

**Thomson StreetEvents<sup>SM</sup>**



## Conference Call Transcript

SIG - 2005/06 Interim Signet Group Earnings Conference Call

Event Date/Time: Aug. 31. 2005 / 2:00PM UKT

Event Duration: N/A

Aug. 31. 2005 / 2:00PM, SIG - 2005/06 Interim Signet Group Earnings Conference Call

## CORPORATE PARTICIPANTS

**Terry Burman**

*Signet Group - CEO*

**Walker Boyd**

*Signet Group - Group Financial Director*

**Rob Anderson**

*Signet Group - U.K. Jewelry Chief Executive Director*

## CONFERENCE CALL PARTICIPANTS

**Richard Evans**

*Citigroup - Analyst*

**Stacey Fisher**

*Deutsche Basset Bank - Analyst*

**Rob Weitzer**

*Deutsche Bank - Analyst*

**Lucy Sharma**

*UBS - Analyst*

**James Targett**

*Goldman Sachs - Analyst*

**Allegra Piaggi**

*Lehman Brothers - Analyst*

**James Pan**

*CPE Partners - Analyst*

**Peter Testa**

*One Investments - Analyst*

## PRESENTATION

---

**Terry Burman - Signet Group - CEO**

Good afternoon. I am pleased to welcome all of you here in the room and those joining us by webcast and conference call. Before we start, could I please ask everyone present to ensure that their mobile phones and Blackberries are switched off as they can interfere with the audio. Thank you.

I'm Terry Burman, Group Chief Executive. With me is Walker Boyd, our Group Finance Director and sitting in the front row is Rob Anderson, UK Jewelry CEO. First I will present an overview of the business, and then Walker will summarize our financial results. We will all then be available to answer any of your questions. As we have U.S. investors attending, Walker will give the Safe Harbor statement.

---

**Walker Boyd - Signet Group - Group Financial Director**

This release includes 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 on assumptions made by and data currently available to management and appear in a number of places throughout this presentation. They include statements regarding, among other things, our results of operations, 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 slide two of this interim results presentation and in the risks and other factors section of the Company's 2004 annual report on form 20-F filed with the U.S. Securities and Exchange Commission on 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 experience of future changes make it clear that any projected results expressed or implied therein may not be realized. The Company undertakes no obligation to update or revise any forward-looking statements that affect subsequent events or circumstances. Additionally certain financial information used during this presentation are considered to be non-GAAP financial measures. For a reconciliation of these to the most directly comparable GAAP financial measures please refer to slides of this interim presentation of the Company's earnings release dated 31st August 2005 available on the financial information section of the Company's website at [www.SignetGroupPLC.com](http://www.SignetGroupPLC.com).

---

**Terry Burman - Signet Group - CEO**

Thanks, Walker. Group total sales were up 5.6% and like for like sales by 3.3%. The period clearly illustrated the benefit derived from the 70% U.S. 30% UK sales mix. The adverse movement of the U.S. dollar exchange rate from \$1.83 to \$1.86 had less of an impact on results than in recent announcements. Profit before tax rose to 52.1 million pounds, up 5.7% at constant exchange rates. Earnings per share grew to 2.0p and the Board has approved a 10% increase in the interim dividend.

Now turning to the U.S. business. The first half 12.6% increase in U.S. dollar sales was driven by the 7.9% like for like sales growth and a 4.7% contribution from new space. Operating profit grew by 19.6% at constant exchange rates to 61.1 million pounds. Operating margin rose to 11.3%. Leverage from like for like sales growth and expense control more than offset the impact of new space.

Gross margin was slightly down, the benefit of management initiatives including selective price increases on fashion and some basic products, largely offset the rise in commodity prices and anticipated adverse mix changes. Bad debt to total sales ratio was 2.7% in line with the average of the last five years.

The current U.S. consumer environment is stable. Superior sales growth is being achieved by retailers that are consistently successful in execution of the key disciplines. Within the jewelry sector it is particularly important to focus on customer service. Commodity cost increases have been putting pressure on jewelers' gross margins. Therefore, supply chain efficiency is essential, which favors larger retailers particularly those with a well-developed direct sourcing capability. The achievement of consistently superior like for like sales growth results in operational leverage. Successful retailers are then able to invest in new store space to achieve further sales growth reinforcing their competitive advantages.

Sector consolidation is taking place as weaker retailers exit. Our long-term market share gains are driven by both superior like for like sales and space growth. The consistency of strategy and excellence in execution together with our culture continues improvement; has developed a record of building on our competitive advantages and establishing best practices. Our space growth includes new formats which enable us to consistently expand and to take advantage of fast-growing retail venues and not be dependent solely on traditional regional malls. In particular, our out-of-mall expansion means that more and more we are competing against the smaller chains and independent jewelers who account for over 70% of the specialty market, increasing the pressure for sector consolidation.

Illustrating that consolidation, this slide shows the long-term decline in the number of specialty jewelry firms of about 1.5% per annum.

Signet is consistently outperformed its middle market specialty jewelry competitors. This has been driven primarily by the mall stores that are currently over 75% of our like for like sales base.

Over the last seven years, Signet has increased the number of its stores by about 50% and store space has almost doubled. Since 2000 Signet space expansion is in marked contrast to that of the other leading middle market specialty operators which have shown little if any increase in space. These trends are reflected in market share movement. Over the last five years both Signet and Zale Corporation have significantly increased their share at the expense of smaller chains and independents. Signet has gained market share at nearly twice the rate of Zale Corporation.

During that same period a number of major chains have consolidated their operations. For instance, Reeds Jewelers was taken private in 2004 and has reduced its number of stores by about 20% to 90. Friedman's Jewelers and its associate Crescent Jewelers are now in Chapter 11 bankruptcy, and both are significantly reducing their store numbers. Samuels with approximately 170 stores five years ago is now private and has meaningfully reduced its store count.

In merchandising, our average selling price has been steadily increasing over the last three years. And in the first half it was up a further 12.6%. This has been a proactive strategy, contributing to our like for like sales growth. Our customers have responded to our higher price point

initiatives, such as larger and better quality diamonds and the premium Leo Diamond range. The three stone jewelry range and the Swiss watch initiative in Jared have also lifted our ASP.

Selectively we have increased prices on fashion and basic merchandise in response to commodity costs. This year we are testing the virtual diamond vault. This offers consumers access via an in-store computer to a supplier's database of loose diamonds. A selected stone is then shipped to the store within 24 hours. The virtual vault provides a much wider selection of larger, better quality stones and more cuts without inventory investment or risk.

We are also testing an expanded diamond inventory in certain stores to further leverage the benefit of our trained diamondologists. On the supply side we continue to benefit from our robust direct sourcing capability which is helping to mitigate gross margin pressure. We continue to consider initiatives that could allow us to achieve further efficiencies.

The marketing budget is primarily driven by sales. Signet's growth has resulted in significant increases in marketing in recent years, particularly on television. Jared continues to benefit from TV advertising. This Christmas will see all Jared Stores promoted on local television.

For the regional brands recall rates improved following the introduction of a new radio commercial, and we are developing a TV campaign to test in local markets. The consistent use of Every Kiss Begins With Kay has increased its overall effectiveness. This year more of the higher marketing budget will be spent on additional impressions reflecting the comparatively soft television network market. I would now like to show you one of the Kay ads that we ran for Mother's Day. (Video presentation)

As I said earlier, outstanding customer service is a critical part of a point of differentiation in the jewelry sector, and we continue to focus on improving our staff training practices. For example, interactive training over the Internet is being tested. The technical knowledge of our staff continues to improve. At the end of the half we had over 50% more trained diamondologists than a year ago and all store managers are now so qualified.

Customer trust is also built through jewelry repair shops. We now have 212 in-store workshops with over 800 specialist jewelers and craftsmen providing national coverage. Adding staff is key to our pace of growth. Store-based activity is now supplemented by a central function; Web-based practices and a college recruitment program. Before leaving customer service, I would like to share with you a quote from one of the U.S. trade journals that was published in August and was based on a personal shopping trip. The article was entitled "Miracle on 34th Street" and it refers to our new store in Manhattan. The quote reads "watch your backs, independents. Whatever Kay is doing in its sales training programs it has the customer service segment nailed." That was written by the editor-in-chief of a magazine called Professional Jeweler. You will find the full article at the back of the presentation. It speaks to one of our greatest competitive strengths and competitive advantage in the stores, and that is our people.

It is important that infrastructure is expanded to support the sales growth. For example, we have increased the space in our distribution center by 20%, and the capacity of 250,000 units per day is now 40% above the record for overnight replenishment set in 2004. This was achieved by relocating the central repair facility to a purpose built location where we now employ about 60 craftsmen, and that has significantly increased productivity. In credit a new collection software system improved the operational efficiency by bringing greater flexibility to manage volume changes.

We expect 9% new store space growth this year. Our expanding range of formats enables us to target the faster growing real estate opportunities rather than be limited to traditional regional malls where little new development is taking place. To support our expansion we have increased the size and expertise of our real estate department, and we are considering a further measured increase in our new store space growth.

The Kay off-mall test is now in its third year with 11 additional stores expected this year. Stores are achieving their pro forma sales, and we have identified the key consumer and site selection characteristics. The business model involves lower investment and sales than the typical mall store and is subject to the Group's normal internal rate of return criteria. We are now evaluating the pace at which we should rollout these stores.

In the first half we opened our first two stores in metropolitan locations. These are in areas of high population density, with high footfall and are larger than the typical mall store. The concept draws on our experience with Jared and has a much wider selection of diamonds, the virtual diamond vault system that I mentioned earlier, more trained diamondologists and an expanded watch selection. These stores will require above average investment and higher sales per store than a typical mall location. The stores leverage the strong Kay brand awareness in its marketing support while expanding our potential customer base. The format also has potential in the highest traffic malls.

Aug. 31. 2005 / 2:00PM, SIG - 2005/06 Interim Signet Group Earnings Conference Call

This is the Manhattan Kay Store which is located on 34th Street. Internally the store has an enhanced Kay decor with product features as well as lifestyle photos, a loose diamond and semi mount department and an on-site jewelry workshop. The metropolitan stores are nearly double the size of a typical mall store. The overall ambience is difficult to convey in a photograph, so I would strongly encourage you to visit the store the next time you pass through New York City or join us on our Investor Day on the 12th of September.

Jared again had an excellent first half and the annual tranches of stores are now ahead of their year-to-date sales pro formas for fiscal 2006. We are expecting to open 18 this year, about 30% more than last year. In total this is equivalent in space terms to some 75 mall stores. We anticipate that Jared will be by sales a top five specialty jewelry brand this year.

Now moving onto the UK business. The retail environment in the UK has been very difficult in the first half. Against demanding comparatives, particularly in Ernest Jones like for like sales fell by 7.8%. Reflecting the sales decline a small loss was incurred. The gross margin was a little above the comparable period last year. After slowing through most of 2004 the level of consumer activity took a sharp downturn in February of this year. Total non-food UK retail sales are estimated to have fallen by about 3% on a like for like basis and the jewelry sector based on anecdotal evidence was down noticeably more. The factors causing the slowdown are well-known and are unlikely to change dramatically in the short-term, although our comparative sales figures do get less demanding. The retail sector has seen increased discounting. However, within the jewelry sector there is a stable pricing environment. We believe that independent jewelers are under pressure and there have been some bankruptcies. The bridal category has been comparatively strong, but this only accounts for about 15 to 20% of UK sales compared to over 40% in our U.S. stores.

We've kept tight control of costs, gross margin and inventory. Store working hours have been flexed down and recruitment has been delayed. Direct variable costs have fallen in line with sales. We have thoroughly reviewed the cost base. However we will not take any actions that will hurt the prospects of our business. We will continue to implement our well-proven strategy.

Gross margins are up a little on last year helped by foreign exchange rate and close control of discounts. Our inventory is in line with the plan. Against strategic goals we continue to move in the right direction. We again increased the diamond mix, average selling price and average diamond price. By continuing to remain on strategy and invest in the business we believe we will be in a strong competitive position when the consumer starts to recover.

I will now review some of the initiatives we are taking. Our training practices continue to improve in the diamond category to be enhanced. The U.S.-based commission system that was tested last year is expected to be in most stores by this Christmas. We continue to invest in TV advertising and the refurbishment program. By Christmas, about 45% of UK sales should come from stores trading in the new format, and those will predominately be in the H.Samuel brand. We expect to end the year with 596 sites as overlapping H.Samuel's are closed.

We are in the final stages of testing before launching e-commerce on the H.Samuel website. As we have said in the past, our entry into e-commerce has been a question of when not if. And after continued evaluation we believe the time is right now. The site has about 2200 items and a leading-edge search and navigation system. There is consistent pricing across channels. The consumer can collect their purchase from an H.Samuel store or have it delivered to their home. Returns can be made in store or to the distribution center. The operation will use our existing picking and call center facilities.

While the current like for like performance is not what we would desire, we believe the business is in a strong competitive position. It is differentiated from the general merchandisers by selection, service and the specialty jeweler proposition. Compared to specialty competitors Signet has significant scale advantages. The business has superior operating margins and return on capital employed with the financial strength to invest in its proven strategy. Access to U.S. expertise continues to help speed development.

Often in a downturn the strong get stronger and the weak get weaker. We saw this in the U.S. in 2001, and will do our best to make this true in the UK jewelry sector. Walker will now review the financials.

---

**Walker Boyd - Signet Group - Group Financial Director**

Good afternoon. Firstly I would like to remind everybody that these results and the comparatives have been prepared under IFRS as currently interpreted. Group operating profit for the six months at 55.5 million pounds represents an increase of 3% at constant rates. This reflects an excellent U.S. performance more than offsetting very difficult trading in the UK. Correspondingly pretax profit again on a constant exchange rate basis increased by 5.7% or 4.2% on a reported basis. Sales growth in the U.S. was 12.6% at constant rate with new space contributing 4.7%. This is a little more than recent periods given a slightly faster rate of space growth and some timing differences on store openings.

Aug. 31. 2005 / 2:00PM, SIG - 2005/06 Interim Signet Group Earnings Conference Call

Exchange movements from an average rate of \$1.83 to \$1.86 results in a 1.8% adverse impact. As Terry has already said the UK like for like decline of 7.8% reflected the very difficult retail environment with a small space benefit as a result of timings of temporary store closures for refit. At the Group level the like for like increase was a respectable 3.3%.

Looking at the geographical split, U.S. operating profits grew to £61.1 million, an operating margin of 11.3% up from 10.7%. In the UK the adverse operating leverage impact from the like for like decline resulted in a small operating loss for the period. Group costs were unchanged at £3.2 million for the half, although I would expect some increase in the second half as a result of Sarbanes-Oxley compliance work.

In the U.S. the operating margin improvement comes as a result of leverage from strong like for like performance. Gross margin as anticipated edged down by 10 basis points, and there was again an adverse impact from new space on operating margin but not on operating dollar profitability. In the UK, as I mentioned the main feature is the adverse leverage on SG&A though the 60 basis point increase in gross margin emphasizes the tight control in discounts maintained by the division.

Cash flow reflects the normal seasonal pattern and is much in line with last year at the operating cash flow levels. Looking at the details, improvements in underlying profit and favorable timing differences in working capital are offset by the increased dividend payout.

With regard to the outlook for net debt for the full year, we remain on track for a broadly neutral position. We continue to anticipate a Group capital spend of around 85 million pounds which together with the working capital implications of the expected 9% space growth in the U.S. should be funded from the operating cash flows of the business. We would therefore expect to see some reduction in the gearing ratio at year end maintaining the strong Group balance sheet. I will now hand you back to Terry, and we will take any questions that you might have.

---

**Terry Burman - Signet Group - CEO**

Thanks, Walker. First we will take questions from the room, and then we will take them from anybody on the conference call that would like to ask any questions, then we will go back to the room for any follow-up. I request that you wait to ask your question until we hand you a microphone; if you can just raise your hand we will get one of the people that are holding the microphones to hand that to you so that the people on the conference call can hear the question. So any questions?

## QUESTION AND ANSWER

---

**Mal Patel** – Merrill Lynch - Analyst

Terry, you referred to some initiatives regarding improving U.S. gross margins. Will you share some of those with us?

---

**Terry Burman - Signet Group - CEO**

Well, it's a range of initiatives involving some selective price increases on basic and fashion product and some sourcing initiatives that are proprietary in nature. So I would rather not share them with you. But it involves just changing some of the dynamics of how we source some of the merchandise.

---

**Mal Patel** – Merrill Lynch - Analyst

Essentially it's more of what you did last year, is that right?

---

**Terry Burman - Signet Group - CEO**

Aug. 31. 2005 / 2:00PM, SIG - 2005/06 Interim Signet Group Earnings Conference Call

Yes. And there was some wraparound of some of the initiatives that we started last year, and some new initiatives this year. There was also some better controlling of discounting, some initiatives on that I can share with you, some better controlling of discounting in the stores and also some initiatives on how we handle trade-ins.

---

**Richard Edwards - Citigroup - Analyst**

Richard Edwards from Citigroup. I think in one of the slides you referred to considering an increase in the growth rate in the states, (inaudible) in terms of new space rather than 7 to 9%. What are you looking at there and what sort of growth rate might we anticipate?

---

**Terry Burman - Signet Group - CEO**

Right, we set a measured increase, and an example of a measured increase would be the one that we did last year. So we increased our target from 6 to 8% to 7 to 9%. We call that a measured increase, so something along those lines.

---

**David Jeary - CSFB - Analyst**

One follow up from Richard's questions on the U.S. in terms of the implications potentially for CapEx expenditure on the back of that measured expansion. Secondly, reading off (indiscernible) have you got any idea of the more leading to long-term number that you can go for now that you have decided to do the rollout, Terry?

---

**Terry Burman - Signet Group - CEO**

I'll take the rollout, and then Walker will answer the CapEx question. In terms of potential, there is potential for hundreds of stores in the off-mall category. As I said during the presentation, now that we've had about 2.5, 2 plus years under our belt of operating these stores, we've identified the site characteristics to help us select the right locations and the right centers in which to place our stores. And we're comfortable rolling them out at a faster rate. But we're not going to go from 10 a year to 50 a year. You may see us next year in the 15, 20, 25 range, something like that. We are still developing those plans and prioritizing the locations. But there will be a lift something like that and possibly a further lift in the following year.

---

**Walker Boyd - Signet Group - Group Financial Director**

As far as the CapEx is concerned I think it is a bit early to start putting numbers on it because, as Terry said, we are considering it moving in terms of range. The level that Terry is talking about in terms of CapEx is not going to be significant. What would be potentially slightly more significant in terms of new store openings are working capital implications. If we were to have a slight to measured increase in space growth does that say we would move marginally away from a broadly mutual cash flow position? I guess that's possible if we ended up at the higher end of a slightly higher range. But I don't think anything that is going to have a material impact on the overall balance sheet. If we got the appropriate sites and we were marginally negative on the cash flow basis, then I don't think that we would be impinging ourselves too much.

---

**Rosie Bichard - Deutsche Asset Management - Analyst**

Rosie Bichard, Deutsche Asset Management. On that question of growth in the U.S., you are clearly outperforming the rest of the market. Both in terms of getting leased space and let's say the possibility of future acquisitions. Does that outperformance have any particular impact?

---

**Terry Burman - Signet Group - CEO**

In terms of future acquisitions?

---

**Rosie Bichard - Deutsche Asset Management - Analyst**

Aug. 31. 2005 / 2:00PM, SIG - 2005/06 Interim Signet Group Earnings Conference Call

Well, also I guess if your competitors are underperforming does it make it easier to get new sites and so does it imply that you might be able to acquire firms which are facing difficulties?

---

**Terry Burman - Signet Group - CEO**

Let's see, taking -- kind of turning that around -- first of all does it make it easier to get better sites? Yes, it does. Obviously if we are the retailer that is outperforming we become the retailer of choice because mall landlords charge their rents and in the U.S. they are all in malls turnover based -- have a turnover based rent component in them. So the higher turnover retailers are favored and become the retailer of choice of the malls because they can simply realize more return out of their limited space.

In terms of an acquisition, as others become -- as other companies become more troubled, we do find that companies, additional companies do become available for acquisition opportunities. But we are very selective in terms of the real estate that we pick. And any acquisition candidate is still going to have to have real estate that satisfies our site selection criteria if we were going out and renting the space for ourselves. So there are, we would like to do an acquisition. We've said in the past. We remain motivated to do an acquisition. But there are very few candidates that fit our criteria of site selection, geographic location in our sector of the market. And we are not going to relax our standards just to do an acquisition. So the timing is just not solely of our choice. But we remain motivated to do it, and any candidate acquisition target that we'd be interested in is aware of our interest.

---

**Rob Whitehead - Deutsche Bank - Analyst**

Rob Whitehead of Deutsche Bank. A couple of questions. The UK depreciation has been marching up pretty sharply. Certainly the appendix; obviously that is the millennium refurb (ph) effect. When does that start leveling off? And secondly, again on the refurb, am I right in thinking that all of the benefits of the refurb is excluded from the like for likes in both the UK and the U.S.?

---

**Walker Boyd - Signet Group - Group Financial Director**

The second question the like for like, any uplift that we get on a refurb is included in the like for like, because when a store reopens then it goes back into like for like. So the benefit is included there. As far as the impact of the refurb on depreciation, I think it will continue to escalate basically for a period of five years until we get around to a period where we reach steady-state. Because if you look back at the CapEx on the UK going back in '02, '03, and '03/'04, where we delayed some capital expenditure (inaudible) from normal refurb costs we were completing the test on the millennium then CapEx in that period is lower. So you at the moment slightly disproportionate increase. But that increase will continue until we go through a cycle is basically about five years of refit program.

---

**Lucy Sharma - UBS - Analyst**

Lucy Sharma from UBS. Just following on some of Rob's questions. I was wondering if you could perhaps talk about the investment costs and cost increases that you got within the UK. I know that you have said that you're not going to pull back within a short-term difficult trading environment. I was wondering if you can perhaps update us on cost inflation that's coming through please.

---

**Walker Boyd - Signet Group - Group Financial Director**

From a capital spend perspective?

---

**Lucy Sharma - UBS - Analyst**

No, operating cost.

---

**Walker Boyd - Signet Group - Group Financial Director**

I don't think in terms of our operating cost inflation from still wage inflation I don't think there are any particular changes there or increases have been fairly close to inflation. We are continuing to rollout the commission about the commission system but that is basically self-funding. I think

Aug. 31. 2005 / 2:00PM, SIG - 2005/06 Interim Signet Group Earnings Conference Call

if I look at our rate reviews so far settled this year. If anything they have been slightly below the average of the last several years although I think that is more a function of just timing. Because we happen to have had more high street reviews this year rather than major regional molds. So I don't think there is necessarily a change in the underlying inflation. I think it is just a function of which stores are up for a refit. And these are clearly the two major component parts of cost inflation rates as a percent are increasing faster than inflation like all retailers. But again because of the nature of our stores and particularly in high streets and smaller stores, in absolute terms rates are probably a lower percentage of sales in most retailers. Overall underlying cost inflation in the states -- sorry, in the UK -- is somewhere I think in the 3% bracket.

---

**Unidentified Audience Member**

A second question really on e-commerce policy; interesting to understand a bit more why you have chosen particularly H.Samuel as your first move into that. And then following on from that when do you anticipate moving that certainly to the U.S. and the market potential there?

---

**Terry Burman - Signet Group - CEO**

Rob, do you want to address the issue about why H.Samuel?

---

**Rob Anderson - Signet Group - U.K. Jewelry Chief Executive Director**

The reason we chose H.Samuel first is that we already have a nontransactional website which is very successful. So that was the first reason. The second reason is that we know from exit surveys that a good percentage of our existing customers who go to the stores view the products on the Web before they go into the stores. But that was the main reason why we chose HS. We also believe in common with other multichannel retailers that we won't get product cannibalization, that it will bring, build customer loyalty, build customer confidence and would also benefit the sales in the stores.

---

**Terry Burman - Signet Group - CEO**

And in terms of e-commerce in the U.S., the decisions are based on as all of our decisions about our business, are based on the individual markets. So that we do it in the UK or we do it in the U.S. doesn't necessarily translate, although the process, the business processes and the skill set certainly are shared. Having said that, we've always said, as we said about the UK, and the U.S. that it is a matter of when we will enter the market. And that decision is made by us analyzing the total market and the potential market share that we can gain out of the e-commerce market and then versus the margins and the cost of operating the e-commerce site. And can very simply make some money doing that which is what we are paid to do. And what our share, and the thing that our shareholders expect of us.

There are fringe benefits. There are satellite benefits to operating an e-commerce site. You do get some marketing benefit, and there is some customer service benefit out of it. And we take that into consideration. So evaluating all of those things, it won't be -- the U.S. e-commerce total market is growing to a point that it won't be too long from now that we do enter the e-commerce, that we do enter e-commerce in the U.S. I don't want to put a specific time on it, but it is growing to a size. This approach has helped us avoid -- if you remember the late '90s everybody was trying to push us into e-commerce and most of the retailers out there have the scars and the losses and the write-offs to prove that they entered it too early. And even at the time at first we were pretty stupid for not entering, and then we became pretty smart for having not entered because we avoided the losses. Even at the time where views changed we said at that time that this is a growing format and it is one that we are going to enter when it's appropriate for the business to enter. That is a basis upon which we make the decisions. It is actually not that difficult of an equation if you just watch the market size, watch the jewelry market size within e-commerce and then figure out what your market share can be, it is pretty simple to figure out an economic model when it is the right time to enter and that is when we will enter.

---

**James Targett - Goldman Sachs - Analyst**

James Targett, Goldman Sachs. Just following on with my question first of all, I mean as cost and service is one of your stated competitive advantages, do you see it downward pressuring your online pricing in the UK versus your store pricing?

---

**Terry Burman - Signet Group - CEO**

Aug. 31. 2005 / 2:00PM, SIG - 2005/06 Interim Signet Group Earnings Conference Call

I'm sorry -- I didn't -- did you get that question?

---

**Unidentified Company Representative**

(inaudible)

---

**Terry Burman - Signet Group - CEO**

I will just speak generally, I don't think you have to go to the UK or the U.S. or any market. I think in general e-commerce has brought downward pressure on all segments of retail and many service industries. Certainly some that all of you would be affiliated with and in terms of trading costs. E-commerce is affecting the entire landscape of pricing. So sure, it's putting downward pressure on us like it is in every other retail format. That is one of the reasons that we continue to grow and why growth is essential within retail business, because as margins become under pressure, yes you have to have good sourcing practices, but you also need to grow your volume, increase your productivity to leverage your cost space to overcome margin pressures.

---

**James Targett - Goldman Sachs - Analyst**

Also in the U.S. you say your measured growth of space growth. Is that going to come mainly from the off-mall Kay format or could it be the Jared and the in-mall format as well?

---

**Terry Burman - Signet Group - CEO**

It will come -- the incremental lift, assuming it comes, will come disproportionately from off-mall stores and metro stores. But there will also be a lift in our mall store brands, both Kay and our regionals and our -- and Jared. But it won't be incrementally as great. So it will be across all formats. Any other questions?

---

**John Baillie - SG Securities - Analyst**

John Baillie from SG. Should we continue to see U.S. average selling prices rise by (inaudible) 12% plus figure going forward? When is it going to moderate?

---

**Terry Burman - Signet Group - CEO**

Should we see which raise by --?

---

**John Baillie - SG Securities - Analyst**

The U.S. average selling price is 12.6 in H 1 (ph).

---

**Terry Burman - Signet Group - CEO**

We will go where the customer directs us, really. We are constantly testing new merchandise ranges, and we see that the consumers are responding very well to our initiatives for larger diamonds and better quality diamonds, better quality watches in luxury watches in Jared. And a lot of that is responsible for -- oh, and our Leo Diamond, our proprietary Leo Diamond range which carries higher prices. So the consumers are going to quality, and we have the skill on the sales floor to be able to sell that quality with our well-trained staff. So as long as the consumers keep responding, we will keep pressing the envelope in terms of raising the prices. But it is done on a product by product basis. We said before we test before we invest. We do that with everything down to each individual SKU that we stock in the stores. So we will keep lifting average selling prices as long as the consumers keep responding.

Aug. 31. 2005 / 2:00PM, SIG - 2005/06 Interim Signet Group Earnings Conference Call

**John Baillie** – SG Securities - Analyst

Can you split that 12.6 down between like for like price, inflation and people trading up?

**Terry Burman** - *Signet Group* - CEO

To analyze that is a very complex thing to do, very hard and you get confusing results. I can tell you that we estimate that it is about 50-50.

Any other questions in the room? Okay, now for the exciting part of the program. We will see if we actually get a call from the U.S.

**Operator**

(OPERATOR INSTRUCTIONS) Allegra Piaggi with Lehman Brothers.

**Allegra Piaggi** - *Lehman Brothers* - Analyst

Good afternoon. I just wanted to see if you could share your thoughts on how you see the U.S. economy progressing in the second half? And perhaps more specifically whether you have seen any impact to foot fall and sales from the increase in gas prices.

**Terry Burman** - *Signet Group* - CEO

We don't comment after the second -- for any results that we've achieved after the second quarter, and we also don't get into predicting the economy. You know, I just repeat that which I said, which was that the -- we did say that the consumer environment to us appears stable at the current time.

**Operator**

James Pan, (ph) CPE Partners.

**James Pan** - *CPE Partners* - Analyst

Hi, gentlemen. I noticed that the working capital turns slowed a bit, your inventory turns slowed and your days sales outstanding seams have gone up. I was wondering at what level are you guys concerned about the increase in DSOs and at what level would you like to see the inventory turns in DSS?

**Walker Boyd** - *Signet Group* - Group Financial Director

I didn't quite catch the early part of your question but I assume you are talking about the impact on inventory. Two comments, I think. One I think if you look at the balance sheet on these outstanding against sales or whatever you have to remember the balance sheet this time is translated at a rate of 176 against an average which is in the P&L of 186. So you do have to watch there where as last year the two rates between average and period end were very similar. This year they are quite different, and therefore you do get something of a distortion. So one has to be careful there.

Having said that, I think for as long as we are increasing space and in the states as I said earlier, the major implication there is working capital investment particularly at inventory. And given the maturity of stores which in Jared's case is somewhere round about five years then increasing space does have a dilutive effect on our inventory turn. So I think in terms of our looking at inventory days and looking against creditors clearly we look at that. But we do recognize that one of the impacts of space expansion is a diluting impact on the turn on capital because although Jared stores are maturity, we have the same return on capital as mature mall stores. At the moment less than certainly less than 30% of our total Jared stores have reached maturity. So we are still going through that dilutive impact on return on capital.

Aug. 31. 2005 / 2:00PM, SIG - 2005/06 Interim Signet Group Earnings Conference Call

---

**James Pan - CPE Partners - Analyst**

How would the holdout activity in the United States affect the receivable part of your balance sheet, why has that gone up? I can understand you have to make the adjustment for the foreign exchange, but it has gone up close to 21% year-over-year. That is higher than your inventory ratios.

---

**Walker Boyd - Signet Group - Group Financial Director**

I think the performance of the receivable portfolio year-on-year is very similar. Certainly in terms of the monthly collection rate, the down payment rates are all very similar year-on-year. One thing that has happened in the first six months of this year that makes our receivables grow slightly faster is the participation of credit in the first half this year was about 1.3% higher than last year. And therefore that does say that receivables will be growing more profitable, will be growing faster than underlying U.S. sales because of that higher participation. That apart the performance of the receivable portfolio in terms of by debt, monthly collection rates, down payment are all very similar to last year.

---

**Operator**

Peter Testa, One Investments.

---

**Peter Testa - One Investments - Analyst**

Yes, a couple questions please. Firstly I was wondering if you could give us some sort of sense of how the improvement in the mix in the U.S. is impacting gross margin positively or negatively.

---

**Terry Burman - Signet Group - CEO**

How the change in mix is impacting gross margin?

---

**Peter Testa - One Investments - Analyst**

Yes, the (inaudible) driving selling price is (indiscernible) positive or negative for gross margin?

---

**Terry Burman - Signet Group - CEO**

Right, right. Well, there is two mix changes that are occurring in our product sales in the U.S. One is Jared is becoming a greater proportion of our sales, and that -- since Jared does achieve a lower margin than our mall stores, that is negatively impacting the divisions, U.S. divisions gross margin. The second mix change that is occurring is that in diamonds, actually as you go higher up the price scale, you get lower, you achieve lower margins, higher dollar profit but lower gross margins on that merchandise. So within our product mix and categories, as we said we are selling more higher priced and larger diamonds. And that is having a drag effect on gross margin. The initiatives that we've taken have offset the commodity cost increases but have not offset the mix changes in our, as far as gross margin goes. But we believe that those mix changes are being more than compensated for by the operating leverage that we're achieving from the increased sales because of the success of those products.

---

**Peter Testa - One Investments - Analyst**

I was wondering on the Kay off-mall stores whether you could give us any comparative payback periods, return on capital, however you want to qualify it, versus a Kay mall store or versus Jared.

---

**Rob Anderson - Signet Group - U.K. Jewelry Chief Executive Director**

Aug. 31. 2005 / 2:00PM, SIG - 2005/06 Interim Signet Group Earnings Conference Call

I think all of our stores, whether it be new stores or refits or re-sites are subject to the same internal rate of return criteria; we look for an IRR on a discounted cash-flow basis of 20% on a five-year timeframe. As Terry said, the business model for Kay off-mall requires a slightly lower investment upfront but then we would expect a maturity of slightly lower average sales per store. So based on our pro formas and the store that we've opened so far over the last two years are performing to these pro formas base our returns overall will be the same, although we will get there in a slightly different rate. Equally with Jared which clearly has a much higher investment book in terms of inventory and receivables are again subject to the 20% five-year discounted cash-flow IRR. And those stores that have now traded through five full years at 28 or at 93 at the end of January '05, (indiscernible) these pro forma returns.

---

**Peter Testa - One Investments - Analyst**

Okay, but would you -- not everything is going to hit a 20% return. Can you give any sort of sense as to whether this is higher experiment so far on the three years stores open for three years have been tracking better or worse than the average?

---

**Walker Boyd - Signet Group - Group Financial Director**

I think obviously in any tranche of stores that you open you will get some that outperform pro forma and you will get some that underperform pro forma. We have seen that in the Jared's developments over the years. As I said, if you take the 20 stores -- the 20 Kay off-mall stores that are trading so far, then overall they are hitting their pro formas which do call for on a five-year basis the same return on capital, the same IRR that we get from our mature mall stores. Clearly we have not reached five years in terms of these Kay off-malls to absolutely prove the return. But so far based on these 20 stores that have traded for somewhere between 12 and 24 months, then they are trading to these pro formas such that they will give us the same returns overall. Clearly within that batch of 20 stores that are either outperform, there are a few that underperform but that you would expect in any tranche of store.

---

**Peter Testa - One Investments - Analyst**

And last question I was wondering if you could give us any more feeling on your thoughts on trying to build a regional chain out of the non Kay, non mall stores? There was some talk of doing this as an acquisition to give you a base or other (inaudible).

---

**Terry Burman - Signet Group - CEO**

It would be helpful to have an acquisition as we said before, but we can build it internally. One of the initiatives that we're taking this year is we're going to test in a one or two local markets this fall a TV campaign that we've developed for our regional brands. And if that is successful, if we start getting the kind of lifts that we saw when we started developing the Kay TV campaign, then that would motivate us to consolidate our names under one brand, and also possibly to accelerate our regional store openings.

So I think a TV campaign will give us a lot of good information; we've got to figure out based on that how we want to go forward. The Kay Stores over the last five years have outperformed our regional brands by almost 4% a year in like for like sales on a compound annual growth -- on a five-year compound annual growth rate. That is a significant difference, and its growing as we continue to press the Kay TV advertising. So we've got enough information there that motivates us to try and get our regional brand consolidated and on national TV.

---

**Peter Testa - One Investments - Analyst**

Thank you very much.

---

**Operator**

(OPERATOR INSTRUCTIONS) It appears there are no further questions over the phone at this time. I like to turn the conference back over to you for any additional or closing remarks, sir.

---

**Terry Burman - Signet Group - CEO**

Last chance for any follow-up questions in the room. Okay. Thank you all very much for attending and thank you for all the questions.

#### DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2005, Thomson StreetEvents All Rights Reserved.