be the primary means of marketing to customers, and quantity of both the Earnest Jones and H. Samuel catalogs increase, their design improved.

In addition this year we have tested television advertising in the north and the midlands for H. Samuel and in London for Earnest Jones. This covers about 40% of H. Samuel's sales and 30% of Earnest Jones.

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TV advertising boosted sales in both chains and will be continued in 2004. In 2003 we implemented new training procedures for staff and managers. We have also upgraded our store support procedures and are moving towards a reward system that is more performance linked.

The Leo diamond, Rolex watches, gold neckwear, eternity rings, and three-stone rings performed well as did diamonds in general. New product initiatives in Earnest Jones included expanded ranges of 18kt. jewelry and diamonds set in platinum.

In H. Samuel's, new product initiatives included the forever diamond and selected fashion watches. Overall it is expected the year will show a further shift in the sales mix towards diamonds of over 1%. The average unit selling price in H. Samuel was slightly ahead, and in Earnest Jones little changed over the Christmas period.

In summary we are pleased with the progress made by the U.K. division and strongly believe we have initiatives in place to develop the business further. Overall we are very pleased with our strong performance of the Christmas period in both the U.S. and the U.K..

Profit before tax for 2003-04 should be ahead of last year and meet analyst expectations notwithstanding the recent sharp fall in the U.S. dollar exchange rate. The foreign exchange rate which is expected to average $1.68 this year against $1.53 last year is expected to have a 13 to 14 million pound adverse impact on the reported profit, equivalent to about 7% growth.

In recent years we have consistently demonstrated that first our brands, size, market position and quality of execution provide us with significant competitive strength and merchandising, marketing, and store operations in both the U.S. and the U.K..

Second, our sharp focus allows us to leverage our management and cost base to achieve superior sales growth and operating margins. Our healthy balance sheet allows us to consistently implement our proven growth strategies on both sides of the Atlantic.

And now I'd like to open the call to any questions that any of you may have.

QUESTIONS AND ANSWERS

Operator

The question-and-answer session will be conducted electronically. If you would like to ask a question, please do so by pressing the star key followed by the digit 1 on your touch-tone telephone. If you are using the phone with a mute function please make sure your mute function is turned off to allow your signal to reach our equipment. We will proceed in the order that you signal us, and we will take as many questions as time permits. Once again, please press star 1 on your touch-tone telephone to ask a question.

Our first question will come from Mr. Eatenwater from J K W.

Mr. Eatenwater - *J K W - Analyst*

Afternoon, gentlemen. It's Jamie. Just a couple of questions for Terry on the Jared format.

First of all, are you still finding a suitable locations, and secondly, have you seen any change in the maturity profile of some of the older stores now?

Terry Burman - *Signet Group PLC - Chief Executive Officer*

In terms of the locations, yes, we're finding suitable locations. We expect to hit the upper end of our target of 12 to 15 stores next year. And so no problem in that front. We're ahead of our pace of last year.

In terms of the -- in terms of the maturity profile there's really -- we're not seeing any changes, really.

Mr. Eatenwater - *J K W - Analyst*

Has there been any change in the cannibalization rate of the Moore stores that have got their new [inaudible].

Terry Burman - *Signet Group PLC - Chief Executive Officer*

No. It continues to be very minimal.

Mr. Eatenwater - *J K W - Analyst*

Okay. Thanks very much.

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Terry Burman - *Signet Group PLC - Chief Executive Officer*

You're welcome.

Operator

Thank you. We'll now take our next question from J.P. Morgan. Please go ahead.

Analyst - *J.P. Morgan*

Good afternoon everyone. This is [inaudible] from J.P. Morgan.

My question will be on hedging for the rise in gold prices. Are you considering to do more hedging for next year?

Walter Boyd - *Signet Group PLC - Group Financial Director*

Yes, Walter Boyd here.

As far as the U.S. is concerned we have over the course of the last eight to 12 weeks taken some hedging positions in respect to gold. For the U.K., where we have traditionally taken deeper hedging positions our strategy is broadly in line with prior years.

As far as the U.S. is concerned, yes, we have taken some hedging positions, and a bit more than we would normally have done at this time of the year.

Analyst - *J.P. Morgan*

And although what level is that?

Walter Boyd - *Signet Group PLC - Group Financial Director*

That, I think, is obviously proprietary. I think it's safe to say that we have taken some reasonable hedging positions over the last eight to 12 weeks.

Analyst - *J.P. Morgan*

Okay. Thank you.

Operator

Thank you. From Sure Capital we will now take a question from John Stevenson. Please go ahead.

John Stevenson - *Sure Capital - Analyst*

Just a couple of quick questions.

Just following on the gold prices, can you quantify the impact on the U.S. gross margin, given these hedging positions, the potential you see coming through for next year, could you also give a little bit more information on the outperformance of the 52 new stores in the U.K. against the average store base, and also just to confirm what you see on expectations as to the full year.

Terry Burman - *Signet Group PLC - Chief Executive Officer*

In terms of the -- the impact of the gold on gross margin, there is no impact there. We don't foresee any impact or haven't realized any in the U.K. so far because gold being denominated in dollars is the exchange is compensating for the rise in the -- the increased value of the pound versus the dollar is compensating for the rise in the gold price. So there are -- we don't really see any impact as of yet in the U.K..

In the U.S., there will be an impact, but we have mitigated it in the current year and expect to continue to mitigate it with certain sourcing, pricing, and discounting initiatives. Having said that, the impact will be -- there will be an impact, and it will be in the 10's basis points, not in percentage points.

In terms of the new -- the 52 new store format, we've met and in some cases exceeded our objectives. We don't give the exact details of that, because it's competitive issue, but we're certainly -- we're certainly pleased with the results. The format helps us achieve our objective, which is increasing diamond sales, and it helps us by increasing the amount of interaction between the customer and the sales person. So we're pleased with that.

Diamond sales have been increased in those new store formats that we've opened, and total sales have been increased in line with our expectations, and that's reflected in the fact that we will be refurbishing and relocating about 80 stores, 80 U.K. stores next year into this new format, so you can see our level of commitment just by the number of stores that we'll be refurbishing.

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Walter Boyd - *Signet Group PLC - Group Financial Director*

The other thing you asked was what we took to be the analyst range at the moment. Ahead of the announcement we saw the range at $203 to 207 million. That is after charging goodwill.

John Stevenson - *Sure Capital - Analyst*

Okay. Thanks.

Operator

Thank you. As a reminder, to ask a question, please press star 1 now on your telephone keypad. We will now go to UBS with Lucy Sharma. Please go ahead.

Lucy Sharma - *UBS Warburg - Analyst*

Hello. First of all, on Jared, [inaudible] like-for-like performance progressing from those stores? If the majority like-for-like so just wondering whether or not increase marketing, [inaudible] whether or not you're a little disappointed with the like for like performance in that format.

Terry Burman - *Signet Group PLC - Chief Executive Officer*

No, we're very pleased with the like for like performance in both formats, the malls and Jared.

We had a little trouble hearing you, Lucy, so I'm not sure. I think you were asking, because we mentioned the mall stores as important to our like-for-like growth, well, they are just by the -- their magnitude, and obviously our significant contributors to our like-for-like sales growth, but we also said that -- we also said that the Jared stores, that we were pleased with their -- that we were pleased with their performance and that they continued their excellent sales growth.

So we're pleased with our like-for-like sales in both formats, very pleased with them.

Lucy Sharma - *UBS Warburg - Analyst*

I'm just trying to sort of square this up with the information I've been writing down during your call. You said the Moore stores had seen a 7% increase in the average selling price. I was just trying to get down to the situation of whether or not volumes had gone down, the average selling price has gone up. Just trying to sort of square that up.

Terry Burman - *Signet Group PLC - Chief Executive Officer*

Well, when you say volumes, you mean unit transactions?

Lucy Sharma - *UBS Warburg - Analyst*

Right.

Terry Burman - *Signet Group PLC - Chief Executive Officer*

Well, the number of unit transaction in the malls has gone down margin alley. More than compensated for by the increase in the selling price.

Lucy Sharma - *UBS Warburg - Analyst*

Right. Is there any reason that is a full issue, is it?

Terry Burman - *Signet Group PLC - Chief Executive Officer*

I would assume -- I would assume that would be the -- that that would be the case, yes. We don't have any statistics, in terms of our closing rate, but I don't think that we're closing a lower percentage of our -- of the customers that come through the doors.

Lucy Sharma - *UBS Warburg - Analyst*

Okay. And sort of the outlook going forward for prices, I mean, this price will go up, [inaudible] mix, like-for-like prices going up

Terry Burman - *Signet Group PLC - Chief Executive Officer*

This is not -- average unit price did not go -- did not increase because of inflationary issues. The argue unit price -- average unit price was driven up by the merchandise selection that we provided to the customer and our ability to -- and our sales people's ability to sell the customers up to higher average unit prices.

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Lucy Sharma - *UBS Warburg - Analyst*

Okay. Thank you.

Operator

Thank you. We will now take a question from Mark Shanook from Investec.

Mark Shanook - *Investec - Analyst*

Couple questions on the U.K. and just one on the U S.

First of all, on the U.K., can you give us some idea to what extent the regions where you had TV advertising outperformed the average in H. Samuel London and Earnest Jones?

And just to clarify something, did you say that the average transaction values were flat in Earnest Jones, and if that was what you said how does that kind of square with the objective of trading people up towards more diamond products?

The third question, in relation to the U.S., can you just talk a little bit more about the off-mall stores? Are they performing broadly in line with expectation or slightly ahead? And have you firmed up on what the potential is for the off-mall concept is into the future?

Terry Burman - *Signet Group PLC - Chief Executive Officer*

In terms of the TV areas, we wouldn't give out exact statistics because of the competitive nature of that.

To reiterate that which we said, that they -- that we definitely achieved a sales boost because of TV advertising will be continuing the program into 2004, and we will be considering expanding the TV -- the TV programs. So the consumers definitely reacted to it, there was a noticeable difference, a measurable difference in terms of the like-for-likes in those stores, and good start in terms of TV marketing for us, and we'll be working on developing new and better commercials next year in considering -- consider -- continuing to test and consider expanding it

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Mark Shanook - *Investec - Analyst*

On that one point, it actually kind of outperforms it, how does the marketing cost to sales ratios compare in those TV regions compared to the rest of the chains? Are they more, or are they broadly in line?

Terry Burman - *Signet Group PLC - Chief Executive Officer*

You mean the gross margin?

Mark Shanook - *Investec - Analyst*

No, the marketing cost to sales ratio that you encountered in the TV advertising. Were they markedly different? I.e., do you have to drive up the cost by a bigger percentage than the sales?

Terry Burman - *Signet Group PLC - Chief Executive Officer*

They're at an acceptable enough rate for us to believe that we can -- that it's profit additive to continue the advertising.

In terms of E. J., you asked about the sales, that was counter to the year to date trend. Year to date, E. J. will actually be, average unit price, will be ahead of last year.

Obviously we drove in more consumers responded to our -- more consumers responded to our merchandising and advertising initiatives and purchased merchandise from us which drove the 10% like-for-like increase, but the -- actually, a little surprise that the average unit price was not up, but obviously it's still a healthy increase in E J, and the diamond sales were up in E J.

Mark Shanook - *Investec - Analyst*

Okay.

Terry Burman - *Signet Group PLC - Chief Executive Officer*

They were up by about 1% of the mix.

In terms of the U.S. off-mall, again, we don't give absolute results in those stores, again because of competitive reasons, but we have enough encouraging results to continue the test and we'll keep monitoring it into the coming year, and when we have enough information to know what the potential is for us to expand, then we'll certainly share that with you.

If you remember, we're trialing three formats, which are strip malls, power centers, and lifestyle centers, and we have to

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determine if the format works in some or all of those three types of outdoor malls, and is there any geographic differences between the results that we might get in the outdoor malls. So those are all things that are being tested, we're considering them, but certainly results that are encouraging enough for us to continue the test.

Mark Shanook - *Investec - Analyst*

Okay. Thanks. One final question.

Did you see much of a difference in the overall sales performance either in the U.K. or the U.S. in the kind of -- in the eight-week period up to Christmas time? Was it much stronger towards Christmas, or was it sort of build up in like for like sales and smooth through that period?

Terry Burman - *Signet Group PLC - Chief Executive Officer*

We were consistently above last year. However, it was stronger towards the end.

Mark Shanook - *Investec - Analyst*

Okay.

Terry Burman - *Signet Group PLC - Chief Executive Officer*

There was a further shift. December was stronger than November, relatively speaking, compared to last year, and then the last part of December, the last ten days, were stronger than the first part of December, again relatively speaking.

Mark Shanook - *Investec - Analyst*

Okay. Thanks for your help.

Terry Burman - *Signet Group PLC - Chief Executive Officer*

You're welcome.

Operator

Thank you. We will now move on to Ken Guzman from Rapid Research.

Ken Guzman - *Rapid Research - Analyst*

Congratulations, Terry.

You once again posted the best sales results of any of the mass market jewelers. I had two quick questions for you.

One, I wanted to follow up a little bit more on the off-mall stores. I'm just wondering whether you're seeing any difference in your customer base, whether you're seeing the same customers in those stores that you saw in the mall stores or whether you're tapping a brand-new customer base, and I'm wondering what your average ticket looks like. For other strip jewelers the average ticket runs about two-thirds of what a mall runs. I'm wondering if you're seeing any of those issues. Can you comment on that?

Terry Burman - *Signet Group PLC - Chief Executive Officer*

Sure. We haven't finished ale of or research, Ken, and thanks for your comments, by the way, about our performance.

We have just started our research after Christmas, and so anything I would say is really incomplete at this point in time. But in terms of the price points, we're seeing the same basic price points as we see in the mall stores, and -- or generally, broadly, see the same basic price points.

In terms of the customers, we're seeing a little higher demographic than the mall stores as an average, and we are seeing a different -- certainly a different site graphic in that the customers are less likely to shap in malls, but those are very early indications that we have and we'll know a lot more as we get a little more time under our built

Ken Guzman - *Rapid Research - Analyst*

One final technical question. Back to what one young lady asked a few minutes ago.

We're talking about this average unit selling price. Is that the same thing as an average ticket, or are you speaking of the average selling price of a unit of jewelry?

Terry Burman - *Signet Group PLC - Chief Executive Officer*

We're speaking -- when we portray those figures, it's not a ticket, which would be all the -- which would be several units,

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or more than one unit on a ticket, we're speaking of the average unit price. So any single SKU that we sell, and many of our tickets have multiple unit -- or multiple unit transaction, and, obviously, those tickets would be higher than the average unit price.

Ken Guzman - *Rapid Research - Analyst*

Okay. Can you comment on the average ticket, whether it was up or down?

Terry Burman - *Signet Group PLC - Chief Executive Officer*

No, I can't at this -- I can't at this point. I haven't seen that data yet.

Ken Guzman - *Rapid Research - Analyst*

Okay.

Terry Burman - *Signet Group PLC - Chief Executive Officer*

But as I said, the average unit price was up.

Ken Guzman - *Rapid Research - Analyst*

Okay. Thank you.

Terry Burman - *Signet Group PLC - Chief Executive Officer*

And I believe our multiple unit tickets were up, but I'm not certain about that at this point.

Walter Boyd - *Signet Group PLC - Group Financial Director*

And just for a point of clarification there, when we talk about average unit price, we are not comparing the same product to the same product. It reflect changes in our mix in sales during the period.

Ken Guzman - *Rapid Research - Analyst*

Okay.

Terry Burman - *Signet Group PLC - Chief Executive Officer*

That's a good point, because the fact that diamond sales -- that diamond sales were up in the U.S., as we said, by about a percentage point, can drive your average unit price.

Ken Guzman - *Rapid Research - Analyst*

Okay. Great.

Terry Burman - *Signet Group PLC - Chief Executive Officer*

Diamond transactions are obviously higher than gold -- transactions -- colored stone transactions.

Operator

Thank you. We'll now go to S G securities to take a question from John Bailey. Please go ahead.

John Bailey - *SG Securities - Analyst*

Happy new year, gentlemen.

Terry Burman - *Signet Group PLC - Chief Executive Officer*

Thank you, John.

John Bailey - *SG Securities - Analyst*

Looking at the cash flow with -- as an expected and you're now net cash position excluding the customer receivables, what's your current thinking on the capital structure in relationship to buy-backs and being aggressive on a share buy-back, any particular vogue in the U.K. market at the moment?

Terry Burman - *Signet Group PLC - Chief Executive Officer*

It's a matter that the board keeps under regular review, and we consider it in context of our dividend policy, our results, our cash flow, the needs of the business, and future -- and future outlook. So as I said, it's a matter we keep under regular review, and we'll continue to do so.

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John Bailey - *SG Securities - Analyst*

I mean, certainly under current projections for capital expenditures you are going to continue to build the net cash position, is that fair?

Terry Burman - *Signet Group PLC - Chief Executive Officer*

Well, this coming year, we would expect to be in the neutral range in terms of cash flow. I would call your attention to the fact that we said that we'll be in the U.S. at the upper end of our 6 to 8% space -- increase in space. Actually we're targeting about 8% in the coming year.

And in the U.K. we will be refurbishing or relocating about 80 stores into the new store format, which is up from about -- from 32 this year. So that will utilize -- it will obviously create an increase in capital expenditures and will utilize a lot of the cash that we would have otherwise generated at their current rate of expansion and improvement in the U.K. store division. So we would expect this year to be about neutral in terms of cash flow.

John Bailey - *SG Securities - Analyst*

The capital spend for the new financial year, can you just remind me what we should expect there?

Walter Boyd - *Signet Group PLC - Group Financial Director*

Yeah, I think the year that is just ending, given that we are at the lower end in terms of -- is probably going to be about 60 million times sterling, I would say going into 2004-5, being at the upper end, with the additional U.S. refurbishments I would say somewhere in the region of 75 million pounds down.

John Bailey - *SG Securities - Analyst*

Great. Thank you very much.

Operator

Thank you. Our next question will come from H S B C.

Analyst - *J.P. Morgan*

Thanks, but my questions have already been answered.

Terry Burman - *Signet Group PLC - Chief Executive Officer*

Thanks.

Operator

Thank you.

Once again, to ask a question, please press star 1 on your telephone keypad now. We will now go to Mr. Whitehead from Deutsche Bank.

Rod Whitehead - *Deutsche Bank - Analyst*

Hi there. Congratulation on a good quarter.

Terry Burman - *Signet Group PLC - Chief Executive Officer*

Thank you, Rod.

Rod Whitehead - *Deutsche Bank - Analyst*

Just a couple of questions, really relating to the outlook for the year ahead in the U.S.

You mentioned about measures to mitigate the gold price increase. Could you talk about what's going on in the industry as to whether generally retailers are putting up the price of gold merchandise or whether they're having to sort of take the cost themselves?

And secondly, on operating costs, could you talk through the outlook for recently inflation and wage inflation and what you think would happen to underlying operating costs in the U.S.?

Terry Burman - *Signet Group PLC - Chief Executive Officer*

In terms of gold prices, we see some selective increases. They're becoming more broader based, and I believe that they will continue to do so as the higher gold prices works its way into the average unit price of the -- of our competitors and our inventory. So I would -- if I had to guess, I would say that there will be an acceleration in the increasing prices that are heavier in gold content. As I said, it's already begun, and -- but we will -- we'll be monitoring that closely and we'll

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certainly maintain our competitive position with regard to pricing.

In terms of operating costs, we don't see anything unusual occurring, and we believe that our operating costs will remain under control and not be -- certainly not be a -- we see no drag on margin coming from any of our operating costs.

Rod Whitehead - *Deutsche Bank - Analyst*

Thanks.

Terry Burman - *Signet Group PLC - Chief Executive Officer*

You're welcome.

Operator

Thank you. As a final reminder to ask a question please press star 1 now on your telephone keypad.

It appears we have no further questions, and, Mr. Burman, I would like to turn the call back to you for additional or closing remarks.

Terry Burman - *Signet Group PLC - Chief Executive Officer*

Well, we'd like to thank all of you for your participation in this call. Our next trading announcement will be the fourth quarter sales, which is scheduled for February 5th.

I also look forward to seeing some of you at the SG Cowen consumer conference in New York on the 13th of January or the D K W conference in London on the 29th of January.

We're in the early stages of planning an investor open day at our U.S. home office in Akron, Ohio, on Wednesday, April 28th. I hope you will put this date in your diaries and that we can look forward to some of you attending. We'll provide more details in due course.

And now I'd like to close by wishing all of you a Happy New Year. Thank you, and good-bye.

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