

FINAL TRANSCRIPT

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SIG - Q1 2005/06 Signet Group Earnings Conference Call

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CORPORATE PARTICIPANTS

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Tim Jackson

Signet Group - Investor Relations Director

Walker Boyd

Signet Group - Group Finance Director

CONFERENCE CALL PARTICIPANTS

Lucy Sharma

UBS - Analyst

James Isenwater

DrKW - Analyst

John Baillie

Societe Generale - Analyst

PRESENTATION

Operator

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

Terry Burman - *Signet Group - Group Chief Executive & CEO, US Division*

Welcome to the conference call on Signet's first-quarter results. I'm Terry Burman, Group Chief Executive, and I have with me Walker Boyd, Group Finance Director, and Tim Jackson, Investor Relations Director. Walker will review the financial results, and then we will comment on the operations in the US and the UK. First I'd now like to ask Tim to give the Safe Harbor statement.

Tim Jackson - *Signet Group - Investor Relations Director*

This call includes certain statements 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 upon assumptions made by and data currently available to management, and appear in a number of places through this call. They include statements regarding, among 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 of risks and uncertainties which are more fully described in the Company's earnings release dated June 10, 2005, and in the "Risk and Other Factors" section of the Company's 2004 '05 Annual Report on Form 20-F filed with the US Securities and Exchange Commission on the May 3, 2005, 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 express 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.

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In addition, certain financial information used during this call are considered to be non-GAAP financial measures. For a reconciliation of these to most directly comparable GAAP financial measures, please refer to the Company's earnings release dated June 10, 2005, available on the Financial Information section of the Company's website at www.signetgroupplc.com.

Terry Burman - *Signet Group - Group Chief Executive & CEO, US Division*

Thank you Tim. Walker will now review the numbers and the impact of adopting International Accounting Standards.

Walker Boyd - *Signet Group - Group Finance Director*

Thank you Terry. We made solid progress in the past quarter. An excellent US performance more than offset the very difficult trading conditions in the UK and the (indiscernible) movement in the (indiscernible) exchange rate from \$1.84 to \$1.89. Overall earnings were up 10%. Pretax profits at 27.9 million showed a 9.4% increase at constant rates and at 6.9% on a reported basis.

First-quarter results announced for 2004/5 have been restated for the implementation last year of the amendment to FRS 5 by Application Note G, Revenue Recognition, which reduced the prior year first-quarter profit before tax by 1.6 million and for the adoption of International Accounting Standards, which had a negative impact of £400,000. And I will cover the impact of IAS in a few moments.

Group like-for-like sales increased by 3.3% and total sales by 7% on constant exchange rates. On a reported basis, total sales increased by 4.9% to 369.2 million.

Gross margin for the Group was up slightly compared to the same quarter last year with an improvement in the UK and that US broadly in line. Operating profit was 29.5 million, a 7.3% improvement at constant exchange rates and 4.6% on a reported basis. The operating margin was unchanged at 8%.

Net financing costs were down 0.5 million at 1.6 million and the tax rate was 34.4%, in line with the anticipated two-year rate.

Cash flow from operating activities in the quarter was 18.1 million times, down from 29.6 million in the comparable period last year. This mostly reflected a 6.4 million increase in taxes paid and additional investment in inventory of 7.9 million, mainly attributable to the timing of commodity purchases in the UK.

Capital expenditure in the quarter was 13.8 (ph) million against 30 million in the comparable quarter last year. The Group is on track for a full-year spend about 85 million times. For the year as a whole we continue to expect to be broadly cash flow neutral.

Net debt at the end of the quarter was £76 million, up 7.8 million from the level 12 months ago.

This is the first set of results that Signet has presented using International Accounting Standards, and the changes in the full-year comparatives are as we indicated in the 2004/5 Annual Report. However, I would emphasize that IAS is still at an early stages of implementation and the interpretation of the standards continues to evolve.

The adjustments set out in the full-year profit before tax reconciliation contained in the accounts -- that is share based payments, goodwill amortization and straight line leasing -- are spread evenly over the year and amounted to a net adverse effect of 1.5 million on the conversion of last year's first quarter. In addition, IAS 18, dealing with revenue recognition, requires that revenue is only recognized for no significant risk of ownership transferred to the buyer. As a result of the seasonal pattern of sales in first quarter -- sorry, as a result of the seasonal pattern of sales, the first quarter, therefore, reflect a profit before tax benefit from the movement in the returns provision of 1.1 million. This will reverse in the fourth quarter and is not likely to have an impact on the year as a whole.

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I would end by reiterating that the adoption of IAS has no impact on the cash flow from operations.

I will now hand you back to Terry, who will talk about developments in the business.

Terry Burman - *Signet Group - Group Chief Executive & CEO, US Division*

Thanks Walker. Looking first at the US, total sales increased by 11.6% at constant exchange rates. On a like-for-like basis sales were up 7.1%. We again out-performed the main competition and further increased market share.

Business performed well in February when it was up against particularly challenging comparatives over the Valentine's Day period, and subsequent trading in the quarter was excellent. The focus on developing the division's competitive advantages which have been established over many years were an important contributor to the very good progress made in the quarter.

Kay out-performed its main mall-based competitors and again benefited from increased levels of national television advertising. This is a virtuous circle, with more national television advertising driving sales, which when combined with the growth in new store space funds further increases in advertising and in turn sales.

Jared sales continued to perform extremely well, assisted by the maturing profile of its stores and its strong competitive position against the independent specialty retailers who dominate in the off-mall sector. Jared also benefited from an increase in television advertising support.

Average transaction value in both the mall stores and Jared increased by about 10%. This reflected the continued shift in merchandise mix to higher price points such as the Leo Diamond, larger stones and fashion gold merchandise. Benefit was also seen from the price adjustments made in the last 12 months to partly offset the rises in commodity costs. Competitors have recently increased prices further. We expect to selectively do so as well.

The gross margin percentage was broadly in line with the first quarter in fiscal 2005. This reflected anticipated changes in commodity cost increases, offset by a range of management initiatives, including selected action on selling prices. There have also been several sourcing initiatives where our scale and direct sourcing capability enables us to better identify opportunities to move further up the diamond supply chain and mitigate some of the impact of increased (indiscernible) prices. In addition, our detailed understanding of jewelry manufacturing costs, combined with our large and growing sales volume and strong balance sheet, help us to negotiate some of the best terms with jewelry manufactures.

US operating profit was £31.4 million, up by 18.9% on a constant currency basis and by 15.9% on a reported basis. The operating margin was ahead of last year by 70 basis points at 11.3%, primarily reflecting the operational gearing from the strong like-for-like sales increase, which more than compensated for the impact of new store space growth. The bad debt charge to sales ratio for the three months is broadly similar to the comparable period last year. We continue to invest in systems, people and training to maintain our performance in this area.

We opened 10 new mall stores in the first quarter with up to a further 41 planned by the end of the fourth quarter. A further two off-mall Kay stores began trading during the quarter. In April the first Kay Metropolitan location began trading in Chicago, and the store on 34th Street in Manhattan has just opened. We remain on course to open 15 to 20 Jared's in the current year against 14 in 2004. In total we anticipate new store space growth of 8% this year, once again well ahead of our competitors. This will further leverage our cost base and is anticipated to contribute to superior like-for-like sales and operating profit growth in future years.

In summary, we continue to implement our proven growth strategy in order to increase long-term shareholder value.

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Now turning to the UK, trading conditions in the general retail sector saw marked deterioration at the start of our financial year, and they remained very difficult throughout the quarter. As a result of lower footfall, like-for-like sales were down by 6.2% and H.Samuel and Ernest Jones performed broadly in line with each other. Total sales declined by 5% to £91.3 million. An operating loss of £400,000 was incurred.

While we are focused on a tight control of costs and gross margins, our overall financial strength allows us to continue implementing our established strategy and initiatives. Diamond participation was up again for the division, and average selling price was about 6% ahead in H.Samuel and Ernest Jones. Gross margin improved over the comparable period last year, with higher commodity costs more than offset by the strength of sterling against the dollar.

Nine stores were refitted, relocated or opened in the first quarter. A further 76 are planned for the remainder of the year, and the stores continue to justify the additional investment. A net three stores were closed.

In summary, we remain committed to the major initiatives in the UK of improving merchandising, increasing staff training, developing marketing and creating a better store environment as we believe these will support the longer-term growth of the business.

As we saw in the US in 2000 and 2001, it is often in the more difficult times that the base for future gains in market share can be built by focusing on improving the basics of the business rather than over-reacting to short-term changes in market conditions. When looking at results for the quarter, it is important to look at the totality with Group like-for-like sales up by 3.3% and earnings by 10%. So far this year the continuing strong performance of our US division has compensated for the weaker UK results, highlighting one of the benefits the Group achieves from operating on both sides of the Atlantic.

Signet is in good shape and has a strong balance sheet. We also benefit from the range of competitive advantages and remain well positioned to execute our proven strategy.

Now, Operator, we will now take any questions that anyone may have.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Lucy Sharma, UBS.

Lucy Sharma - UBS - Analyst

I just wondered if you could perhaps -- I know that you're going to continue with your investment strategy in the UK, but how much you can cut back some of the sort of more mundane costs or overhead costs within that, obviously back to the declining like-for-like?

Terry Burman - Signet Group - Group Chief Executive & CEO, US Division

Lucy, I'm sorry. You were cutting out. Could you repeat the question again?

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Lucy Sharma - UBS - Analyst

I was just wondering if you can sort of expand on perhaps how you can keep down the cost on overhead and sort of the non-investment costs in the light of (indiscernible) in the UK and in the light of declining like-for-likes.

Walker Boyd - Signet Group - Group Finance Director

I will answer that. I think as Terry said we're going to remain on strategy in terms of not just the refi (ph) program, but also focusing on improving the quality of our staff, which means focusing on training. I think as far as advertising where we have been testing television, that would be out intention to continue with that test about the same level as last year. So those areas of the business that we've invested in from both a capital and revenue perspective we are going to continue.

We clearly, as we go through the year, will however pay particular attention to expenses. We do not believe there are significant areas of business where we're going to take large significant chunks of expense out, but we will be generally careful in terms of our expenses, particularly as we approach the key Christmas time.

Lucy Sharma - UBS - Analyst

Okay. What sort of level of like-for-like decline, though, can you hold cost of sales ratio?

Terry Burman - Signet Group - Group Chief Executive & CEO, US Division

That's very much dependent on the macro factors. We're business that was performing quite well, above the marketplace, certainly whenever we had an opportunity to measure it. Anecdotally, we have reason to believe that we are still out-performing the jewelry sector. And we need to continue to support our long-term strategy for growing and developing the business, so we're going to continue with our training, advertising, store environment, merchandising initiatives. But at the same time -- you've seen us in this environment before. You have seen (indiscernible) in the -- you operate in this environment in the US in 2000, 2001, and this is not the first time the UK has been through this kind of a cycle.

One of the benefits of our strong balance sheet is that we can continue developing our business, hopefully gain some market share and be that much stronger when we come out the other end of this. Having said that, you can see from our first quarter-results, you saw us operate in the US several years ago, that we know-how to control our costs and our margins, and try to keep any damage to the minimum.

Lucy Sharma - UBS - Analyst

Thank you.

Operator

(OPERATOR INSTRUCTIONS) James Isenwater, DrKW.

James Isenwater - DrKW - Analyst

Good afternoon. Just a quick one on the pricing comment. You talked about selective action on selling prices. Is that being led by someone else within the industry? How sort of product specific is it? And what sort of level of inflation are you seeing out in the US?

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Terry Burman - Signet Group - Group Chief Executive & CEO, US Division

Nobody's going to lead us. We're going to take -- we take a broad view of pricing with Jared certainly more compared -- we compare it more to the independents because that's who they're competing with our mall-based store more to the chains and the regional operations.

I really don't want to get into specific categories or how much we're increasing prices. But you have seen us operate for the last two years in an environment of rising commodity costs, both gold and diamonds. And any decline in margin that we have had over the last couple of years has been really due to mix, not due to commodity prices. You have seen us in the first quarter of this year -- I'm talking US now -- obviously from our statement, we're basically in line with last year's gross margin. So we're again effectively controlling our margins through our pricing and through our sourcing initiatives. And it is our belief and intention to continue to do so.

James Isenwater - DrKW - Analyst

I think DeBeers announced that they had increased prices again by just under 3% (indiscernible) presumably that's going to have no effect on your gross margin assumptions for the rest of the year then

Terry Burman - Signet Group - Group Chief Executive & CEO, US Division

That's correct.

James Isenwater - DrKW - Analyst

Thank you.

Operator

John Baillie, Soci t G n ale.

John Baillie - Societe Generale - Analyst

I think you have already touched on it already, but it's as much related to price as what is the gross margin that you've achieved in Q1, is that really now what we should expect going forward, a stable to slightly improved gross margin, given what you can do with prices to offset the cost issues?

Terry Burman - Signet Group - Group Chief Executive & CEO, US Division

Talking about -- let's take each division separately.

As you know, the UK division has benefited from the pound-dollar ratio. And I would expect -- I won't say the magnitude, but I would expect to continue to have some benefit coming through the business. But as in the US, mix shifts in can change this equation. Ex-mix shifts -- as I said to James, ex-mix shifts we have shown and demonstrated over the last couple of years in the US the ability to absorb the commodity costs and take measurers, both sourcing and pricing, that will offset the rising commodity costs. The mix shifts, I can't -- they are a little less predictable.

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John Baillie - Societe Generale - Analyst

Can you tell us a little bit about the how you see the US market maybe? Do you think there's anything exceptional about the Q1 performance?

Terry Burman - Signet Group - Group Chief Executive & CEO, US Division

Do I think that there's anything exceptional? I'd be very pleased to go through the year at a 7% like-for-like sales increase. I can't really say if I -- I'm not going to predict whether it's exceptional or not. Like I said, I'd be pleased to go through the rest of the year at that rate.

John Baillie - Societe Generale - Analyst

Do you think you will be pleased? I mean, assuming if -- I mean, I don't know what price inflation is going to be in the next quarter. But given what you're doing with prices, it doesn't seem there is going to be much of a slowdown in the trends out there at the moment in the US.

Terry Burman - Signet Group - Group Chief Executive & CEO, US Division

Well certainly Mr. Greenspan's statement yesterday he feels that the economy is on solid footing and it doesn't seem to have any issues with it. So I'm not looking for -- we're not looking for -- a significant shift up or down in the US economy.

John Baillie - Societe Generale - Analyst

Thank you very much.

Operator

(OPERATOR INSTRUCTIONS) It appears we have no further questions at this time. I would now like to hand the call back over to Mr. Berman for any additional or closing remarks.

Terry Burman - Signet Group - Group Chief Executive & CEO, US Division

We would like to thank all of you for participating in this call. Our next scheduled announcement is the second-quarter sales figures on August 4th. Our interim results are expected to be announced on August 31st, when there will be the normal analyst presentation in London and a simultaneous conference call and webcast for all interested parties. Thank you again and good bye.

Operator

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

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