FINAL TRANSCRIPT

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SIGY - Q2 2003 Signet Group Earnings Conference Call and Presentation

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CORPORATE PARTICIPANTS

Terry Burman
Signet Group PLC - Chief Executive Officer

Walker Boyd
Signet Group PLC - Finance Director

CONFERENCE CALL PARTICIPANTS

John Baillie
SG Securities - Analyst

Charles Allen
- Analyst

Andy Hughes
UBS Warburg - ANalyst

PRESENTATION

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

I'm Terry Burman, Group Chief Executive, and with me is Walker Boyd, our Group Finance Director. Sitting in the front row is Rob Anderson, CEO of the UK Jewelry Division. I will present an overview of the business for the first half of fiscal 2004, then Walker will review our financial results. Following the presentation we will all be happy to answer any questions that you may have. As we have U.S. investors attending, I'll ask Walker to give the normal Safe Harbor statement.

Walker Boyd - *Signet Group PLC - Finance Director*

(inaudible) This release 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 (indiscernible) currently available to management, appear in a number of places throughout the release and include statements regarding, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies, and the industry in which the Company operates. Our use of the word 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 and inventory policies followed by the group; the reputation of the group; the level of competition in the jewelry sector; the price and availability of diamonds, gold and other precious metals; seasonality of the goods business and financial market risks. For a discussion of these and other risks and uncertainties which could cause actual results to differ materially, see the risks and other factor section in the Company's 2002-3 (ph) 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. (indiscernible) financial information used during this presentation are considered to be non-GAAP financial measures. For a reconciliation of those to the most directly comparable GAAP financial measures please refer to slides 49 and 50 or to the Company's earnings release dated 3rd of September, 2003 available on the financial information section of the company's Web site at www.SignetGroupPLC.com.

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

Thank you, Walker. You may notice, we like (indiscernible) to increase the excitement. The group's had an encouraging first-half, although unfavorable exchange rate movements largely disguised us. Group sales were up some 5 percent at constant exchange rates with like for like sales up 2.8 percent against the background of challenging trading conditions. Profit before taxes of 10 percent at constant exchange rates, the Board declared an increase in the interim dividend of 10 percent. Turning now to the U.S. business, I'll begin with a brief update on current developments. Then I will look at the resilience of the jewelry sector and our competitive position within it, followed by a review of our real estate plans.

The U.S. division grew like for like sales by 2 percent. After a strong Valentine's Day period, there was a significant weakening in trading during March and April. Since then, recent economic indicators have shown a more positive trend, although it is too early to conclude that this will be maintained. Total U.S. sales were up nearly 5 percent at constant exchange rates. We continue to outperform our main competition and gain market share. Reflecting our discipline in controlling costs and gross margins, operating

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profit rose by 4 percent at constant exchange rates and the operating margin was broadly maintained. The bad debt loss rate was in line with the comparable period, and there was a small reduction in both credit participation and authorization rates. Our like for like sales growth remained above our quoted mall store competitors. Our operating margin continues to lead the industry. Our mall stores are significantly more productive than our competitors, and this is the main driver of our superior operating margin.

As we highlighted in March, the higher gold prices put some pressure on gross margins. In the first-half we have been able to offset this by a series of initiatives. The impact of the gold price could be more apparent in the second half as the increase in cost prices works through to selling margins. In merchandising the Leo range continues to be expanded with new cuts and styles. Other branding initiatives such as the Adore (ph) diamond and a range of Mikimoto pearls are being expanded. We believe that increased participation in diamonds and branded merchandise has contributed to raising the average selling price, which is now approximately $248 for our mall store customer. And our mall store customer's average household income has also increased to $66,000 from $54,000 two years ago.

Our store staff are our greatest competitive edge. Therefore we continue to increase our level of training and improve our systems so that more time is available to serve customers and less time is spent on administrative tasks. Average ticket price in the first-half in Jared was $571 and has increased about 6 percent in the last year. The average household income of the Jared customer is now $86,000 versus $73,000 two years ago, maintaining the differential to the mall customer. Our strategy of improving launch participation in Jared continues, and this Christmas Rolex will be available in 45 Jared's, Catacoria (ph) in 63, and Omega in 75 of the 79 Jared stores by year-end.

We are encouraged by the results of our television advertising for Jared. In 2001 it ran in three markets, in 2002 in 10 markets, and in 2003 it is being expanded to 22 markets. TV advertising in Jared will support about 75 percent of all sales this Christmas. I'll now show you one of the Jared commercials that we are currently using. It's designed to illustrate the breadth of the merchandise offer and the quality of customer service, and to build Jared name recognition.

(video presentation)

Our preparation for Christmas 2003 is robust across our business. Merchandising initiatives include the expansion of the Leo (ph) range, continued development of exclusive programs and the underexploited categories such as right-hand rings which is being strongly promoted by deBeers. TV advertising rates will be up for Kay and Jared TV is being extended to new markets. We remain on target to increase space by about 7 percent compared to last Christmas, and we continue to invest in our staff. Now I'd like to cover some of the dynamics of the U.S. jewelry sector.

Over the long term the sector has shown strong growth of 5.9 percent per annum with only the occasional down year. The factors driving this include the long-term growth in disposable income, increasing numbers of women in the workforce making jewelry self purchases, and the number of marriages which is forecast to show a small increase. The prime motivations of jewelry purchases are bridal related, engagements, weddings and anniversaries, or gift giving at Christmas, birthdays, Valentine's Day and Mother's Day. These are related to emotions and events that happen year in and year out. In the middle mass-market jewelry is primarily bridal related or a fashion accessory rather than a luxury product. Therefore industry sales have not been noticeably more volatile in comparable sectors in the retail market.

Since 1998 jewelry and electronics have been the best performing sector with growth of 29 percent. During the more challenging economic environment since 2000, sales of furniture and household products have increased by 11 percent, electronics by 12 percent, and clothing by 7 percent. Jewelry, showing its resilience, has increased by 10 percent. Signet's U.S. sales performance has now been added to the slide, adjusted to exclude the impact of the purchase of Marks & Morgan and the 53rd week in 2001. Each year Signet's U.S. sales growth has exceeded that of jewelry and the other sectors shown. Over the period since 1998, Signet's sales have increased by 83 percent while jewelry has increased by 29 percent. This data clearly indicates the resilience of the jewelry sector and the continuous outperformance of the U.S. retail market by Signet.

In recent years when trading has been more challenging, and some of our competitors have been otherwise focused, we have improved our competitive advantages so as to be well positioned for any strengthening of the market. For example, we have more trained diamontologists than any other retailer. Kay brand awareness has substantially increased supported by a TV advertising budget that is about 2.5 times as great as in 1998. We have built the Leo range of branded diamonds

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and are establishing Jared as a premier watch retailer. Selling space has increased by some 60 percent over the same period. And Jared is now the leading off mall destination jewelry store, and is probably within a couple of years of supporting national TV advertising. Our industry-leading operating ratios and our balance sheet strength also mean that we are very well placed to take advantage of any appropriate acquisition opportunities. Now turning to real estate.

The market consists of enclosed shopping malls and off mall sites. Malls account for 1,260,000,000,000 of total U.S. annual retail sales. In 2002 mall sales actually grew, but were below that for retail sales excluding autos. This trend has reflected a growing polarization in mall performance, with the best malls continuing to be successful and those that are less attractive to consumers facing difficult trading conditions. We've identified about 900 malls in which we wish to be represented, and we believe that off mall shopping centers have been growing faster than malls and offer us an additional opportunity to build the Kay brand. Now I'll describe three off mall formats in the following slides. One depicted here is a typical lifestyle center. Lifestyle centers are designed to attract the more prosperous customer. They usually have a greater mix of restaurants and entertainment facilities and a high proportion of upscale specialty retailers. The layout is very different from a traditional or power strip center.

Power strip centers, shown here, normally has three to five anchor tenants accounting for more than 75 percent of the gross leasable area. Most of the anchors are usually category killers. If Jared were in the center it would be located in the corner freestanding unit shown in red, and if Kay were in the center it would be located among other specialty retailers. It would be unlikely for us to place both a Jared and a Kay in the same off mall center. The decision would be determined by demographics, space availability and proximity to other Jared or Kay stores. A third format is a traditional strip center, which has a variety of tenants with no concentrated specialization of tenant type or goods offered. The layout has an alternating mix of anchors and in line tenants usually with some food representation. A significant portion of the space is devoted to small in line tenants.

We aim to validate the investment model in each off mall format. We believe this is an attractive opportunity as more Kay stores means we are better able to leverage the national TV advertising program, and we are better able to enter new markets and infill existing markets, and finally increase our operating leverage. In the next three slides you'll see photographs of one of our new off mall stores. This is the exterior of the Kay store in Geneva Commons which is a lifestyle center in Chicago. The interior has been designed consistent with the decor of a Kay mall store in order to promote the national brand. And this view is looking from the doorway into the store. Given this background, we believe there is potential for around 200 more Kay stores in malls. The key constraint on the regional store format is having the critical mass to support the brand in a particular market rather than a lack of available sites, and there are opportunities to make very selective acquisitions. Our strategy in off mall real estate is to grow Jared to over 200 units and to test Kay by initially opening 10 stores a year for two years.

In terms of our annual real estate investment, we will continue the refurbishment program that reflects the standard 10 year length of a mall lease, with the balance of stores being covered by relocation. We will open a net 15 to 25 mall stores a year, 12 to 15 Jared's a year, and 10 Kay off mall stores for the next two years. Our real estate strategy is steady and considered and our rate of expansion is planned to be about twice that of the other top 10 specialty jewelry retailers as a group. As we have said before, our criteria for new real estate is strict and if the available sites are not satisfactory, we reduce our level of investment. We plan to spend $55 to $65 million per annum in stores and about $60 to $70 million in working capital related to new space. Our total U.S. investment will be in the range of $170 to $200 million and will be largely funded from cash flow. Now I'll turn to the UK business.

We continue to make selective revenue investment to grow sales. Like for like sales again exceeded the general retail sector. The increase was particularly pleasing given the strong -- the very strong comparatives of the last few years and the generally slower growth in consumer expenditure. The improved store productivity meant that the operating margin was up and profit increased by 7.8 million pounds -- or 27.8 million pounds. Our effort to increase diamond sales continues to be successful. The average ticket price has risen to 34 pounds in H.Samuel and 142 pounds in Ernest Jones. We are continuing to develop the Leo diamond range in Ernest Jones and we're expanding the exclusive Forever diamond range in H.Samuel. We have now instituted a more rigorous recruitment process to improve the potential of new employees.

Staff training procedures have been for formalized and individual staff performance is now benchmarked. Training has become far more comprehensive, focusing on both selling skills and product knowledge. To ensure that new procedures are followed, training goals are set and monitored. This

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Christmas we are planning to test television advertising. The process that we have followed has drawn on our U.S. experience. Extensive customer perception studies have been carried out and an agency carefully selected. The ad is currently in storyboard test. As with all our new initiatives, we'll monitor the success over Christmas and then review the outcome, developing and refining the advertising based on response.

Our national store network, our broad assortment of merchandise, and our investment in systems and service provide us with a strong competitive position in the insurance replacement business. Having consolidated the business during 2002 after a period of rapid growth, we have again focused on new assignments and have won important additional mandates. We also intend to grow our share of the market from existing insurance customers. In addition, this gives us the opportunity to build long-term relationships with new retail customers.

There is little net change in UK space with seven new stores planned to be opened this year and 14 closed. The emphasis will continue to be an increase in Ernest Jones and a small decline in H.Samuel. In 2001 we developed a new store design that supported our strategy of improving productivity through increasing diamond sales. The new format was tested last year and has shown encouraging results with a rise in both diamond sales and average ticket price. By the end of this year 56 stores in total will be using the new design, just over 10 percent of the UK estate.

This slide is just a quick reminder of a corner mall site before and after refit. And this is a High Street site that has been refurbished in the new design. The investment criteria used for remodeling stores are similar across the group. The capital expenditure per store is between 150 and 300,000 pounds depending on the size of the location. In 2003 we plan to invest about 15 million pounds on the UK stores and a further 6 million pounds in support functions. We are developing a multiyear rollout plan which will allow us to prioritize our investment. Within the normal cycle the great majority of sites scheduled to be refurbished her H.Samuel's. We plan to remodel 65 to 75 stores a year, and this would bring the division's total capital expenditure to 30 to 35 million pounds largely funded from cash flow. This higher level of expenditure partly reflects the lower-level of refurbishments over the last two years while we have been testing our new store design.

The UK business has significantly strengthened its competitive position over the last five years and is poised to develop further in the medium-term. The new store design which is better suited to selling diamonds is being rolled out. The investment in real estate is occurring at the same time as we improve our store staff's product knowledge and selling skills. Over the last five years the marketing budget has been increased from 1.5 percent of sales to 2.2 percent last year. We are now testing television advertising. Across the merchandise range and particularly in diamonds, the offer is continuing to become more focused and better presented. In summary, the group has a good track record of performance. Over the last five years our already strong competitive position has been further enhanced through consistent execution of our strategies. Tight control of costs and margins means that we can respond appropriately in changeable times. We believe we are well set to compete strongly this Christmas and beyond. And now Walker will review the financials.

Walker Boyd - *Signet Group PLC - Finance Director*

Thank you, Terry. Good afternoon, ladies and gentlemen. Looking firstly at the profit and loss account summary, there are two major points to highlight. Firstly, in challenging trading conditions, group operating margin in the first half has been maintained at 8.1 percent. Secondly, the impact of exchange translation. As the average dollar rate has reduced from 146 to 161, this is offset by an underlying constant exchange rate improvement of 9.6 percent in pretax profit. Exchange translation also dominates the sales analysis. In the U.S. an underlying 2.1 percent like for like sales growth together with new space contribution of 2.8 percent is more than offset by a 9.8 percent exchange translation reduction. In the UK like for like sales remain above the general retail sector at 4.5 percent.

Looking at the geographic analysis of operating profits, U.S. operating margin was broadly in line with last year at 10.3 percent. As Terry indicated, gross margins in the first half were also in line with last year, although the impact of gold cost prices could have an adverse impact on second half gross margin. In the UK we continue to invest in the business, but operating margins showed a positive improvement of 4.1 percent, up from 3.4 percent last year underpinned by a small increase in gross margins. As you're aware, the group has a adopted FRS 17 in respect of pension accounting for 2003-4. As a consequence, the group has taken a non-cash prior (indiscernible) charge of 18.1 million net of deferred tax directly to reserves. This reflects the difference between (indiscernible) under the previous standard and the small FRS

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17 debt as of the 1st of February, 2003 of 6.7 million pounds. This charge represents 2.7 percent of shareholder funds at 1st of February, 2003.

Dealing with the P&L impact, the first half year has borne a net charge of 900,000 pounds in comparison to a restated net credit of 100,000 last year. The full year impact is likely to be roughly in the same proportion as the first half. Here lastly with the balance sheet. (indiscernible) showed a further improvement at the half year at 22.7 percent with interest cover excluding FRS 17 credits also improving to 8.3 times. The detailed cash flow shows an outflow of 27 million pounds in the period, reflecting firstly the increased final 2003 dividend paid in the first half of this year; secondly, an increased level of taxation payments; and thirdly, a planned increase in inventory including investment in new space.

With regard to outlook for cash flows, we anticipate a small net cash inflow for fiscal 2004. Capital spend is likely to arise to around 65 million this year with some further increase anticipated next year given the rollout of the new store design in the UK. Increases in working capital are expected to be in line with last year given similar space expansion in the U.S. and the further increase in participation of diamonds in the UK. Overall we would therefore expect to continue to see a comfortable level of gearing and a strong balance sheet underpinning the execution of our strategy. I now hand back to Terry and we'd be happy to take questions.

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

Thanks, Walker. We'd now be happy to take questions from the audience. We'll start with questions from the room, and than those who are joining us by conference call, and then back to any final questions from the room. We'd appreciate it if you would please identify yourself and your organization and wait for the microphone so that everyone can hear you, including those on the conference call, before you ask your questions.

QUESTIONS AND ANSWERS

Unidentified Speaker

Terry, forgive me for arriving late, you may have already answered this but, as you know, (inaudible). So I'm afraid I was a bit late for this. For the sake of those of us that adjust for goodwill, which I think was 600,000, but also there's something on the property front. Is it a loss on sale or leasebacks on property under the U.S. GAAP adjustments? Are there any property issues here, Walker, and you were talking about a half million provision against an empty property as well. Could you maybe go through these in terms of what one might regard as maybe a property loss in these figures and comparatives?

Walker Boyd - *Signet Group PLC - Finance Director*

First of all under UK GAAP, the half-million property provision is actually -- is in the note to the accounts with (indiscernible), it's a reference to last full year. So the two half years actually have zero impact on property. I think if you look in the note that does compare to -- it's a 52-week ended 1st February, 2003 charge, so that was last year. We have to comment on it because we put the comparative. In relation to the U.S. GAAP reconciliation, the adjustment there relates to the accounting treatment of properties that have been disposed of in the past and the reason which we recognized the profit or loss on it. So I would say -- the U.S. adjustment relates to prior years -- excuse me, the two half years that we're comparing, no, there's no impact of property at all.

Unidentified Speaker

(inaudible)

Walker Boyd - *Signet Group PLC - Finance Director*

The amortization of goodwill is 1.2 million a year. So, yes, again (indiscernible) a charge of 600,000 and that basically relates to the amortization of the goodwill arising on the Marks & Morgan acquisition.

Unidentified Speaker

(indiscernible) Could I ask a couple of questions? First on your margin movements, and if you would flesh out a little bit more what happened in Q2 versus Q1 where it looks as if maybe in the U.S. it did nudge down a bit and reasons for that? And also expand a bit further, Walker, on what you think may happen with gold prices, were they just at existing high levels. And the second question related to your stock movement year on year, which I think from memory on reported terms rose about 8 percent, just wondered what it rose on a constant exchange basis and why there was quite a large increase there?

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Walker Boyd - *Signet Group PLC - Finance Director*

In terms of margin you're talking -- your question on the U.S. relates to operating margin or gross? I think the answer to the same is yes. Gross margins in the half year in the U.S. are in line with last year, we were marginally ahead at the end of Q1. So I think that, yes, there is a very small (indiscernible) basis point price decline in the U.S. operating margin, largely reflecting the impact of gross margin of gold increases. In terms of what's likely to happen, clearly gold has a level of increase over the last 10 days to two weeks, it's currently sitting in $370 mark. As we say, of course, we have done well in the first half to largely offset these price increases or cost increases with a series of other measures. The likelihood is that we'll be (technical difficulty) in the second half as to the increase in buying costs more (indiscernible) to selling margin.

Unidentified Speaker

Would you be prepared to quantify a (indiscernible) assuming hypothetically gold stayed where it did, around the 335 mark?

Walker Boyd - *Signet Group PLC - Finance Director*

I think in terms of -- there are a lot of moving parts, and I think to start trying to put individual numbers on it I think most people have anticipated some level of decline, and I think the levels are appropriate despite being exact (indiscernible) I think there are too many variables to be specific.

Unidentified Speaker

(inaudible)

Walker Boyd - *Signet Group PLC - Finance Director*

I think if one looks to the effect (ph) stock levels, clearly there is the impact of new space. If you look at the U.S. underlying level, i.e. excluding the impact of new space inventories I think are up by about 3 percent in dollar terms in the U.S. which is very much in line with the level of sales. And in the UK, yes, there are some levels (indiscernible) of increased inventory, but very much quantity (indiscernible) currently additional participation of diamonds. As I mentioned, I think the increase in inventory very much in line with our expectations and original thoughts.

Unidentified Speaker

(inaudible)

Walker Boyd - *Signet Group PLC - Finance Director*

I think in the U.S. (indiscernible) stripping out the effect of anything in new space, and I'm looking at U.S. inventory in dollar terms, the underlying excluding new space is up by about 8 percent return on sales and is broadly in with the like for like.

John Baillie - *SG Securities - Analyst*

John Baillie from SG. Could you talk a little bit more about the UK, sort of (indiscernible) on the performance? How the average ticket price does compare and how the diamond mix compares with the rest of the group?

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

Both are up substantially when we put in the new format store. We're not -- some of this is proprietary, so we're not giving exact numbers, but it is a substantial increase in both.

Unidentified Speaker

You talked in the past about initiatives to prove working capital and prove (indiscernible) and the like to ensure your return on capital is moving ahead. Do you have any kind of plans on that front in the next year or two? Do you see any opportunities to improve that area?

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

To improve stock turn?

Unidentified Speaker

Yes, stock turn and (indiscernible) as well, just to improve the overall net working capital position.

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

In terms of stock, we have been keeping our stock levels in line with our increase in sales -- the increase in our stock levels

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in line with our sales. Both businesses are experiencing an increase in diamond participation. Diamonds are the slowest turning category of any of our categories. So as we do increase diamond participation and we do get some downward pressure in terms of stock turnover. So the productivity increases that we have generated have been largely offset by this shift in mix and the requirement, because of the slowest stock turn, the requirement for greater stock to cover the diamond category. In terms of receivables, we have improved our systems, continue to improve our systems.

Actually we're just in the process of developing a new version, an enhanced version of our collection system, which is over a year-long project to get that in place. But our collection rate continues to accelerate. That's a good thing. We're holding our terms so, yes, actually quick payment terms by standard of the industry in the U.S. And we're working to enhance that through improved collection systems. So that does provide a marginal -- that has provided, the quicker turnover of receivables, a marginal improvement in terms of return on working capital. All this gets offset, of course, by space which is less productive and gets you lower returns than existing or mature space.

Unidentified Speaker

Lisa (indiscernible) from UBS. You obviously went through your investment initiatives in the UK, you talked about national advertising, I was just wondering, is that going to put pressure on the cost ratios in the UK, what do you see with the drivers there?

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

As I said during the presentation, we're making selective additional revenue investment in order to drive the UK business, and as part of the repositioning of the UK business we think it's appropriate. We're working -- we're continuing to improve operating margins even in light of the additional revenue spend. As long as we can keep driving the sales obviously at a faster rate than our -- and our expenses are increasing, which is what we aim to do, then we can continue driving our operating margin. But the store in the end when we get to the end of this process which will be years away in terms of repositioning the UK business, we should have a great marketing, merchandising organization that is primarily selling jewelry at higher ticket prices with, most importantly, much higher store productivity. In the end all that will come through to operating margin.

Charles Allen - - *Analyst*

Charles Allen (ph) from (indiscernible) Asset Management. Two questions. First of all, the 676 case stores that you've got, are they all in the 900 malls that you would like to be in, or are some of them in other malls?

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

There are a handful that are in -- other than the 900 malls which we have targeted. That doesn't mean that they're not productive, but it's not a substantial portion of the real estate portfolio. But there are less than 50 that would be in other than those 900 malls.

Charles Allen - - *Analyst*

Secondly, it's probably a bit early, but are you considering putting H.Samuel into a sort of retail park (ph) location with a lot of other fashion retailers in the UK?

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

Yes, we're considering that. Yes, we are.

Charles Allen - - *Analyst*

And just to come back to the working capital and stock turn thing, does the emphasis on watches sort of work in the opposite way to diamonds?

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

In terms of stock trend did you say?

Charles Allen - - *Analyst*

In terms of stock trend, yes.

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

Yes, it's got a little faster turn than -- watches have a little faster turn than diamonds. Gold would have -- gold category is the fastest turnover, isn't it? In the UK -- you're talking UK or U.S.?

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Charles Allen - - *Analyst*

Both, I guess.

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

Okay. In the UK watches are a little faster turn. In the U.S. watches and gold are about equal turn, and both are faster than diamonds.

Andy Hughes - *UBS Warburg - ANalyst*

Andy Hughes from UBS. And isn't there another store that you're going to close in the second half in the U.S.? I mean, you're closing almost as many as you're opening. Is that just a statistical quirk or is it linked in any way to the number of new store openings or attrition form Jared or -- I'm referring to the previous question -- that you've got some in the lower quality malls?

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

No, it's just a statistical quirk. If you look at the annual number of closures, we're running about 20 to 25 closures a year, whereas this year we're opening 47 or 48, 48 mall stores. The leases are all timed, as you would expect us to do, to end December 31st or January 31st. So the closures tend to occur in the last part of the year, and obviously we time the leases to -- we time the leases to end right after Christmas, which is right after our busiest and most profitable selling season. Any other questions from the room? All right, operator, we'd be pleased now to take questions over the call line.

Operator

(OPERATOR INSTRUCTIONS) (indiscernible) with Oak Value Capital.

Unidentified Speaker

I was hoping maybe you could just talk a little bit more about your off mall Kay concept and compare it to the mall as far as square footage, merchandising, etc.?

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

The square footage is similar to a mall store. The stores are running about average 1400 to 1500 square feet. And while we merchandise each store separately based on the pull of product from the customers, the going in ranges will be our typical range of merchandise with which we would open a new store. The primary difference in these stores, the costs are lower, the original investment is lower, but the anticipated sales or store productivity is also lower. In terms of return, we expect (indiscernible) the same kind of returns that we earn out of mall stores, but with lower store productivity.

Unidentified Speaker

If I were to take your comments regarding the type of format, would we see more of these in the traditional off mall center?

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

Well, the first year openings -- let's see, we have, I believe it's four lifestyle, three power and three traditional. So we're really trying to get a good sampling or an equal sampling of each of the formats in order to test them. We think that they -- we believe obviously if we're testing them we think that each is viable. But we need to test them in order to determine that.

Operator

(OPERATOR INSTRUCTIONS) Gentlemen, there are no further questions from the audio conference at the moment. So I turn the call back over to you.

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

Any other follow-up questions in the room?

Unidentified Speaker

Could I just follow-up again, Terry, on that last question re. the U.S. and the potential? You said that the (indiscernible) at 900 that you would like to be in. Assuming that each of these three formats proves to be viable, what roughly is the U.S. population of these three types of off mall locations that you've described?

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

It's a huge number, David. The thing that we have to do is we have to scale that down by demographics. We have to scale it down, we have to understand in terms of these centers how close can they be to malls, how far away should they be from malls, is their cannibalization where we go when we go into the stores? Is there one or two of these formats that doesn't work for us, or some do. So to get into an exact number about how many of these before we determine who are the best co-tenants is another variable. There are so many variables and so many moving parts here that we need to get into it before we start predicting just what the potential is.

I can say this. We entered the initiative -- we began the initiative because we think that there is substantial potential to build our brand through these formats. But again, that's very dependent upon which of them are successful and then how we have to -- how many of those within that -- any category that's successful that we have to eliminate because of any of the above variables that I just cited. But it's a substantial opportunity. Any other questions? All right. Thank you very much for attending. We appreciate your coming.

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