SIGNET GROUP PLC
Form 20-F
May 03, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

Registration statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended January 29, 2005

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _______ to _______.

Commission file number 0-16945

SIGNET GROUP plc

(Exact name of Registrant as specified in its charter)

ENGLAND
(Jurisdiction of incorporation or organization)

Zenith House
The Hyde
London NW9 6EW
England
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary Shares, nominal value £0.005 each	New York Stock Exchange*
American Depositary Shares, each representing 10 ordinary shares	New York Stock Exchange

* Not for trading, but only in connection with the registration of the ADSs pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares of 0.5 pence each 1,735,615,152

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

Explanatory Note

This document comprises the annual report on Form 20-F and the annual report to shareholders for the year ended 29 January 2005 of Signet Group plc (the “2004/05 Form 20-F”). Reference is made to the Cross Reference to Form 20-F table beginning on page 137 hereof (the “Cross Reference to Form 20-F Table”). Only (i) the information in this document that is referenced in the Cross Reference to Form 20-F Table, (ii) the cautionary statement concerning forward-looking statements on page 1 and (iii) the Exhibits, shall be deemed to be filed with the Securities and Exchange Commission for any purpose, including incorporation by reference into the Registration Statements on Form S-8 of Signet Group plc (No. 333-12304, 333-9634, 333-8764 and 033-42119), and any other documents, including documents filed by Signet Group plc pursuant to the Securities Act of 1933, as amended, which purport to incorporate by reference the 2004/05 Form 20-F. Any information herein which is not referenced in the Cross Reference to Form 20-F Table, or the Exhibits themselves, shall not be deemed to be so incorporated by reference.

2004/05
Group highlights

		Reported basis	At constant exchange rates(1)(2)
Like for like sales:		up 5.0%	
Sales:	£1,614.4m	up 0.6%(2)	up 7.8%
Operating profit:	£218.9m	up 4.1%(2)	up 11.3%
Profit before tax:	£210.3m	up 5.3%(2)	up 12.1%
Earnings per share(3):	8.2p	up 9.3%(2)	up 15.5%
Dividend per share:	3.0p	up 20.0%	
Return on capital employed(3)	26.5%	up from 25.9%(2)	
Gearing(3)	11.3%	down from 11.8%(2)	

(1) See page 29 for reconciliation to Generally Accepted Accounting Principles (GAAP) figures.
(2) 2000/01 to 2003/04 restated for the implementation in 2004/05 of the amendment to FRS 5, Application Note G Revenue Recognition .
(3) Earnings per share, return on capital employed and gearing are defined on page 130.
(4) 53 week year.

Annual Report & Accounts
Year ended 29 January 2005

Contents

Signet Group plc is an English public limited company, whose shares are listed on the London Stock Exchange (under the symbol SIG) and whose American Depositary Shares are listed on the New York Stock Exchange (under the symbol SIG).

This document comprises the Annual Report & Accounts of the Group in accordance with United Kingdom requirements.

In this Annual Report, 2000/01 , 2001/02 , 2002/03 , 2003/04 , 2004/05 and 2005/06 , refer to, as appropriate, the 52 weeks ended 27 January 2001, the 53 weeks ended 2 February 2002, the 52 weeks ended 1

This Annual Report contains translations of certain pound sterling amounts into US dollars at a rate of $1.89 = £1, which was the Noon Buying Rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) on 29 January 2005. These translations should not be construed as representations that the pound sterling amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated. On 6 April 2005 the Noon Buying Rate was $1.88 = £1.

Cautionary statement regarding forward-looking statements

The Company desires to take advantage of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995 with respect to the forward-looking statements about its financial performance and objectives in

	February 2003, the 52 weeks ended 31 January 2004, the 52 weeks ended 29 January 2005 and the 52 weeks ending 28 January 2006.		this Annual Report. Readers are referred to Risk and other factors on pages 35 to 40.	

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Chairman s statement

Group results

In the year to 29 January 2005 the Group further extended its growth record. On a reported basis profit before tax rose by 5.3% to £210.3 million (2003/04: £199.8 million restated, see note 17) reflecting an underlying increase of 12.1% at constant exchange rates. Like for like sales advanced by 5.0%. Total sales rose by 7.8% at constant exchange rates: reported sales were broadly unchanged at £1,614.4 million (2003/04: £1,604.9 million restated). The tax rate fell to 32.9% from 35.1%. Earnings per share were 8.2p (2003/04: 7.5p restated), up by 9.3% on a reported basis and 15.5% at constant exchange rates.

These results reflect the continuing successful implementation of the Group s strategies on both sides of the Atlantic. However the full extent of the Group s progress has not been reflected in the reported results due to further weakening of the average US dollar exchange rate from $1.68/£1 to $1.86/£1. This had a significant adverse impact on the translation of the US division s sales and operating profit into sterling, thereby affecting Group profit before tax by some £12 million. The results also included a restructuring charge in the UK of £1.7 million.

The US division had a very strong start to 2004/05 with an excellent performance during the Valentine s Day period. Although the retail environment became less predictable as the year progressed, the business had a strong fourth quarter with like for like sales up by 4.7%. For the year as a whole the division again out-performed its main competition and gained further market share. 2004 saw the Group s nationwide Kay chain become the largest speciality retail jewellery brand by sales in the US.

The UK division also had a particularly strong first quarter but faced a softening trend in the trading environment during the rest of the year. Annual like for like sales increased by 3.0%; a good performance in an increasingly difficult marketplace. The Christmas period proved to be particularly challenging and both H.Samuel and Ernest Jones did well to out-perform the general retail market.

The Group continued to utilise its cash flow and strong balance sheet to invest in the growth of the business. £159.1 million was invested in fixed and working capital during the year. There was an acceleration in new store space growth in the US and a major store refurbishment programme in the UK. Gearing (net debt to shareholders funds) at 29 January 2005 was 11.3% (31 January 2004: 11.8% restated).

Accounting standards developments

A period of significant and rapid change in accounting is currently taking place with UK Generally Accepted Accounting

Principles (GAAP) being replaced by International Financial Reporting Standards (IFRS), and both converging with US GAAP. The process this year has resulted in a restatement relating to the revenue recognition of extended service agreements in the US (see note 17, page 85) and the replacement in 2005/06 of UK GAAP by IFRS as explained in more detail in the Financial review (page 33).

Dividend

The Board is pleased to recommend a 21.5% increase in the final dividend to 2.625p per share (2003/04: 2.160p), the total for the year being 3.000p per share (2003/04: 2.501p). The dividend cover is 2.7 times (2003/04: 3.0 times restated). The Board will continue to review regularly its distribution policy taking into account earnings, cash flow, gearing and the needs of the business. See note 8 regarding dividends to US holders of ordinary shares and ADSs.

People

I would like to thank our staff and management for their invaluable contribution to the continued success of the Group.

Robert Walker joined the Board as a non-executive director in November 2004. I am confident that his broad experience of international business will enable him to make a significant contribution to the Group.

Rob Anderson, Chief Executive of Signet s UK division, joined the Board as an executive director in April 2005 and I am sure will make a valuable contribution at Group level.

I have also recently announced my intention to retire from the Board no later than at the Company s annual general meeting in June 2006.

Current trading

In the year to date Group like for like sales growth has been in low single digits after taking account of the change in the timing of Easter. This reflects a US like for like increase a little ahead of the fourth quarter last year partly offset by negative mid single digit like for like sales in the UK following a marked deterioration in the general trading environment. Both businesses were up against particularly strong prior year comparatives.

James McAdam

Chairman
6 April 2005

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Group Chief Executive s review

Introduction

Group operating profit rose to £218.9 million from £210.2 million (restated), an increase of 11.3% at constant exchange rates or 4.1% on a reported basis. The operating margin increased to 13.6% (2003/04: 13.1% restated), and the return on capital employed (ROCE) was 26.5% (2003/04: 25.9% restated).

The Group s medium term objectives are to set leading performance standards in its sector of the jewellery market on both sides of the Atlantic, to increase new store space in the US and store productivity in the UK, and to be broadly cash flow neutral after funding the needs of the business and dividend payments.

US division

In 2004/05 the business continued to build on its competitive strengths. It again out-performed its main competition and gained further market share. Operating profit rose by 17.1% at constant exchange rates and by 5.7% on a reported basis to £147.3 million (2003/04: £139.3 million restated). The five year annual compound growth was 12.2% at constant exchange rates.

Like for like sales rose by 5.9% and total dollar sales by 10.3%. The mall stores reported solid growth and Jared, the off-mall destination concept, performed particularly strongly. Over the last five years the US division s like for like sales have grown at an annual compound rate of 4.5% and total dollar sales by 11.0%. During the same period, the US division s share of the speciality jewellery market has increased from 5.1% to 7.2%.

New store space rose by 8% during 2004/05 further leveraging both central overhead costs and marketing expenditure. In the last five years new store selling space has increased by some 60%, with the number of Kay stores up by over a third to 742. Over the same period the number of Jared stores has more than tripled to 93.

Growth in new store space and further development of the division s competitive strengths in the critical areas of merchandising, store operations and marketing have contributed significantly to the out-performance of the business and remain key elements of future strategy. Given the continuing consolidation in the speciality jewellery sector, there should be opportunities to gain further market share both organically and, if appropriate, by acquisition. The US division is now targeting organic space growth of 7% - 9% in future years (previously 6% - 8%).

UK division

Against the background of an increasingly difficult trading environment UK operating profit advanced by 2.1% to £78.2 million (2003/04: £76.6 million), the compound five year annual growth rate being 15.8%. There was a restructuring charge of £1.7 million reflecting the relocation and consolidation of central administration functions to enhance efficiency that should generate future cost savings of about £0.6 million per annum. Like for like sales rose by 3.0%, the compound annual growth rate during the last five years being 6.3%. The business continues to be strongly cash generative and enjoyed a ROCE of over 40% in 2004/05.

The drive to increase diamond sales as a proportion of total sales showed further success and remains central to the future strategy of both H.Samuel and Ernest Jones. Diamonds now account for 28% of the division s product mix compared with 22% five years ago. The objective is to leverage both chains strong market positions by increasing average transaction values which have risen by 42% in H.Samuel and by 29% in Ernest Jones in the last five years.

Central to selling diamonds is the interaction between the customer and the salesperson. The roll-out of the new store format, which facilitates such interaction, was implemented as part of the store refurbishment cycle in 2004/05. The focus on customer service was also evident in the priority given to staff training. The significant changes taking place in the UK business are being supported by increased marketing expenditure. In implementing these initiatives the UK business is able to draw on the US division s best practices.

US (68% of Group sales)

Details of the US division s performance are set out below:

		Change		
			At constant	Like

	2004/05 £m	2003/04(1) £m	Reported %	exchange rates(2) %	for like change %
Sales	**1,100.0**	1,103.9	0.4	+10.3	+5.9
Operating profit	**147.3**	139.3	+5.7	+17.1	
Operating margin	**13.4%**	12.6%			
ROCE	**22.4%**	21.3%			

(1) Restated for amendment to FRS 5, Application Note G Revenue Recognition .

(2) See page 29 for reconciliation.

The operating margin improved on last year, reflecting leverage of like for like sales growth partly offset by the adverse impact of immature store space. Gross margin was maintained at last year s level, as a range of supply chain initiatives and pricing actions counter-balanced commodity cost increases. Commodity costs continue to rise and further initiatives are being implemented in

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Group Chief Executive s review (continued)

the current year to help again offset the impact. The bad debt charge was towards the bottom of the range of the last five years at 2.9% of total sales (2003/04: 2.8%). The proportion of sales through the in-house credit card was 50.1% (2003/04: 49.3%).

In the jewellery sector superior customer service and product knowledge are important competitive advantages readily identified by the consumer, and the division now has at least one certified diamontologist in every store. Also during 2004/05 all sales staff were coached using the Ultimate Diamond Presentation training course. Procedures for recruitment were strengthened and staff retention was also improved. The multi-year initiative to enhance store systems saw the introduction of improved repair and special order services.

In mall stores the upper end of the diamond selection was enhanced and the Leo Diamond range was successfully expanded. The gold category was reinvigorated by the development of fashion gold merchandise in conjunction with the World Gold Council. In Jared sales of loose diamonds, the Leo Diamond range, luxury watches such as Rolex, Tag Heuer and Raymond Weil all performed well. Cartier watches will be tested in certain Jared stores in 2005/06. Average unit selling prices in both the mall stores and Jared increased by some 10% reflecting not only consumer movement to higher value merchandise such as the Leo Diamond range, but also the changes in retail prices implemented during the year. The division s competitive advantage obtained by sourcing loose stones for about 55% of diamond merchandise proved to be particularly beneficial during a period of higher rough diamond costs.

Strong marketing programmes again contributed to the sales growth out-performance. Kay television advertising impressions were increased by 11% over the Christmas period and national radio advertising was successfully introduced. Some 90% of Jared stores benefited from television advertising compared with around 75% in the prior year. The annual gross marketing spend amounted to 6.6% of sales (2003/04: 6.5%) and dollar marketing expenditure has doubled over the last five years.

Kay, with a turnover of $1,155.5 million, became the number one speciality jewellery brand by sales during 2004/05 having consistently out-performed its major competitors. Over the last five years the number of Kay stores has increased by almost 200 to a total of 742 and average sales per store have grown to $1.584 million from $1.355 million. Brand name recognition has risen very significantly since the introduction of the Every kiss begins with Kay advertising campaign in 2000/01. It is planned to increase Kay s representation in malls by between 20 and 30 new stores in 2005/06. In addition to mall locations, stores under

the Kay brand are currently being opened in lifestyle and power strip centres. Ten such stores were opened in 2004/05 and a similar number are planned in 2005/06. In the current year it is anticipated that up to four stores will be trialled in metropolitan areas.

Currently 321 mall stores trade under strong regional brand names. Sales in the year were over $450 million, reflecting average sales per store of $1.533 million. The regional stores could provide the potential to develop a second mall brand of sufficient size to justify the cost of national television advertising. This would require about 550 stores which could be achieved in the medium term by a mixture of store openings and acquisitions. In 2005/06 it is planned that 20-30 new stores will be opened under the regional brand names.

Jared now has sales of just over $400 million and a portfolio of 93 stores, equivalent in space terms to about 400 mall stores. The Jared concept is the primary vehicle for US space growth and in 2004/05 a further 14 stores were opened. The chain is still relatively immature with some 70% of stores not yet having traded for five full years. Excluding the three prototype stores the 25 Jared stores that have reached maturity achieved, in aggregate, the target level of sales and store contribution (set at the time of investment) in their fifth year of trading. During 2005/06 it is intended to increase the number of Jared openings to 15 - 20 per annum, from the 12 - 15 per annum opened in the last six years.

The change in store numbers by chain is shown in the following table:

	Total	Kay	Regional	Jared
31 January 2004	**1,103**	717	307	79
Store openings	**68**	34	20	14
Store closures	**(15)**	(9)	(6)	

29 January 2005	**1,156**	742	321	93

In 2004/05 total fixed and working capital investment in the US business was $228.3 million (2003/04: $138.3 million) and new store space increased by a net 8% as planned.

Recent investment in the store portfolio is set out below:

Number of stores	**2004/05**	2003/04	2002/03	2001/02	2000/01
Store refurbishment and relocations	**76**	61	71	91	99
New mall stores	**44**	47	36	41	40
New off-mall Kay stores	**10**	10			
New Jared stores	**14**	12	12	12	15
Store fixed capital investment	**$53m**	$42m	$38m	$51m	$60m
Store total investment(1)	**$140m**	$98m	$92m	$96m	$107m

(1) Fixed and working capital investment in new space and refurbishments/relocations.

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In 2005/06 net new store space growth of 7% - 9% is planned reflecting the increased rate of Jared store openings, an acceleration in the expansion of stores under regional brand names, the continued growth of Kay stores and the closure of some 15 mall stores. Total US fixed capital expenditure is expected to be some $90-$100 million in 2005/06 (2004/05: $77.6 million), including the refurbishment or relocation of approximately 90 stores. Total store investment, including working capital, is planned to be some $155 million in 2005/06.

UK (32% of Group sales)

Details of the UK division s performance are set out below:

	2004/05 £m	2003/04 £m	Change %	Like for like change %
Sales				
H.Samuel	**285.5**	285.8	0.1	+1.9
Ernest Jones	**223.4**	209.4	+6.7	+4.5
Other	**5.5**	5.8		
Total	**514.4**	501.0	+2.7	+3.0
Operating profit	**78.2(1)**	76.6	+2.1	
Operating margin	**15.2%(1)**	15.3%		
ROCE	**44.7%**	47.1%		

(1) After charging a restructuring expense of £1.7 million.

The division s gross margin benefited from the effect of the lower dollar exchange rate on dollar denominated commodity costs. The operating margin at 15.2% was little changed after absorbing a restructuring charge of £1.7 million. Like for like sales were up by 1.9% in H.Samuel, while total sales were similar to last year due to nine net store closures and a significant increase in the number of temporary closures for refurbishment. H.Samuel s sales per store increased to £0.723 million (2003/04: £0.707 million). Ernest Jones had another strong performance with like for like sales up by 4.5%, total sales increasing by 6.7% and sales per store reaching £1.150 million (2003/04: £1.101 million).

Diamond jewellery assortments were enhanced during the year and continued to perform strongly, accounting for 20% of sales in H.Samuel and 38% in Ernest Jones. The Leo Diamond range was expanded in Ernest Jones and the Forever Diamond selection is now in all H.Samuel stores. White metal jewellery also proved popular. In H.Samuel the fashion watch range was increased whilst the gift and collectibles selection continued to be rationalised. The average selling price in H.Samuel was £37 (2003/04: £35) and in Ernest Jones £141 (2003/04: £139).

The focus on diamonds requires a higher level of customer service and greater product knowledge by the store staff. New training practices continued to be enhanced in 2004/05 involving a weekly programme of centrally prepared material, regular feedback from supervisors and emphasis on measurable

outcomes. Particular benefit from improved staff training was gained in the diamond category. During the year a new incentive scheme, which drew on the Group s US experience, was tested and will be expanded further in 2005/06.

Catalogues remain the main marketing tool, with design and distribution being strengthened during the period. The television advertising test was extended during Christmas 2004 with H.Samuel national coverage increasing to about 65% from around 40% in the prior year. Ernest Jones coverage was doubled to some 60%. It is planned to continue the trial in 2005/06. Ernest Jones successfully launched a customer relationship marketing programme during 2004/05. Over the last five years marketing expenditure has increased at an annual compound rate of 20% and represented 3.0% of sales in 2004/05 (2003/04: 2.5%).

In 2004/05 total fixed and working capital investment in the UK business was £36.3 million (2003/04: £27.5 million), a significant increase reflecting the roll-out of the new store format. At the year end, 142 stores, mostly H.Samuel, traded in the new format, accounting for about 30% of the UK division s sales over the Christmas period. There were seven Ernest Jones and two H.Samuel new store openings. 11 H.Samuel stores were closed. At the year end there were 602 stores (398 H.Samuel and 204 Ernest Jones).

Recent investment in the store portfolio is set out below:

Number of stores	**2004/05**	2003/04	2002/03	2001/02	2000/01
Store refurbishments and relocations	**81**	32	42	93	24
New H.Samuel stores	**2**		4	10	9
New Ernest Jones stores	**7**	5	8	9	3
Store fixed capital investment	**£23m**	£13m	£14m	£15m	£6m

A similar pattern of store investment is planned for 2005/06 with total capital expenditure expected to be some £30-£35 million in 2005/06 (2004/05: £28.8 million). This reflects the continued roll-out of the new store format with about 90 stores planned to be refurbished or relocated during 2005/06, again predominantly H.Samuel.

Terry Burman

Group Chief Executive
6 April 2005

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Five year financial summary

	2004/05	2004/05(1)	2003/04 as restated(2)	2002/03 as restated(2)	2001/02 as restated(2)(3)	2000/01 as restated(2)
	£m	**$m**	£m	£m	£m	£m
Sales	**1,614.4**	**3,051.2**	1,604.9	1,593.6	1,562.4	1,373.3
Operating profit	**218.9**	**413.7**	210.2	199.9	183.4	163.8
Net interest payable	**(8.6)**	**(16.3)**	(10.4)	(14.0)	(15.0)	(12.7)
Profit before tax	**210.3**	**397.4**	199.8	185.9	168.4	151.1
Taxation	**(69.1)**	**(130.5)**	(70.2)	(65.7)	(57.9)	(48.4)
Profit for the period	**141.2**	**266.9**	129.6	120.2	110.5	102.7
Earnings per share(4)	**8.2p**	**$0.15**	7.5p	7.0p	6.5p	6.1p
Dividend per share (£)	**3.000p**		2.501p	2.110p	1.789p	1.625p
Dividend per share ($)	**$0.0558**		$0.0420	$0.0323	$0.0258	$0.0242
Capital expenditure	**70.5**	**133.2**	50.9	49.5	59.8	56.2
Investment in fixed and working capital	**159.1**	**300.7**	97.7	105.0	113.2	137.2
Depreciation and amortisation	**42.3**	**79.9**	40.4	37.8	34.7	30.6
Net debt	**83.5**	**157.8**	79.9	140.1	201.7	229.1
Shareholders funds	**739.1**	**1,396.9**	674.9	627.6	634.4	544.5
Shares in issue (million)	**1,735.6**		1,726.2	1,713.8	1,706.0	1,685.7
Gearing(4)	**11.3%**		11.8%	22.3%	31.8%	42.1%
Return on capital employed(4)	**26.5%**		25.9%	25.0%	23.7%	25.8%
Store numbers (at end of period):						
US	**1,156**		1,103	1,050	1,025	999
UK	**602**		604	610	606	605
Percentage increase in like for like sales:						
US	**6%**		5%	5%	1%	6%
UK	**3%**		6%	5%	9%	9%
Average sales per store (£ 000s)(5):						
US	**976**		1,028	1,074	1,095	1,078
UK	**866**		824	747	735	665
Number of employees (full-time equivalents)	**15,145**		14,502	14,160	13,525	12,520

(1) Amounts in pounds sterling are translated into US dollars solely for the convenience of the reader, at a rate of £1.00 to $1.89, the Noon Buying Rate on 28 January 2005.
(2) Restated for the implementation in 2004/05 of the amendment to FRS 5, Application Note G Revenue Recognition . The adoption of the standard resulted in a prior year adjustment (see note 17 on page 85).
(3) 53 week year. The impact of the additional week on sales was £22.4 million, operating profit £4.0 million, net interest payable £0.4 million and profit before tax £3.6 million.
(4) Earnings per share, gearing and return on capital employed are defined on page 130.
(5) Including only stores operated for the full financial period.

The financial data included in the Five year financial summary above has been derived, in part, from the consolidated accounts for such periods included elsewhere in this Annual Report. The financial data should be read in conjunction with the accounts, including the notes thereto, and the Financial review included on pages 24 to 34.

Further selected financial data is shown on pages 127 and 128. The accounts of the Group have been prepared in accordance with UK GAAP, which differ in certain respects from US GAAP. See pages 103 to 114 for information on the material differences between UK GAAP and US GAAP that affect the Group s profit and shareholders funds.

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US operating review

Overview

Signet s US division is the second largest speciality retail jeweller in the United States with an approximate market share of 7.2% of the speciality jewellery market. Total US sales in the year to 29 January 2005 were $2,046 million (2003/04: $1,855 million restated). At the year end the division had 1,156 stores comprising 1,043 mall jewellery stores as well as 93 off-mall category killer destination superstores (equivalent in space terms to about 400 mall stores) and 20 stores being trialled in off-mall shopping centres. The division s mall stores target the middle market while the off-mall superstores target the upper middle market. Its mall stores trade nationwide as Kay Jewelers (Kay), and regionally under a number of well established and recognised names. Kay Jewelers is the largest speciality retail jewellery brand in the US by sales. The destination superstores trade as Jared The Galleria Of Jewelry (Jared), and are the nation s largest and fastest growing chain of off-mall category killer destination jewellery stores. A category killer store offers a wider selection of merchandise at highly competitive prices.

Over the longer term the division s aim is to gain further profitable market share through like for like sales growth, and by focusing on proven competitive strengths. It aims also to increase US new store space by about 7% 9% per annum, with Jared accounting for the majority of the planned space growth.

Competitive advantages

Management attributes the division s success in the US speciality retail jewellery market to a range of competitive advantages in store operations, real estate, merchandising and marketing. These advantages are reflected in the above average sales per store and operating profit margin. The principal competitive advantages are summarised below, and all are explained in greater detail on pages 9 to 15.

- Store operations and personnel

The sales associate s ability to communicate and explain the value and quality of the merchandise plays a significant part in a retail jewellery purchase. Therefore, the US division has developed specialised training for its retail personnel, and its size provides leverage of training resources and systems. The division now has at least one certified diamontologist in each of its stores.

- Real estate

Strict criteria are followed when evaluating real estate investment, and management believes that the quality of the store portfolio is superior to that of its competitors. The trading record and the strength of the Group balance sheet make Signet an attractive tenant.

- Merchandising

Management believes that in comparison to its competitors Signet has greater experience and capacity to direct source diamonds (i.e. to purchase loose polished diamonds from diamond cutters and supply them to contract manufacturers who produce finished merchandise). This sourcing strategy allows the Group to provide superior value and quality to the consumer. Diamond jewellery accounts for approximately 70% of total annual merchandise sales. The division s sophisticated merchandising systems test, track, forecast and respond to consumer preferences and provide competitive advantage by helping to ensure high in-stock positions of key merchandise assortments and faster moving items.

- Marketing

Kay is one of a very limited number of US speciality retail jewellery brands with a presence large enough to justify national television advertising, which is the most cost effective way to attract customers, enter new markets and increase brand recognition.

It is anticipated that Jared will have sufficient scale to use national television advertising for Christmas 2006.

Initiatives in 2004/05

Specific initiatives taken during 2004/05 to strengthen the Group s competitive position included:

Store operations and personnel

- strengthened field recruitment organisation
- enhanced diamond selling skills of store personnel
- developed systems for greater operational efficiency in special orders and repairs

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US operating review (continued)

Real estate

- increased number of Jared openings and testing of new locations
- expanded testing of Kay off-mall store format by opening ten additional stores

Merchandising

- improved supply chain efficiency and pricing changes
- further developed the diamond ranges, including expansion of the Leo Diamond, diamond right-hand rings and solitaire diamonds
- introduced new programmes to reinvigorate the gold category
- further expanded the Jared luxury watch range

Marketing

- further increased national TV advertising for Kay
- expansion of Jared TV advertising programme

Marketplace

Total US jewellery sales, including watches and fashion jewellery, are estimated by the US Department of Commerce to have been $57 billion in 2004 (2003: $54 billion) and are believed to account for about 50% of worldwide diamond jewellery sales according to Rapaport Research. In the US market diamond jewellery sales account for just over 50% of total jewellery sales. The US jewellery market has grown at a compound annual growth rate of 5.5% over the last 20 years. In the last ten years the growth in diamond jewellery sales has been more than twice that of the total jewellery market. In 2004 the total jewellery market grew by about 6.9%. Signet has an approximate 3.6% share of the total US jewellery market. Speciality retailers accounted for about 50% of the total jewellery market over the last ten years and the US division has an approximate 7.2% market share of the speciality sector.

Jewellery sector sales have, over the longer term, grown faster than retail sales (source: US Department of Commerce and US Census Bureau) and the rate of growth accelerates and slows in line with retail sales in general (see graph below). Management believes that a major contributor to the relationship with other retail categories is that the majority of jewellery sales are made in the middle mass market for bridal related or annual gift giving events. Retail jewellery sales have risen at a compound annual growth rate of 4.9% from 1997 to 2004 (see graph below), outperforming other comparable sectors in the more buoyant late 1990 s, and over the last four more challenging years performing in line with the general retail sector. Over the same period

Signet s total US dollar sales rose (excluding the acquisition of Marks & Morgan) at a compound annual growth rate of 11.6%.

Management believes that the longer term outlook for jewellery sales is encouraging given the growth in disposable incomes and the increasing number of women in the work force.

The US division competes on the basis of the quality of its personalised customer service, merchandise selection, availability, quality and value. Brand recognition, trust and store locations are also competitive advantages as is the ability to offer private label credit card programmes to customers. The US division holds no material patents, licenses, franchises or concessions but has a range of trading agreements with suppliers, the most important being in regard of the Leo Diamond. The established trademarks and trade names of the division are essential to maintaining its competitive position in the retail jewellery industry.

The US retail jewellery industry is very competitive and highly fragmented. The broader total US retail jewellery market includes formats such as department stores, discount outlets, television home shopping, internet shopping, other general merchandise stores, apparel stores and accessory stores. The largest jewellery

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retailer is believed to be Wal-Mart Stores, Inc., which includes a wide assortment of costume jewellery. Management believes that the business also competes with non-jewellery retailers for consumers discretionary spending.

The US division s largest speciality jewellery competitor is Zale Corporation, which has a speciality market share of about 7.5%. Competition is also encountered from a limited number of large regional retail jewellery chains, and smaller regional chains and independent retail jewellery stores (those operating fewer than 100 stores), which account for over 75% of the speciality market. In 2003 the Jewelers Board of Trade estimated that there were 24,888 speciality jewellery stores in the US, compared to 27,156 in 1998, a decrease of 2,268 stores. The number of stores operated by the five largest speciality jewellery retailers increased by about 900 over the same period and reflects the continuing consolidation taking place in the sector. Management believes that the five largest speciality jewellery retailers have increased their market share from about 15% to about 22% of speciality jewellery sales over the last five years. This trend provides significant opportunity for those businesses with competitive strengths in the sector, and it is believed that Signet is well positioned to gain further market share.

Store operations and personnel

A retail jewellery sale normally requires face-to-face interaction between the customer and the sales associate, during which the items being considered for purchase are removed from the display cases and presented one at a time while their respective qualities are explained to the customer. Consumer surveys indicate that a key factor in the retail purchase of jewellery is the customer s confidence in the sales associate.

Providing knowledgeable and responsive customer service is a priority, and is regarded by management as a key point of differentiation. It is believed that highly trained store sales staff with the necessary product knowledge to communicate the competitive value of the merchandise are critical to the success of the business. The US division s substantial training and incentive programmes for all levels of store staff are designed to play an important role in recruiting, educating and retaining qualified store staff. The preferred practice is to promote managers of all levels from within the organisation in order to maintain continuity and familiarity with the division s practice.

Retail sales personnel are encouraged to become certified diamontologists by graduating from a comprehensive diamond correspondence course provided by the Diamond Council of

America. Over 50% of full time sales staff who have completed their probationary period are certified diamontologists or are training to become certified. Employees often continue their professional development through completion of correspondence courses on gemstones. For Christmas 2004 there was at least one certified diamontologist in each store. In addition, during 2004/05, a major four-month training programme to improve the knowledge and selling skills of sales personnel called The Ultimate Diamond Presentation was implemented across all stores ahead of the important fourth quarter.

All store personnel are required to meet daily performance standards and commit to goals. After completion of basic training, sales staff are paid a commission based on their individual sales performance and on meeting monthly store sales targets. Sales contests and incentive programmes also reward the achievement of specific goals with travel or additional cash awards. In addition to sales based incentives, bonuses are paid to store managers and district managers based on the achievement of key performance objectives. In 2004/05 approximately 23% (2003/04: 23%) of store personnel remuneration was commission and incentive-based.

Each store is led by a store manager who is responsible for various store level operations including overall store sales and branch level variable costs; certain personnel matters such as recruitment and training; and customer service. Administrative matters, including purchasing, merchandising, payroll, preparation of training materials, credit operations and divisional operating procedures are consolidated at divisional level. This allows the store manager to focus on those tasks that can be best executed at the store level while enabling the business to benefit from economies of scale in administrative matters and to help ensure consistency of execution across all the stores.

Staff recruitment is primarily the responsibility of store and district managers. In 2004/05 the division began to develop a central recruitment facility that supplies field recruiters from the home office, and uses methods such as internet recruitment to provide stores with a larger number of better qualified candidates from which to select new staff.

Management believes that the retention and recruitment of highly qualified and well-trained staff in the US head office in Akron, Ohio is essential to supporting the stores. A comprehensive in-house curriculum supplements specific job training and emphasises the importance of the working partnership between stores and the head office.

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US operating review (continued)

US head office bonuses are mainly based on the performance of the division against predetermined annual profit targets. Promotion decisions for all non-management head office personnel are based on performance against service level and production goals; for managers they are based on annual objectives and performance against individual job requirements.

Real estate

The vast majority of Signet US stores are located in suburban areas. Kay and the regional chains are predominantly located in regional and super-regional enclosed malls, with approximately 50% of the stores being in prime centre court locations. The average mall store contains approximately 1,160 square feet of selling space and 1,460 square feet of total space. The design and appearance of stores is standardised within each chain.

Jared locations are typically free-standing sites in shopping complexes with high visibility and traffic flow, and positioned close to major roads. The retail centres in which Jared stores operate normally contain strong retail co-tenants, including other category killer destination stores such as Borders Books, Best Buy, Home Depot and Bed, Bath & Beyond.

Details of recent investment in the store portfolio are set out below:

Number of stores	**2004/05**	2003/04	2002/03
Store refurbishments and relocations	**76**	61	71
New mall stores	**44**	47	36
New off-mall stores			
Jared stores	**14**	12	12
Kay off-mall stores	**10**	10	
Store fixed capital investment	**$53m**	$42m	$38m
Store total investment(1)	**$140m**	$98m	$92m

(1) Fixed and working capital investment in new space and refurbishments/relocations.

Management believes that the US division s prime real estate portfolio, together with its regular investment in mall store refurbishments and relocations, are competitive advantages that help build store traffic. Superior like for like sales growth is normally achieved for a number of years following such investment. The typical benefits from mall store refurbishments, which normally occur on a ten year cycle, include an increase in linear footage of display cases positioned on the store frontage, improved lighting and better access to the store. When relocating a store to a better location in a mall, such as a centre court corner site from an in-line location, an increase in like for like sales is expected due to improved visibility to the customers, improved lighting and more display cases being positioned on the lease line between the store and the mall common areas.

Criteria for investment in mall real estate remain stringent. Signet seeks sites in superior malls, in particular units located on busy centre court locations.

In 2004/05 there was a net increase in the US division s new store selling space of approximately 8%, at the top end of the target range.

In 2005/06 it is planned to open approximately 15-20 Jared stores. 40-50 mall stores, up to ten additional off-mall Kay and up to four metropolitan stores will also be opened. Around 20 mall stores are planned for closure. The programme should result in a net increase in new store space of about 8% by the end of 2005/06.

Signet may consider selective purchases of mall stores that meet its acquisition criteria regarding location, quality of real estate, customer base and return on investment for both the Kay and regional brands.

Kay

The expansion of Kay as a nationwide chain is an important element of the US growth strategy. Kay, with 742 primarily mall stores in 50 states at 29 January 2005 (31 January 2004: 717 stores), is targeted at the middle income consumer. During 2004/05 Kay became the largest speciality retail jewellery brand in the US based on sales. It is believed that in the longer term there is potential to expand the Kay chain to some 1,400 stores, including off-mall locations.

The development of Kay stores in suburban off-mall shopping centres, such as lifestyle and power strip centres, commenced in 2003/04 with the opening of ten stores. A further ten were opened in 2004/05, and it is intended that ten will be opened in 2005/06. A lifestyle centre is an open air shopping centre where the retail mix is biased toward fashion and leisure stores and is also likely to have a large number of restaurants. A power strip centre is also an open air shopping centre but the retail mix is predominantly category killer superstores with some smaller speciality units. Kay stores in these suburban centres are expected to have a lower capital expenditure, lower rents and lower sales per store at maturity than that of the Kay chain average. In 2005/06 up to four Kay stores are planned to be opened in traditional metropolitan locations in cities such as Boston, Chicago, San Francisco and New York. Kay stores in large metropolitan locations are anticipated to have higher capital expenditure, higher rents and higher sales per store at maturity than those of the Kay chain average. Management believes that the expansion of Kay in these new locations

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The following table sets out information concerning the US stores operated by Signet during the period indicated:

	2004/05	2003/04	2002/03
Number of stores:			
Total opened during the year[(1)]	**68**	69	48
Kay[(2)]	**34**	49	22
Regional chains	**20**	8	14
Jared	**14**	12	12
Total closed during the year	**(15)**	(16)	(23)
Kay	**(9)**	(8)	(13)
Regional chains	**(6)**	(8)	(10)
Jared			
Total open at the end of the year	**1,156**	1,103	1,050
Kay[(2)]	**742**	717	676
Regional chains	**321**	307	307
Jared	**93**	79	67
Average retail price of merchandise sold	**$320**	$288	$267
Kay	**$282**	$257	$242
Regional chains	**$304**	$281	$265
Jared	**$644**	$586	$558
Average sales per store in thousands[(3)(4)]	**$1,816**	$1,727	$1,643
Kay	**$1,584**	$1,528	$1,470
Regional chains	**$1,533**	$1,532	$1,536
Jared	**$4,975**	$4,573	$4,277
Increase in net new store space	**8%**	7%	6%
Percentage increase in like for like sales	**5.9%**	4.6%	5.4%

(1) Figures for stores opened during the year are adjusted for the impact of conversions of format between Kay and regional chains.
(2) Includes test of Kay stores in off-mall shopping centres.
(3) Based upon stores operated for the full financial year.
(4) Restated for the implementation of the amendment to FRS 5, Application Note G Revenue Recognition .

presents a potential opportunity to reach new customers currently not served, and gain further leverage from its marketing expenditure and the US division s central overhead.

Regional chains

Signet also operates US mall stores under a variety of established regional trade names (see Description of property, page 23). The leading brands include JB Robinson Jewelers, Marks & Morgan Jewelers and Belden Jewelers. At 29 January 2005 321 regional stores operated in 31 states (31 January 2004: 307 stores).

In recent years, new regional chain stores have been opened if real estate satisfying the investment criteria becomes available in their respective trading areas or in adjacent areas where marketing support can be cost effective. Areas in which the scale to support cost-effective marketing can be built over a reasonable time span are now also considered for store openings. This is part of a strategy to potentially develop a second mall-based brand of sufficient size to take advantage of national television advertising. This strategy may also include the acquisition of small or large regional chains of speciality jewellery stores that meet the Group s strict operational and financial criteria.

Jared

Jared is the leading off-mall destination speciality retail jewellery chain in its sector of the market. Its main competitors are independent operators, with the next largest chain having about 25 stores. If Jared was a stand-alone operation it would be the sixth largest US speciality jewellery retail brand by sales.

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US operating review (continued)

The following map shows the number and locations of Kay, Regional and Jared stores at 29 January 2005.

Jared targets an under-served sector at the upper end of the middle market. The customer profile is of a more mature, higher income customer than that of Signet s US mall storesAn important advantage of a destination store is that the potential customer visits the store with the intention of making a jewellery purchase, whereas in a mall there is a greater possibility of the intended spend being diverted to non-jewellery purchases. The typical Jared store has about 4,700 square feet of selling space and 5,900 square feet of total space. Its size permits significantly expanded product ranges and enhanced customer services, including in-store repair and custom design facilities.

A private viewing room is available for customers when required. There are also complimentary refreshments and a children s play area.

There were 93 Jared stores at 29 January 2005 (31 January 2004: 79 stores). The average retail price of merchandise sold in Jared stores during 2004/05 was $644 (2003/04: $586), which was more than double that of a Signet US mall store.

In the first five years of trading a Jared store is projected to have a faster rate of like for like sales growth than that of a mall store

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during the same period. At the end of this period the projected operating margin is expected to have risen to around that of the mall store at maturity, with a greater return on capital employed. Excluding the three prototype stores the average sales of the 25 Jared stores that have reached maturity is $5.6 million in their fifth full year. At 29 January 2005 some 70% of the Jared stores had been open for less than five years. The average sales per Jared store opened for the whole of the 2004/05 financial year were $4,975,000 (2003/04: $4,573,000) and reflects the immaturity of Jared.

Since the first Jared store opened in 1993, the concept has been continually evaluated, developed and refined. Management believes that in addition to the competitive advantages possessed by the division as a whole, Jared also benefits from leveraging the division s established infrastructure, access to a pool of experienced store management, and availability of capital required to develop and grow the brand.

Management believes that the Jared concept has considerable growth potential and over 100 suitable markets have been identified, with many of these markets able to support multiple locations. Accordingly, in the longer term, the chain has the potential to expand nationwide to over 225 stores, generating annual sales of over $1 billion based on the current performance of existing Jared stores. Some Jared stores are being opened to test new real estate selection criteria that may increase the potential number of sites suitable for a Jared store. These include opening Jared stores nearer to each other in established markets with above-average population density (such as Atlanta, Georgia); entering smaller markets where national television advertising would make marketing support cost-effective (such as Tulsa, Oklahoma); and locating stores attached to the exterior of covered malls (such as Des Moines, Iowa).

Merchandising and purchasing

It is believed that selection, availability and value for money of merchandise are all factors that are critical to success. In the US business the range of merchandise offered and the high level of stock availability are supported centrally by extensive and continuous research and testing. Best-selling products are identified and their rapid replenishment ensured through analysis of sales by stock keeping unit. This approach enables the division to deliver a focused assortment of merchandise to maximise sales, minimise the need for discounting and accelerate inventory turn. The US division is able to offer superior value and consistency of merchandise due to its industry leading direct sourcing capability.

Sophisticated inventory management systems for merchandise testing, assortment planning, allocation and replenishment have been developed and implemented. Approximately two-thirds of the merchandise is common to all US division mall stores, with the remainder allocated to reflect demand in particular markets. It is believed that the merchandising and inventory management systems, as well as improvements in the productivity of the centralised distribution centre, have allowed the division to achieve inventory turns comparable to those of most of its quoted competitors although it has a less mature store base and undertakes more direct sourcing of merchandise.

Programmes have been developed in conjunction with certain vendors for the provision of branded jewellery merchandise. For example, the Leo Diamond range is sold exclusively by Signet in the US and the UK. Management believes that the US division s merchandising process, market share and relationship with suppliers position the business as an ideal partner to launch branding initiatives.

Other merchandising initiatives offer a distinctive product selection. For example, a major continuing initiative is being undertaken to increase the number of Jared stores that stock premium watch brands, including Rolex, Tag Heuer and Omega. Cartier will be introduced in 2005/06. Another example is the promotion of right-hand rings , diamond fashion rings intended to be worn on the right-hand rather than as bridal jewellery, which is traditionally worn on the left-hand ring finger. De Beers marketed this product in its nationwide print and television advertising throughout 2004/05.

In 2004/05 the bridal category accounted for over 40% of merchandise sold and continued its steady growth of the past five years.

The table below sets out Signet s US merchandise sales mix as a percentage of sales:

Merchandise mix

Merchandise mix	Percentage of sales

	2004/05	2003/04	2002/03
	%	**%**	**%**
Diamonds and diamond jewellery	**70**	70	69
Gold jewellery	**7**	8	8
Gemstone jewellery	**10**	10	10
Watches	**7**	6	6
Repairs	**6**	6	7

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US operating review (continued)

It is believed that the US division has a competitive cost and quality advantage as approximately 55% of its diamond merchandise sold is sourced through contract manufacturing; Signet purchases loose polished diamonds on the world market and outsources the casting, assembly and finishing operations to third parties. By using this approach the cost of merchandise is reduced and this cost advantage is largely used to provide superior quality to the consumer which helps to increase market share. Contract manufacturing is generally utilised on basic items with proven non-volatile historical sales patterns that represent lower risk of over or under purchasing. This purchasing strategy also allows the buyers to gain a detailed understanding of the manufacturing cost structure and improves the prospects of negotiating better pricing for the supply of finished products.

Merchandise is purchased complete as a finished product where the manufacturer s price is more competitive than using direct sourcing, or the complexity of the product is great or the merchandise is considered likely to have a less predictable sales pattern. This strategy provides the opportunity to reserve stock held by vendors and to make supplier returns or exchanges, thereby reducing the risk of over or under purchasing.

Merchandise held on consignment is used to enhance product selection and test new designs. This minimises exposure to changes in fashion trends and obsolescence and provides the flexibility to return non-performing merchandise. At 29 January 2005 the US division held approximately $158 million (31 January 2004: $144 million) of merchandise on consignment (see note 12 on page 83).

In 2004/05 the five largest suppliers collectively accounted for approximately 25% (2003/04: 26%) of the total US division s purchases, with the largest supplier accounting for approximately 12% (2003/04: 10%).

Marketing and advertising

Store brand name recognition by consumers is believed to be an important factor in jewellery retailing, as the products themselves are predominantly unbranded. Signet continues to strengthen and promote its US brands and build store brand name recognition through an integrated marketing campaign. The marketing channels used include television, radio, print, catalogues, direct mail, telephone marketing, customer relationship marketing, point of sale signage, in-store displays and the internet. Gross advertising and marketing expenditure was increased by 13.0% to $135.5 million in 2004/05 (2003/04: $119.9 million), primarily to support total mall sales growth and the continued expansion of the Jared concept. Gross expenditure as a

percentage of sales was 6.6% (2003/04: 6.5%) reflecting the increasing proportion of sales from Jared which has a higher percentage of sales spent on marketing than the mall stores. This ratio was little changed in the mall and Jared stores.

Advertising activities are concentrated on periods when customers are expected to be most receptive to the marketing message. During the 2004 Christmas trading period the number of Kay television impressions increased by 11%. The proportion of television advertising expenditure to sales continues to grow, and the cost of network television advertising is leveraged as the number of stores increases. The romance and appreciation based theme of its advertising programme continues to utilise the tag line Every kiss begins with Kay , which has improved name recognition of the chain. In addition advertising in USA Today was again utilised. National radio advertising was used for the first time in 2004/05.

Seasonal promotion campaigns for the regional chains use local radio advertising as the primary medium to support and enhance name recognition. Direct mail and telephone marketing are also used to encourage repeat purchases by current customers. The regional brands marketing support is a similar proportion of sales as for Kay.

Jared advertising on local radio takes place for most of the year and is complemented by advertising on regional television in nearly all markets. Management believes that when the Jared chain reaches the critical mass to justify national television advertising, which is considered to be the most efficient and cost-effective form of marketing, brand name recognition will be enhanced nationwide, thus providing increased marketing leverage and improved access to prime store real estate sites in large, high cost advertising markets. This is expected to occur in 2006/07. Jared has a higher advertising to sales ratio than the division s mall stores because it is a destination store and is still at an early stage of development. The objective in Jared advertising is to build name recognition and visit intent through an emphasis on selection and service.

In 2004/05 the US division produced 12 mall store catalogues that featured a wide selection of merchandise and were prominently displayed in stores and are also mailed directly to targeted customers. Statistical and technology based systems are employed to support a direct marketing programme that uses a proprietary database of over 22 million names to strengthen the relationship with customers. The programme targets current customers with special savings and merchandise offers during the

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key trading periods. In addition, invitations to special promotional in-store events are extended throughout the year. Special catalogues featuring ranges such as luxury watches are produced for Jared.

There are informational web sites for Kay, JB Robinson and Jared that display a selection of merchandise assortments, provide store locations, and allow for on-line customer registration and credit application. The division continues to research and monitor the development and execution of e-commerce as a channel for distribution in conjunction with the marketing and advertising programmes. When it is anticipated that there is sufficient customer demand to financially justify the necessary investment, an e-commerce facility will be added to each web site.

Credit operations

Management regards the provision of an in-house credit programme as a competitive advantage for a number of reasons. It allows management to establish and implement customer service standards appropriate for the business, and also provides a database of regular customers and their spending patterns. Investment in systems and management of credit offerings appropriate for the business can also be facilitated in a more cost-efficient manner than if managed by a third party provider. Furthermore it is believed that the various credit programmes help to establish long-term relationships with customers and complement the marketing strategy by encouraging additional purchases and higher unit sales.

The table below presents data related to the in-house credit business for the past three financial years. Since credit authorisation and collection systems were centralised in 1994 the credit offer and performance have been relatively consistent over the economic cycle. The average outstanding balance at the year end was $792 (2003/04: $729).

The credit portfolio turns approximately every seven months and the monthly collection rate in 2004/05 was 14.8%. The bad debt charge for the year, at 5.7% of credit sales, was near the bottom

end of the range over the last eight years. In-house credit sales represented 50.1% of total US sales in 2004/05 (2003/04: 49.3%). A number of programmes offer interest-free financing, subject to certain conditions. In most states customers are offered optional third party credit insurance.

Authorisation and collections are all performed centrally at the US headquarters on an automated basis, rather than by store staff. The majority of credit applications can be processed and approved in less than two minutes; they can be made via in-store terminals, through a toll-free phone number or on-line through the marketing web sites. All applications are evaluated by the scoring of credit data and data obtained through third party credit bureaux. In 2004/05 collection information systems were enhanced, and collection productivity was improved through work flow automation. During the year the ability to test alternative authorisation strategies was expanded and new applicant scorecards were updated. In addition to the in-house credit card, the US stores accept major credit cards. Third-party credit card sales are treated as cash sales and accounted for approximately 36% of total US sales during the year.

Investment in staff, training and systems to maintain or improve the quality of the credit portfolio continued throughout 2004/05. A new customised, collection system using the latest available technology began to be implemented in 2004/05, replacing a system that was initially installed when credit operations were centralised. It is planned that the new system will be fully implemented during 2005/06.

The new system will provide management with increased flexibility to implement and/or modify collection strategies, and a more user-friendly platform. Collection strategies and efforts continued to include increased emphasis on risk-based calling and first call resolution. In authorisations, new applicant scorecards were updated to provide improved separation in evaluating high and low-risk applicants.

	2004/05	2003/04	2002/03
Credit sales ($m)	**1,035.8**	924.3	859.6
Credit sales as % of total sales	**50.1%**	49.3%	49.5%
Number of active credit accounts at year end	**838,916**	807,272	798,761

Average outstanding account balance ($)	**792**	729	688
Average monthly collection rates	**14.8%**	14.8%	14.5%
Bad debt as % of total sales	**2.9%**	2.8%	3.0%(1)
Bad debt as % of credit sales	**5.7%**	5.7%	6.0%(1)

(1) Before a $2.2 million benefit from the better than anticipated performance of the residue of the acquired Marks & Morgan receivables portfolio.

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US operating review (continued)

Management tools and communications

The US division s highly integrated and comprehensive information systems provide detailed, timely information to monitor and evaluate virtually every aspect of the business and are designed to decrease the time sales staff spend on administrative tasks and increase time spent on sales activities. They also support merchandise testing, loss prevention and inventory control.

All stores are supported by the internally developed Store Information System, which includes electronic point of sale (EPOS) processing, in-house credit authorisation and support, a district manager information system and a satellite-based communications system that supports data transmissions and company-wide e-mail. The EPOS system updates sales, in-house credit and perpetual inventory replenishment systems from data captured throughout the day for each store.

In order to allow staff more time for selling and customer service, further steps in the World Class Store Systems initiatives were taken. These have resulted in improvements in special orders and repair services procedures.

Regulation

While there are many regulations within which Signet US operates, the speciality jewellery sector is generally a lightly regulated business. Signet US is required to comply with numerous US federal and state laws and regulations covering areas such as consumer protection, consumer privacy, consumer credit, consumer credit insurance, truth in advertising and employment legislation. Management endeavours to monitor changes in these laws to ensure that its practices comply with applicable requirements.

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UK operating review

Overview

Signet is the largest speciality retailer of fine jewellery in the UK, with 602 stores and a total market share of approximately 17%. It trades as H.Samuel (17.6% of Group sales), targeting the middle market, and Ernest Jones (13.8% of Group sales), positioned at the upper end of the middle market. Total sales during 2004/05 were £514.4 million (2003/04: £501.0 million).

At 29 January 2005 there were 398 H.Samuel stores and 204 Ernest Jones stores (including 16 Leslie Davis stores). Approximately 48% of these are located in prime High Streets (main shopping streets with high pedestrian traffic) and 52% are in covered or enclosed shopping malls. High Street stores accounted for 40% of total UK division sales and shopping mall stores for 60%. H.Samuel is the largest chain of speciality retail jewellers in the UK and its stores are located in virtually every medium and large retail centre. Ernest Jones, the second largest speciality retail jewellery chain, is represented in most large retail centres.

The UK strategy is to increase the average transaction value by focusing on fast growing product categories, particularly diamond jewellery, thereby improving store productivity and achieving operational leverage. To achieve this the division has a series of initiatives in the key areas of retail execution that are designed to grow the sales of diamonds.

Competitive advantages

Signet has a range of advantages in store operations and personnel, real estate, merchandising, marketing and access to US expertise compared to competitors within the UK speciality jewellery retail market. The principal competitive advantages are summarised below and explained in greater detail on pages 18 to 21.

- Store operations and personnel

The division s scale enables it to develop and invest in training procedures tailored to its own requirements. This is particularly important, as the sale of diamond jewellery requires increased standards of product knowledge and customer service from sales associates. The division also enjoys economies of scale in recruitment and store administration.

- Real estate

Strict criteria are followed when evaluating real estate investment, and management believes that the quality of its store portfolio is superior to that of many of its competitors. The strength of the Group s balance sheet and the division s trading record makes it an attractive tenant. The well tested revised store format, which is more suited to selling diamonds, enables the division to take better advantage of one of the fastest growing major categories within the UK jewellery market.

- Merchandising

Management believes that the division s leading position in the UK jewellery sector is a commercial advantage when sourcing merchandise and enables delivery of better value to the customer. An example of this is its capacity to contract with jewellery manufacturers to assemble products, utilising directly sourced gold and loose polished diamonds. In addition the division has the scale to utilise sophisticated merchandising systems to test, track, forecast and respond to consumer preferences.

- Marketing

The UK division has strong and well established brands and leverages them with advertising (both print and television), catalogues and the development of customer relationship marketing techniques. Few of its competitors have sufficient scale to utilise these marketing methods successfully.

- Access to US expertise

The UK business also benefits from its close relationship with Signet s US operations. Synergies are gained by sharing knowledge in merchandising, marketing, operations, systems and best practice procedures. None of the UK division s competitors has similar access to a leading operator in the world s largest jewellery market.

Initiatives in 2004/05

Specific initiatives taken to strengthen the division s competitive position included:

Store operations and personnel

- enhanced recruitment processes

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UK operating review (continued)

- increased by over 10% the proportion of store managers and assistant store managers with externally accredited jewellers qualifications
- tested new sales commission system

Real estate
- rolled-out revised store design to an additional 90 stores
- opened three retail park locations

Merchandising
- increased the size, quality and range of settings of diamond jewellery
- further widened the Leo Diamond range in Ernest Jones
- expanded the Forever Diamond range from 120 stores to all H.Samuel stores

Marketing
- expanded the television advertising for H.Samuel and Ernest Jones
- introduced customer relationship marketing by Ernest Jones
- continued the development of catalogue design and distribution

Marketplace

Although reliable figures on the size of the UK jewellery market are difficult to obtain, management estimates that in calendar year 2004 the size of the total UK market for fine jewellery, costume jewellery and watches was approximately £3.6 billion ($6.7 billion) (including VAT of 17.5%). The market includes speciality retail jewellers and non-speciality jewellery retailers such as mail order catalogues, catalogue showrooms and jewellery departments in department stores. In the UK the value of diamond sales are estimated by De Beers to have increased by a compound annual rate of 7.1% over the last 5 years (2004 growth is a management estimate).

The UK retail jewellery market is very fragmented and competitive, with a substantial number of independent speciality jewellery retailers. Management believes there are approximately 7,000 speciality retail jewellery stores in the UK.

In the middle market H.Samuel competes with a large number of independent jewellers, the only competitor of significant size being F Hinds (108 stores). Competition at the lower end of the H.Samuel product range also comes from catalogue showroom outlets such as Argos and discount jewellery retailers such as Warren James (119 stores).

In the upper middle market Ernest Jones competition is from independent speciality retailers and a limited number of other upper middle market jewellery groups such as Goldsmiths Group

(169 stores); Beaverbrooks (57 stores); and MW Group (33 stores).

Based on surveys, management believes that customers are attracted to H.Samuel because they have confidence in the brand and its staff is perceived to be friendly, helpful and knowledgeable. Ernest Jones is perceived to offer high quality merchandise and premium service from a professional and knowledgeable staff.

Store operations and personnel

Management regards customer service as an essential element in the success of its business. During 2003/04 the Signet Jewellery Academy, a multi-year training programme and framework for measuring standards of capability, was introduced for all store staff. As part of this programme just over two-thirds of all store managers and assistant store managers have now passed the National Association of Goldsmiths accredited Jewellery Education & Training Level 1 qualification. Upon completion of each of the five levels of the Academy, the staff member normally takes on increasing responsibilities. Training programmes have contributed to the improvement in the quality, performance and retention of UK staff.

The new recruitment procedures continue to improve the suitability of new store personnel helping to ensure that they meet key basic requirements and are motivated to work within the jewellery store environment. Field and human resources management are responsible for the recruitment, performance review, training and development of sales staff, thereby ensuring consistency in operating standards and procedures throughout the business. All new store personnel must complete a selling skills learning programme during their probationary period and thereafter undertake additional training in selling, product knowledge and customer care.

All store personnel have daily performance targets. They are given training and weekly feedback on their performance from store and field management to help them achieve these targets.

In conjunction with the Signet Jewellery Academy, training for all tiers of store operations management was developed further last year to support the initiative to improve customer service. In 2004/05 the number of training courses completed nearly doubled. The preferred policy is to promote store managers from within the business; approximately 70% of store management appointed in 2004/05 were promoted from within the organisation. At any given time each chain has a number of sales staff who are qualified to advance to store management level, thus assuring the availability of newly trained managers familiar with operating standards and procedures.

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In order to increase staff selling time and to improve efficiency, operating procedures are routinely reviewed to identify opportunities to enhance customer service and reduce in-store administrative tasks. The Signet intranet, introduced in all stores in 2003, provides a computer-based platform for improved communication between stores and head office, with sales floor and back office administrative functions being simplified and standardised through this medium.

Various incentive schemes are operated to motivate and reward performance in the stores including bonuses based on key performance targets. In 2004/05 a commission-based remuneration test was carried out designed to increase the proportion of performance-related payments over time. The level of commission paid is dependent on the sales achieved by the individual and the overall sales of the store. During 2005/06 this commission system will be introduced more widely across the division.

Management also believes that successful recruitment, training and retention of head office staff is essential. Comprehensive recruitment, training and incentive programmes for head office staff are in place in the Colindale and Birmingham offices. Programmes to provide employees with structured development plans, training and career paths have been implemented. Internal career advancement is encouraged and is supported by a succession planning process. Teamwork and service to the stores are encouraged through a performance bonus plan for head office staff, which is based on the division s results.

Opportunities for improving employment practices were identified through a Staff Opinion Survey . It is believed that the results provide a basis for further improvement in the motivation and retention of staff.

Real estate

In 2001/02 a revised store design better suited to the sale of diamonds and fine jewellery was developed as part of the programme to increase sales and store productivity by focusing on the fast growing diamond category. The design allows greater interaction between sales associates and customers and better presentation of merchandise. The design was tested during 2002/03 and 2003/04 and a roll-out programme commenced in 2004/05.

The performance of the new format has continued to be encouraging. The increase in sales from the additional investment meets the well established Group investment criteria. The reformatted stores achieved a rise in both diamond sales and average retail price. An additional 90 stores, primarily H.Samuel, were trading in the new format at 29 January 2005, bringing the

total to 142, accounting for about 30% of the UK division s sales. A multi-year rollout plan for the new format is being implemented as part of the normal refurbishment cycle; it is planned to refurbish or relocate 80 to 90 stores in 2005/06, the majority again being H.Samuel.

The new format features open frontages which are intended to make the store more accessible and inviting to the customer, as well as improved presentation of the merchandise. The design draws on the Group s mall store experience in the US, and for mall locations include display cases on the frontage with the concourse, rather than the traditional window presentation. The High Street stores have wide floor-to-ceiling windows that provide views directly into the store.

Much of the merchandise is presented in low level display units that also serve as service counters and allow the sales associate to present an assortment of merchandise to the customer without having to break away to select additional merchandise from the window displays, as in the traditionally designed store.

Details of recent investment in the store portfolio are set out below:

Number of stores	**2004/05**	2003/04	2002/03
Store refurbishments and relocations	**81**	32	42
New H.Samuel stores	**2**		4
New Ernest Jones stores	**7**	5	8
Store fixed capital investment	**£23m**	£13m	£14m

H.Samuel

H.Samuel, accounting for 17.6% of Group sales in 2004/05 (2003/04: 17.8%), offers a range of jewellery, gold, watches and gifts (see page 20, Merchandise mix). At 29 January 2005 average selling space was 1,113 square feet per store.

H.Samuel store data

	2004/05	2003/04	2002/03
Number of stores:			
Opened during year	**2**		4
Closed during year	**(11)**	(11)	(8)
Open at end of year	**398**	407	418
Percentage increase in like for like sales	**1.9%**	3.5%	2.6%
Average retail price of items sold[1]	**£37**	£35	£33
Average sales per store in thousands (exc. VAT)[2]	**£723**	£707	£677

(1) Excluding accessories, repairs and warranties.

(2) Including only stores operated for the full financial year.

The average retail price of items sold has increased at a compound annual growth rate of 7.3% over the last five years. This upward trend is expected to continue as the sales mix of diamonds is anticipated to rise and that of gifts to decline as a percentage of sales. Average sales per store have increased at a compound annual growth rate of 4.7% over the same period.

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UK operating review (continued)

Ernest Jones (including Leslie Davis)

Ernest Jones sales accounted for 13.8% of Group sales in 2004/05 (2003/04: 13.0%). Where local market size and the availability of suitable watch agencies permit, the Ernest Jones chain follows a two-site strategy, using the trade names Ernest Jones and Leslie Davis.

The principal product categories are diamonds, branded watches and gold jewellery, which are all merchandised and marketed to appeal to the more affluent upper middle market customer (see Merchandise mix table). Ernest Jones retails an extensive range of diamond and gold jewellery as well as prestige watches such as Cartier, Omega, Rado, Raymond Weil, Rolex, and Tag Heuer. It also sells contemporary fashion watches such as Calvin Klein, DKNY, Emporio Armani, Gucci, Hugo Boss and a range of traditional watches including Rotary, Seiko and Tissot.

At 29 January 2005 the chain had average selling space of 852 square feet per store. The average retail price of items sold has increased at a compound annual growth rate of 5.3% over the last five years. Over the same period average sales per store increased at an annual compound growth rate of 10.4% and were the most productive mall stores in the Group. Management considers that there is potential to increase the number of Ernest Jones stores to approximately 225 as suitable sites and watch agencies become available.

Ernest Jones store data(1)

	2004/05	2003/04	2002/03
Number of stores:			
Opened during year	**7**	5	8
Closed during year			
Open at end of year	**204**	197	192
Percentage increase in like for like sales	**4.5%**	8.4%	9.4%
Average retail price of items sold(2)	**£141**	£139	£130
Average sales per store in thousands (exc. VAT)(3)	**£1,150**	£1,101	£1,030

(1) Including Leslie Davis stores.
(2) Excluding accessories, repairs and warranties.
(3) Including only stores operated for the full financial year.

Merchandising and purchasing

The division retails an extensive range of merchandise including gold and silver jewellery, watches, diamond and gemstone set jewellery and gifts. As with other UK speciality retail jewellers, most gold jewellery sold is 9 carat. However, sales of 18 carat gold jewellery, particularly white gold, have been increasing.

The merchandise mix of the UK division is given below. In 2004/05 diamond jewellery sales accounted for 28% of total Signet UK sales versus 20% five years ago. In line with the strategy of the UK division to increase the percentage of diamonds in the merchandise sales mix, the compound annual growth rate of

Signet UK diamond sales was 13.9% over the period, nearly double that of the UK diamond market.

Merchandise mix

	Percentage of sales		
	2004/05	2003/04	2002/03
Gold and silver jewellery			

H.Samuel	**37**	37	36
Ernest Jones	**27**	26	26
Signet UK	**32**	33	32
Watches			
H.Samuel	**23**	23	24
Ernest Jones	**29**	31	32
Signet UK	**26**	26	27
Diamond jewellery			
H.Samuel	**20**	19	18
Ernest Jones	**38**	36	35
Signet UK	**28**	26	25
Gifts			
H.Samuel	**13**	14	14
Ernest Jones	**2**	3	3
Signet UK	**8**	9	10
Repairs and accessories			
H.Samuel	**7**	7	8
Ernest Jones	**4**	4	4
Signet UK	**6**	6	6

Merchandise is purchased from a range of suppliers and manufacturers. In 2004/05 the five largest of these all watch suppliers together accounted for approximately 21% of total UK division purchases, with the largest accounting for approximately 6%. Only a small percentage of merchandise is purchased on consignment (see note 12 on page 83).

Economies of scale continued to be achieved by combining the volume of purchases for H.Samuel and Ernest Jones. Some 23% of the UK business gold jewellery is manufactured on a contract basis in Italy through a buying office in Vicenza, Italy, thereby eliminating the costs associated with intermediaries.

Signet UK also employs contract manufacturers for approximately 31% of the diamond merchandise sold, thereby achieving cost savings. Both H.Samuel and Ernest Jones employ experienced buyers who concentrate on product development, sourcing and supplier management appropriate to their particular needs. Overseas direct sourcing capability in most product areas has been increased. Such purchases have grown by 175% in value since 1999/00, and now account for 30% of the merchandise mix.

Merchandising teams work in conjunction with the buyers and focus on assortment planning, branch grading, repeat orders, inventory levels and margin management. Product category reviews are regularly carried out with a focus on increasing potential gross margin return on investment. Rigorous test marketing procedures are used to trial products, and their

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subsequent distribution is made strictly against rates of sale. The merchandise ranges have been rationalised, with greater focus on key items, and a wider choice in the most popular categories is offered whilst peripheral merchandising is reduced.

The size and quality of diamond jewellery available to customers was enhanced during the year, with a greater proportion of precious white metals. Branded diamonds exclusive to Signet have been developed in recent years, an example of which is the Leo Diamond available in all Ernest Jones stores with an increased range offered in 2004/05. The Forever Diamonds range is now sold in all H.Samuel stores; it was available in 50 stores in 2002/03 and 120 in 2003/04. Both the Leo Diamond and the Forever Diamond have unique cuts that provide greater sparkle and brilliance than an ordinarily cut diamond of similar size, colour and clarity. The Leo Diamond utilises a higher quality diamond and therefore retails at a higher price than the Forever Diamond.

Each store is assigned a range of merchandise that reflects local buying patterns. Display equipment and layouts are constantly reviewed and updated, and new display formats that draw upon the US division s experience have been implemented.

Marketing and advertising

Gross expenditure on marketing and advertising amounted to 3.0% of sales in 2004/05 (2003/04: 2.5% and 2002/03: 2.2%), reflecting the increased trialling of television advertising. Marketing campaigns have been tailored to reinforce and develop further the distinct brand identities of H.Samuel as a middle market jewellery chain and Ernest Jones as a more upmarket diamond and watch specialist. Both campaigns aim to expand the overall customer base and improve customer loyalty.

The primary marketing and advertising medium employed in 2004/05 consisted of a series of catalogues for each brand, distributed as inserts in newspapers and magazines and available in all stores. The quality of catalogues was improved and their distribution was better targeted.

The trial of television advertising was further expanded for both chains during Christmas 2004. It was the second year of a large-scale test and took place in regions representing about 65% of the H.Samuel store base and 60% of the Ernest Jones store base. It is planned to continue the development of television advertising in 2005/06.

Public relations initiatives resulted in greater coverage by national and consumer lifestyle media titles. Targeted marketing was increased to publicise special promotional events in the run-

up to Valentine s Day and Christmas. During 2004/05 customer relationship marketing was successfully trialled for Ernest Jones and will be developed further in 2005/06.

During 2004/05 the content and interactivity of the UK marketing web sites (www.hsamuel.co.uk, www.ernestjones.co.uk and www.lesliedavis.co.uk) continued to be developed. The sites have again seen a substantial increase in visitor traffic. The division continues to monitor the development and execution of e-commerce as a distribution channel and to investigate the economic feasibility of introducing an e-commerce capability to the division s web sites. There is an increasing use of e-commerce by consumers in the UK. When it is anticipated that there is sufficient customer demand to financially justify the necessary investment, an e-commerce facility will be added to each web site as appropriate.

Insurance loss replacement business

Management believes that Signet is the leading UK jewellery retailer in the insurance loss replacement business, which involves the settlement of insurance claims by product replacement through jewellery stores rather than by cash settlements from the insurance company. This allows the division to benefit from the resulting higher customer traffic in the stores and the opportunity to create and build relationships with new customers. Given its nationwide store portfolio, breadth of product range and ability to invest in systems to support the business, the division is well positioned to benefit from insurance companies settling claims in this manner.

Credit operations

Whilst the division does not have an in-house credit operation, it does accept major credit cards. Credit card sales are treated as cash transactions and accounted for approximately 31% of sales during 2004/05 (2003/04: 31%). During the period approximately

3% (2003/04: 3%) of sales in the UK were made pursuant to interest-free programmes available for purchases above a particular price. The receivables for the interest-free programmes are sold at a discount on a limited recourse basis and administered by an unaffiliated company.

Management tools and communications

EPOS equipment, retail management systems, purchase order management systems and merchandise planning processes are in place to support financial management, inventory planning and control, purchasing, merchandising, replenishment and distribution and can ensure replacement within 24 hours of any merchandise sold. These systems have been upgraded to enable the implementation of chip and pin technology to reduce credit

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UK operating review (continued)

and debit card fraud. The first phase of an electronic Business To Business communications project, developed to improve the efficiency and effectiveness of dealing with suppliers, was implemented.

A perpetual inventory process allows store managers to check stock by product category. These systems are designed to assist control of shrinkage, fraud prevention, financial analysis of retail operations, merchandising and inventory control.

New systems have been introduced to enhance control over cash banking to support financial management. Major computer hardware upgrades have taken place to improve resilience and capacity, particularly during the peak Christmas season.

The administration centre at Colindale in North London is the head office for UK store operations and houses the division s senior management, financial planning, marketing, and buying and merchandising functions. The facilities for payroll, human resources, information technology, certain finance functions, distribution and customer services, as well as the insurance replacement business and call centre, are located in Birmingham.

During 2004/05 various central administrative functions were relocated from Colindale and consolidated in Birmingham to enhance efficiency and should result in future cost savings.

Regulation

While there are many regulations within which the UK division operates it is generally a lightly regulated business. Various laws and regulations affect Signet s UK operations. These cover areas such as consumer protection, consumer credit, data protection, health and safety, waste disposal, employment legislation and planning and development standards. Management monitors changes in these laws with a view to ensuring that its practices comply with legal requirements.

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Description of property & Group employees

Signet attributes great importance to the location and appearance of its stores. Accordingly, in both Signet s US and UK operations, investment decisions on selecting sites and refurbishing stores are made centrally, and strict real estate criteria are applied.

The Group has sufficient distribution capacity to meet its current requirements and plans to increase capacity in 2005/06 to support future sales growth.

US

Substantially all of Signet s US stores are leased. In addition to a minimum annual rental, a significant number of stores will also pay turnover related rent based on sales above a specified base level. Under the terms of the typical lease, the US business is required to conform and maintain its usage to agreed standards, including meeting required advertising expenditure as a percentage of sales, and is responsible for its proportionate share of expenses associated with common area maintenance, utilities and taxes of the mall. The initial term of a mall store lease is generally ten years. At 29 January 2005 the average unexpired lease term of US leased premises was six years and some 47.6% of leases had terms expiring within five years. The Jared stores are normally on 20 year leases with options to extend the lease and their rents are not turnover related.

The US division leases 17% of its store locations from Simon Property Group and 15% from General Growth Management, Inc. Otherwise, the division has no relationship with any lessor relating to 10% or more of its store locations.

During the past five financial years the US business has been generally successful in renewing its store leases as they expire and has not experienced difficulty in securing suitable locations for its stores. It is not believed that any of the store leases are individually material to the Group s US operations.

A 340,000 square foot head office facility is leased in Akron, Ohio. In addition a 19,000 square foot repair centre is being established in Akron. This facility is leased and is expected to open in 2005/06. The relocation of the US division central repair facility from the head office premises will enable the further expansion of the distribution capacity during 2005/06.

UK

At 29 January 2005 Signet UK held seven freehold premises, five premises where the lease had a remaining term in excess of 25 years and 590 other leasehold premises. As is typically the case in retailing in the UK, the division s stores are leased for terms of up to 25 years, generally under full repairing and insuring leases (equivalent to triple net leases in the US). Wherever possible Signet is shortening the length of new leases

that it enters into in order to improve the flexibility of its lease commitments. Rents are usually subject to upward review every five years if market conditions so warrant. An increasing proportion of rents are related to sales of the store, subject to a minimum annual value. At the end of the lease period, subject to certain limited exceptions, leaseholders generally have statutory rights to enter into a new lease of the premises on negotiated terms. At 29 January 2005 the average unexpired lease term of Signet s leased premises in the UK was 12 years. As current leases expire, Signet believes that it will be able to renew leases, if desired, for present store locations or to obtain leases in equivalent or improved locations in the same general areas. Signet has not experienced difficulty in securing leases for suitable locations for its UK stores. It is not believed that any of the store leases are individually material to the Group s UK operations.

Signet owns a 255,000 square foot warehouse and distribution centre in Birmingham. Following the relocation and consolidation of certain of the UK division s central administration functions to Birmingham to enhance efficiency, a contract to sell the 120,000 square foot administration centre at Colindale in North London has been entered into and is expected to be completed in August 2005.

Trademarks and trade names

Signet is not dependent on any material patents or licenses in either the US or the UK; however, it does have several well established trademarks and trade names which are significant in maintaining its reputation and competitive position in the jewellery retailing industry in both the US and the UK. These registered trademarks and trade names include the following in Signet s US operations: Kay Jewelers; Jared The Galleria Of Jewelry; JB Robinson Jewelers; Marks & Morgan Jewelers; Belden Jewelers;

Weisfield Jewelers; Osterman Jewelers; Shaw s Jewelers; Rogers Jewelers; LeRoy s Jewelers; Goodman Jewelers; Friedlander s Jewelers; Every kiss begins with Kay; and Perfect Partner. Trademarks and trade names include the following in Signet s UK operations: H.Samuel; Ernest Jones; Leslie Davis; and Forever Diamonds.

Group employees

In 2004/05 the average number of full-time equivalent persons employed (including directors) was 15,145 (UK: 4,477; US: 10,668). The Company usually employs a limited number of temporary employees during each Christmas season.

None of Signet s employees in the UK and less than 1% of Signet s employees in the US are covered by collective bargaining agreements. Signet considers its relationship with its employees to be excellent.

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Financial review

for the 52 weeks ended 29 January 2005

	2004/05 £m	%	2003/04(1) £m	%	2002/03(1) £m	%
Sales						
US	**1,100.0**	**68.1**	1,103.9	68.8	1,120.0	70.3
UK	**514.4**	**31.9**	501.0	31.2	473.6	29.7
Total	**1,614.4**	**100.0**	1,604.9	100.0	1,593.6	100.0
Operating profit:						
US	**147.3**	**70.0**	139.3	69.7	141.2	76.0
UK	**78.2**	**37.2**	76.6	38.3	64.7	34.8
Group central costs	**(6.6)**	**(3.1)**	(5.7)	(2.9)	(6.0)	(3.2)
	218.9	**104.1**	210.2	105.1	199.9	107.6
Net interest payable	**(8.6)**	**(4.1)**	(10.4)	(5.1)	(14.0)	(7.6)
Profit before tax	**210.3**	**100.0**	199.8	100.0	185.9	100.0

(1) Restated for the implementation in 2004/05 of the amendment to FRS 5, Application Note G Revenue Recognition .

Introduction

The key drivers of operating profitability are the:

- rate of sales growth,
- balance between like for like sales growth and sales from new store space,
- achieved gross margin,
- level of cost increases experienced by the Group,
- level of net bad debt charge relating to the in-house credit card in the US, and
- movements in the US dollar to pound sterling exchange rate, since the majority of the Group s profits are generated in the US and the Group reports in pounds sterling.

The gross margin percentage in retail jewellery is above the average for speciality retailers reflecting the slow inventory turn. The trend in gross margin depends on Signet s pricing policy and movements in the cost of merchandise sold and the direct cost of providing services such as repairs. The cost of goods sold that is used to arrive at gross profit takes into account all costs incurred in the purchase, processing and distribution of the merchandise and all costs directly incurred in the operation and support of the retail outlets. The classification of distribution and selling costs under UK GAAP varies from company to company and therefore the gross profit percentage may not be comparable from one company to another.

In general, gross margin on gold jewellery is above the Group s average, while that of diamond jewellery is broadly in line with the Group s average. The gross margin on watches and gift products is normally below that of diamond jewellery. Within the diamond jewellery category the gross margin varies depending

on the proportion of the merchandise cost accounted for by the value of the diamonds, and the greater the proportion, the lower the gross margin. In addition, the gross margin in a Jared store is slightly below that of a mall store, although at maturity the store contribution percentage of a Jared store is similar to that of a mall store. A change in merchandise mix will therefore impact the Group s UK and US division s gross margin and a change in the proportion of sales from Jared will impact the gross margin of both the US division and Group.

To maintain the operating profit margin the Group needs to achieve like for like sales growth sufficient to offset any adverse movement in gross margin, the increase in operating costs and the impact of immature selling space. There are not any known trends or uncertainties in future rent or amortisation expenses that could materially affect operating results or cash flows. Like for like sales growth above the level required to offset the factors outlined above, allows the Group to achieve leverage of its fixed cost base and improve operating margin; slower sales growth results in reduced operating margin.

Signet s longer term strategy of 7% 9% new store space growth in the US, with minimal net new space in the UK, means lower like for like sales growth is required in the UK than in the US to maintain operating margin.

The impact on operating profits of sales variances (either adverse or favourable) is less in the US division than the UK, as certain expense items are more related to sales volumes in the US.

A key factor in driving operating margin is the level of average sales per store, with higher productivity allowing leverage of expenses both in store and in central functions.

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Movements in the US dollar to pound sterling exchange rate impact the reported results of the Group as the US division s results are translated into pounds sterling. The Board believes it is inappropriate to hedge this exposure as the US division s sales and costs are dollar denominated and the cash flow from the US division is largely reinvested in the US space expansion or used to pay down US dollar denominated borrowings. The Group therefore would be putting in place a cash exposure to hedge a translation risk.

52 weeks ended 29 January 2005

Total Group sales rose to £1,614.4 million (2003/04: £1,604.9 million restated), up by 0.6% on a reported basis and 7.8% at constant exchange rates. Group like for like sales were up by 5.0% and new space contributed 2.7% (see table below).

Group operating margin increased to 13.6% (2003/04: 13.1% restated), with leverage from like for like sales growth more than offsetting the impact of immature space growth with gross margin little changed. The growth in total sales and the increased operating margin resulted in Group operating profit advancing to £218.9 million (2003/04: £210.2 million restated), up by 4.1% on a reported basis and 11.3% at constant exchange rates.

Net interest payable and similar charges decreased to £8.6 million (2003/04: £10.4 million). The reduction was principally due to exchange translation and an increase in net interest credit on the UK defined benefits pension scheme.

Group profit before tax increased to £210.3 million (2003/04: £199.8 million restated), up by 5.3% on a reported basis and 12.1% at constant exchange rates. After a tax charge of 32.9% (2003/04: 35.1% restated) profit for the financial period rose by 9.0% to £141.2 million (2003/04: £129.6 million restated), an increase of 16.0% at constant exchange rates. It is anticipated that the tax charge for 2005/06 will be approximately 34.0%. Earnings per share was 8.2p (2003/04: 7.5p restated), up by 9.3% on a reported basis and 15.5% at constant exchange rates.

Sales

2004/05 sales growth	US %	UK %	Group %
Like for like	5.9	3.0	5.0
New store space	4.4	(0.3)	2.7
Exchange translation	(10.7)		(7.2)
Total sales growth	(0.4)	2.7	0.5

US

Like for like sales for the US division increased by 5.9% and total US dollar sales by 10.3%. The US division had a very strong start to 2004/05 with an excellent performance during the Valentine s Day period. Although the retail environment became less predictable as the year progressed the business had a strong fourth quarter with like for like sales up by 4.7%. The contribution from new store space and the impact of exchange rate movements is shown in the table above.

UK

In the UK the rate of growth in retail sales slowed as the year progressed. This was reflected by the performance of the UK division with like for like sales growth slowing from 6.7% in the first quarter to 1.4% in the fourth quarter. For the year as a whole like for like sales increased by 3.0% and total sales by 2.7%.

Operating profit

Operating margin movement	US %	UK %	Group %
2003/04 margin	12.6(1)	15.3	13.1(1)

Gross margin		0.6	0.2
Expenses	1.2	(0.4)	0.7
New store space	(0.4)		(0.3)
Restructuring charge		(0.3)	(0.1)
2004/05 margin	**13.4**	**15.2**	**13.6**

(1) Restated for the implementation in 2004/05 of the amendment to FRS 5, Application Note G Revenue Recognition .

US

The operating margin in the US division increased to 13.4% (2003/04: 12.6% restated), with the leverage from like for like sales growth more than offsetting the impact of immature store space (see table above). The ratio of net bad debt to sales was little changed at 2.9%. Operating profit was £147.3 million (2003/04: £139.3 million restated), up by 5.7% on a reported basis and 17.1% at constant exchange rates.

UK

The division s gross margin benefited from lower sterling commodity costs. The operating margin at 15.2% was little changed after absorbing a restructuring expense of £1.7 million and higher advertising, depreciation and training costs. These increases reflect the execution of the UK growth strategy and may be repeated in future years. Operating profit grew by 2.1% to £78.2 million (2003/04: £76.6 million).

Group costs

Group central costs amounted to £6.6 million (2003/04: £5.7 million), the increase primarily reflecting costs associated with new corporate governance practices and a net property provision of £0.4 million (2003/04: £nil). In 2005/06 a further increase in Group costs is anticipated.

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Financial review (continued)

Prior year adjustment

The accounting policy in respect of extended service agreements in the US was changed following an amendment to FRS 5 Reporting the Substance of Transactions in the form of Application Note G Revenue Recognition . The Group now spreads the revenue arising, net of incremental costs arising, from the initial sale, in proportion to anticipated claims arising. Previously the Group recognised the revenue from such plans at the date of sale with provision being made for the estimated cost of future claims arising.

As a result of this change the Group has restated prior years. Therefore the previously reported 2003/04 results now reflect a decrease in sales of £12.3 million and a reduction in profit before tax of £12.1 million. The difference of £0.2 million represents the movement in the incremental cost provision applied under the previous accounting policy. Consequently, restated profit before tax for the 52 weeks ended 31 January 2004 is £199.8 million. The effect on brought forward reserves at 31 January 2004 is a reduction of £52.7 million net of deferred tax, with shareholders funds at 31 January 2004 therefore restated to £674.9 million. The adjustment does not affect cash flows from operations.

Return on capital employed

The Group s ROCE was 26.5% (2003/04: 25.9% restated). In the US the ROCE was 22.4% (2003/04: 21.3% restated) reflecting the impact of an increased proportion of immature space largely from new Jared stores partially offsetting the improved operating profit. In the UK there was a slight decrease to 44.7% (2003/04: 47.1%) reflecting the roll-out of the revised store format and increased investment in diamond jewellery inventory. US capital employed included in-house credit card debtors of £319.0 million at 29 January 2005 (2003/04: £292.6 million at 31 January 2004).

Depreciation and capital expenditure

Depreciation charges were £41.3 million (2003/04: £39.3 million): £23.9 million (2003/04: £23.6 million) in the US and £17.4 million (2003/04: £15.7 million) in the UK. Capital expenditure in the US was £41.7 million (2003/04: £33.1 million) and in the UK was £28.8 million (2003/04: £17.8 million). The additional capital expenditure in the US is primarily due to the increase in the rate of new store space growth. The increase in the depreciation charge and capital expenditure in the UK reflected the roll-out of the revised store format.

Dividends

In November 2004 an interim dividend of 0.375p per share was paid (2003/04: 0.341p). The Board is recommending to shareholders a final dividend of 2.625p (2003/04: 2.160p) per

share for 2004/05, which, subject to shareholder approval, is to be paid on 8 July 2005 to those shareholders on the register of members at close of business on 10 June 2005. Future distribution policy will continue to take account of earnings, cash flow, gearing and the needs of the business.

Liquidity and capital resources

It is the objective of the Group to be broadly cash flow neutral annually, subject to timing differences and dividend payments, after implementing its 7% 9% new store space growth strategy in the US together with the continuing programme of store refurbishments and relocations on both sides of the Atlantic. Factors which could affect this objective would be if a business was acquired or the Group s distribution policy to shareholders changed.

The cash flow performance of the Group depends on a number of factors such as the:

- operating performance of the business,
- rate of space expansion, which influences both fixed and working capital investment,
- level of store refurbishment and relocations,
- level of inventory investment, and
- proportion of sales made on the in-house credit card and the average monthly collection rate of the credit balances.

Investment in new space requires significant investment in working capital, as well as fixed capital investment, due to the slow inventory turn, and the additional investment required to fund sales in the US utilising the in-house credit card.

In years when the rate of new store space expansion in the US is towards the lower end of the planned 7% 9% range, or the level of store refurbishment and relocation is below normal, the Group will have reduced levels of investment in fixed and working capital. In 2004/05 a faster rate of new store space growth in the US and an increased level of refurbishment in the UK, together with increased dividend payments and the purchase of shares to satisfy the exercise of share options, meant that cash flow was broadly neutral.

The Group s working capital requirements fluctuate during the year as a result of the seasonal nature of its business. As inventory is purchased for the Christmas season there is a working capital outflow which reaches its highest levels in the late autumn. This position then reverses over the key selling period of November and December. The working capital needs of the business are then relatively stable from January to August. The timing of the payment of the final dividend, normally in July, is also material.

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The Board considers that the capital resources currently available are sufficient for both its present and near term requirements. The primary borrowing facilities are a $251 million securitisation against the US customer receivables which amortises between December 2005 and October 2006 and a $390 million unsecured multi-currency revolving credit facility which expires in September 2009. Further details of these and other facilities are given below.

In 2004/05 cash generated from operating activities amounted to £172.6 million (2003/04: £203.8 million), reflecting the funding of working capital investment. It is anticipated that in 2005/06 there will be a further increase in working capital due to planned store openings. Net financing costs of £9.8 million (2003/04: £11.0 million) and tax of £56.5 million (2003/04: £69.0 million) were paid. Cash flow before investing activities was £106.3 million (2003/04: £123.8 million).

Group capital expenditure was £70.5 million (2003/04: £50.9 million, £47.7 million at constant exchange rates). The level of capital expenditure was some 1.7 times the depreciation charge. Capital expenditure in 2005/06 is expected to be between £80 million and £90 million, most of which will be store related. Equity dividends of £43.8 million (2003/04: £36.7 million) were paid.

Net debt

Net debt at 29 January 2005 was £83.5 million (31 January 2004: £79.9 million, £73.9 million at constant exchange rates). Group gearing (net debt to shareholders funds) at the year end was 11.3% (31 January 2004: 11.8% restated). Under UK GAAP, bank loans and overdrafts at 29 January 2005 include a $251.0 million borrowing secured against the Group s US customer receivables (31 January 2004: $251.0 million). Excluding this $251.0 million facility net cash was £49.3 million (31 January 2004: net cash £58.0 million).

The Company funds part of its private label credit card receivables programme through a privately placed receivables securitisation. Under this securitisation, interests in the US receivables portfolio, held by a trust were sold principally to institutional investors in the form of fixed-rate Class A, Class B and Class C investor certificates. The aggregate outstanding principal amount of the certificates totalled $251.0 million at 29 January 2005 and 6 April 2005. The certificates have a weighted average interest rate of 5.42% and interest is paid monthly in arrears from the finance charges collections generated by the receivables portfolio. The revolving period of the securitisation ends in December 2005, with a final expected principal payment date in November 2006.

In April 2004 the Group terminated its $70 million Conduit securitisation facility as it was no longer required.

On 28 September 2004 Signet entered into a $390 million unsecured multi-currency five year revolving credit facility agreement (the Facility Agreement). This replaced the $410 million facility that was due to expire in August 2006. The terms of the new facility are broadly similar to those of the facility being replaced, but with a reduction in loan margin pricing. Under the Facility Agreement, a syndicate of banks made facilities available to the Group in the form of multi-currency cash advances and sterling acceptance credits on, inter alia, the following terms:

- the Facility Agreement bears a maximum margin of 0.55% above LIBOR, though the margin may be lower dependent upon the performance of the Group. Since the commencement of the facility the margin has been 0.40% above LIBOR; and
- the Facility Agreement is guaranteed by the Group s principal holding and operating subsidiaries.

The continued availability of the Facility Agreement is conditional upon the Group achieving certain financial performance criteria (see note 16 on page 84). It also has certain provisions which are customary for this type of agreement, including standard negative pledge and pari passu clauses. At 29 January 2005 and 6 April 2005 the amount outstanding under the Facility Agreement was $nil.

In July 1998 the Group entered into a $60 million unsecured seven year senior note issue (Loan Note), bearing a 7.25% fixed coupon. The Loan Note is also guaranteed by the Group s principal holding and operating subsidiaries. The continued availability of the Loan Note is conditional upon the Group achieving certain financial performance criteria (see note 16 on page 84). The Loan Note also has certain provisions which are customary to this type of agreement, including standard negative pledge and pari passu clauses. At 29 January 2005 and 6 April 2005 the amount outstanding under the Loan Note was $15 million (31 January 2004: $30 million). It is anticipated that the outstanding balance of the Loan Note will be repaid in July 2005.

The principal financial covenants on each of these facilities are set out in note 16 on page 84.

It is the policy of the Group to enter into interest rate protection agreements in respect of at least 75% of its forecast US dollar borrowings. At 29 January 2005 the interest rate of forecast US dollar borrowings for 2005/06 was capped effectively at 5.5%.

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Financial review (continued)

Pensions

An actuarial valuation of the UK defined benefit pension scheme the (Group Scheme) was carried out at 5 April 2003. The market value of the Group Scheme s assets at that date was £82.2 million, a deficit of £6.7 million on the Group Scheme s accrued liabilities. As a result of the valuation the Group has recommenced contributions to the Group Scheme which in 2004/05 amounted to £3.7 million (2003/04: £1.2 million). It is anticipated that the Group s contribution in 2005/06 will be some £3.8 million. The Group adopted FRS 17 Retirement Benefits in 2003/04 and the FRS 17 valuation at 29 January 2005 showed a deficit in the Group Scheme of £1.9 million (gross of deferred tax).

Contingent property liabilities

Approximately 145 UK property leases had been assigned by the Group up to 29 January 2005 (and remained unexpired and occupied by assignees at that date) and approximately 35

additional properties were sub-let at that date. Should the assignees or sub-tenants fail to fulfil any obligations in respect of those leases or any other leases which have at any other time been assigned or sub-let, the Group or one of its UK subsidiaries may be liable for those defaults. The number of such claims arising to date has been small, and the liability, which is charged to the profit and loss account as it arises, has not been material.

Contractual obligations

Long term debt comprises borrowings with an original maturity of greater than one year. Purchase obligations comprise contracts entered into for the forward purchase of gold and US dollars with an original maturity of greater than one year. These contracts are taken out to manage market risks. It is expected that operating commitments will be funded from future operating cash flows and no additional facilities will be required to meet these obligations.

As at 29 January 2005

	Less than one year £m	Between one and three years £m	Between three and five years £m	More than five years £m	**Total £m**
Long term debt obligations	7.9	132.8			140.7
Operating lease obligations	127.9	239.0	213.9	565.0	1,145.8
Purchase obligations	9.8				9.8
Fixed interest and commitment fee payments	7.8	6.1	0.2		14.1
Creditors falling due after one year				12.3	12.3
Total	153.4	377.9	214.1	577.3	1,322.7

(1) As at 29 January 2005 the Group has no outstanding floating rate indebtedness.
(2) The Group expects to make pension contributions of some £3.8m to the Group Scheme in 2005/06. This has been excluded from the table as have obligations for subsequent years, as the level of future pensionable salaries and the future funding rate are yet to be determined.

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Impact of constant exchange rates

The Group has historically used constant exchange rates to compare period to period changes in certain financial data. This is referred to as at constant exchange rates throughout these accounts. The Group considers this to be a useful measure for

analysing and explaining changes and trends in the Group s results. The impact of the recalculation of sales, operating profit, profit before tax, profit for the financial period, earnings per share and net debt at constant exchange rates, including a reconciliation to the Group s GAAP results, is analysed below.

	2004/05 **£m**	2003/04 as restated(1) £m	Growth at actual exchange rates %	Impact of exchange rate movement £m	2003/04 at constant exchange rates (non-GAAP) £m	Growth at constant exchange rates (non-GAAP) %
Sales by origin and destination:						
UK	**514.4**	501.0	2.7		501.0	2.7
US	**1,100.0**	1,103.9	(0.4)	(106.8)	997.1	10.3
	1,614.4	1,604.9	0.6	(106.8)	1,498.1	7.8
Operating profit:						
UK Trading	**78.2**	76.6	2.1		76.6	2.1
Group central costs	**(6.6)**	(5.7)	n/a		(5.7)	n/a
	71.6	70.9	1.0		70.9	1.0
US	**147.3**	139.3	5.7	(13.5)	125.8	17.1
	218.9	210.2	4.1	(13.5)	196.7	11.3
Profit before tax	**210.3**	199.8	5.3	(12.2)	187.6	12.1
Profit for the financial period	**141.2**	129.6	9.0	(7.8)	121.8	16.0
Earnings per share	**8.2p**	7.5p	9.3	(0.4p)	7.1p	15.5

	29 January 2005 **£m**	31 January 2004 £m	Impact of exchange rate movement £m	At constant exchange rates (non-GAAP) £m
Net debt	**(83.5)**	(79.9)	6.0	(73.9)

(1) Restated for the implementation in 2004/05 of the amendment to FRS 5, Application Note G Revenue Recognition (see note 17).

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Financial review (continued)

Prior year review of the 52 weeks ended 31 January 2004

The results for 2003/04 and 2002/03 have been restated for the amendment to FRS 5 in the form of Application Note G Revenue Recognition (see note 17). Total Group sales rose to £1,604.9 million (2002/03: £1,593.6 million), up 0.7% on a reported basis and 7.5% at constant exchange rates. Group like for like sales were up 4.9% and new space contributed 2.6%.

Group operating margin increased to 13.1% (2002/03: 12.5%), with leverage from like for like sales growth more than offsetting the impact of immature space growth with gross margin little changed. The growth in total sales and the increased operating margin resulted in Group operating profit advancing to £210.2 million (2002/03: £199.9 million), up 5.2% on a reported basis and 12.2% at constant exchange rates.

Net interest payable decreased to £10.4 million (2002/03: £14.0 million). £1.5 million of the reduction was due to exchange translation, the balance attributable to lower levels of net debt which more than offset the decrease in net interest credit on the UK defined benefit pension scheme.

Group profit before tax increased to £199.8 million (2002/03: £185.9 million), up 7.5% on a reported basis and 14.3% at constant exchange rates. After a tax charge of 35.1% (2002/03: 35.3%) profit for the financial period rose to £129.6 million (2002/03: £120.2 million). Earnings per share was 7.5p (2002/03: 7.0p), up 7.1% on a reported basis and 13.6% at constant exchange rates.

2003/04 sales growth

	US %	UK %	Group %
Like for like	4.6	5.5	4.9
New space	3.6	0.3	2.6
Exchange translation	(9.6)		(6.8)
Total sales growth	(1.4)	5.8	0.7

Sales

US

Like for like sales for the US division increased by 4.6% and total US dollar sales by 8.2%. Trading in the first half was adversely affected by the geo-political situation, however the second half saw a marked improvement in the retail environment culminating in a particularly strong fourth quarter when like for like sales rose by 7.2%. The contribution from new space and the impact of exchange rate movements is shown in the table above.

UK

As in the US, trading in the first half of the year in the UK was also affected by geo-political factors, but the second half saw improved trading with a strong Christmas season when like for like sales rose by 6.7%. For the year as a whole like for like sales increased by 5.5% and total sales by 5.8%.

Operating profit

US

The operating margin in the US division was unchanged at 12.6% (2002/03: 12.6%), with the leverage from like for like sales growth offsetting the impact of slightly lower gross margins and immature store space. The ratio of net bad debt to sales decreased to 2.8% (2002/03: 3.0%). Operating profit was £139.3 million (2002/03: £141.2 million), down 1.3% on a reported basis but up 8.3% at constant exchange rates reflecting the movement in sales.

UK

An increase in gross margin and leverage from improved store productivity meant that the UK operating margin increased to 15.3% (2002/03: 13.7%). Operating profit grew by 18.4% to £76.6 million (2002/03: £64.7 million).

Operating margin movement

	US %	UK %	Group %
2002/03 margin	12.6	13.7(1)	12.5(1)
Gross margin	(0.7)	1.0	(0.1)
Expenses	1.0	0.6	0.9
New space	(0.3)		(0.2)
2003/04 margin	12.6	15.3	13.1

(1) Restated for the implementation of FRS 17 Retirement Benefits .

Group costs

Group costs amounted to £5.7 million (2002/03: £6.0 million which included a property provision of £0.5 million).

Prior year adjustment

The Group adopted FRS 17 Retirement Benefits in 2003/04. Under the market-based approach of FRS 17 there was a £6.7 million Group Scheme deficit at 1 February 2003 in comparison to a balance sheet asset of £19.1 million under SSAP 24. Consequently a non-cash charge of £18.1 million, net of deferred tax, was accounted for by way of a prior year adjustment charged directly to reserves to reflect this change, representing 2.7% of shareholders funds at 1 February 2003.

Return on capital employed

The Group s ROCE increased to 25.9% (2002/03: 25.0%). In the US the ROCE was 21.3% (2002/03: 21.9%) reflecting the impact of an increased proportion of immature space largely from new Jared stores. In the UK there was an increase to 47.1% (2002/03: 41.2%) due to improved store productivity. US capital employed included in-house credit card debtors of £292.6 million at 31 January 2004 (2002/03: £299.2 million at 1 February 2003).

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Depreciation and capital expenditure
Depreciation charges were £39.3 million (2002/03: £36.6 million): £23.6 million (2002/03: £24.1 million) in the US and £15.7 million (2002/03: £12.5 million) in the UK. Capital expenditure in the US was £33.1 million (2002/03: £33.1 million) and in the UK was £17.8 million (2002/03: £16.4 million).

Dividends

In November 2003 an interim dividend of 0.341p per share was paid (2002/03: 0.310p). Additionally, a final dividend of 2.160p (2002/03: 1.800p) per share for 2003/04 was paid on 2 July 2004 to those shareholders on the register of members at close of business on 4 June 2004.

Impact of constant exchange rates
The Group has historically used constant exchange rates to compare period to period changes in certain financial data. This is referred to as at constant exchange rates throughout these accounts. The Group considers this a useful measure for analysing and explaining changes and trends in the Group s results. The impact of the recalculation of sales, operating profit, profit before tax and net income at constant exchange rates, including a reconciliation to the Group s GAAP results, is analysed below.

	2003/04 as restated(1) £m	2002/03 as restated(1) £m	Growth at actual exchange rates %	Impact of exchange rate movement £m	2002/03 at constant exchange rates (non-GAAP) £m	Growth at constant exchange rates (non-GAAP) %
Sales by origin and destination:						
UK	**501.0**	473.6	5.8		473.6	5.8
US	**1,103.9**	1,120.0	(1.4)	(100.0)	1,020.0	8.2
	1,604.9	1,593.6	0.7	(100.0)	1,493.6	7.5
Operating profit:						
UK Trading	**76.6**	64.7	18.4		64.7	18.4
Group central costs	**(5.7)**	(6.0)	n/a		(6.0)	n/a
	70.9	58.7	20.8		58.7	20.8
US	**139.3**	141.2	(1.3)	(12.6)	128.6	8.3
	210.2	199.9	5.2	(12.6)	187.3	12.2
Profit before tax	**199.8**	185.9	7.5	(11.1)	174.8	14.3
Earnings per share	**7.5p**	7.0p	7.1	(0.4p)	6.6p	13.6

	31 January 2004 £m	1 February 2003 £m	Impact of exchange rate movement £m	At constant exchange rates (non-GAAP) £m

Net debt	**(79.9)**	(140.1)	17.5	(122.6)

(1) Restated for the implementation in 2004/05 of the amendment to FRS 5, Application Note G Revenue Recognition (see note 17).

Critical accounting policies

Critical accounting policies covering areas of greater complexity or those particularly subject to the exercise of judgement are listed below. There are no material off-balance sheet structures under UK GAAP. The principal accounting policies are set out in note 1 on pages 72 to 75.

Revenue recognition

Following the adoption in 2004/05 of the amendment to FRS 5, Reporting the substance of transactions in the form of Application Note G Revenue Recognition , revenue from the sale of extended service agreements in the US is now deferred and recognised, net of incremental costs arising from the initial

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Financial review (continued)

sale in proportion to anticipated claims arising. This period is based on the historical claims experience of the US business, which has been consistent since these products were launched. The Group reviews the pattern of claims at the end of each year to determine any significant trends that may require changes to revenue recognition rates. The treatment of US extended service agreements is now the same under UK and US GAAP.

Stock valuation

Stock is valued on a first-in, first-out basis and includes appropriate overheads. Overheads allocated to inventory cost are only those directly related to bringing inventory to its present location and condition. These include relevant warehousing, distribution and certain buying, security and data processing costs.

Where necessary provision is made for obsolete, slow-moving and damaged stock. This provision represents the difference between the cost of the stock and its estimated market value, based upon stock turn rates, market conditions and trends in consumer demand. For further detail on the provisions for inventory and the amount of reserves recorded each year, refer to note 12 on page 83 in the notes to the accounts.

In the US stock losses are recognised at the mid-year and fiscal year end based on complete physical inventories. In the UK stock losses are recorded as identified on a perpetual inventory system and an estimate is made of losses for the period from the last stock count date to the end of the financial year on a store by store basis. These estimates are based on the overall divisional stock loss experience since the last stock count.

Foreign currency translation

The results of overseas subsidiary undertakings are translated into pounds sterling at the weighted average rates of exchange, based on US sales, during the period and their balance sheets and attributable goodwill at the rates at the balance sheet date. Exchange differences arising from the translation of the net assets and attributable goodwill of overseas subsidiary undertakings are charged or credited to reserves. Other exchange differences arising from foreign currency transactions are included in profit before taxation.

Depreciation and impairment

Depreciation is provided on freehold and long leasehold premises over a useful life not exceeding 50 years. Freehold land is not depreciated. Depreciation is provided on other fixed assets at rates between 10% and $33^1/_3$%. Shopfit depreciation rates have been set based on the refit cycle for each store fascia and the useful lives of each individual element of the shopfit. Tills and other IT equipment have separately determined depreciation rates.

In the UK, there are circumstances where scheduled refurbishments are carried out close to the end of the lease term, such that the expected life of the newly installed leasehold improvements will exceed the lease term. Where the renewal of the lease is reasonably assured, such shopfronts, fixtures and fittings are depreciated over a period equal to the lesser of their economic useful life, or the remaining lease term plus the period of reasonably assured renewal. Reasonable assurance is gained through evaluation of the right to enter into a new lease, the peformance of the store and potential availability of alternative sites.

Where appropriate, provision is made on assets that have a lower economic value than net book value. Additionally, potentially impaired assets are identified by reviewing the cash contribution of individual stores where trading since the initial opening of the store has reached a mature stage. Where such stores deliver a low or a negative cash contribution, the related store assets are considered for impairment by reference to the higher of net realisable value and value in use. The Group s policy is only to reverse through the profit and loss account impairment losses arising because of changes in economic conditions or a change in the expected use of the asset. To date these have been immaterial.

Lease costs and incentives

Operating lease costs are charged to the profit and loss account as incurred. Predetermined rent increases are recognised when they fall due, reflecting that these are generally intended to compensate for the expected cost of inflation. Amounts payable in respect of turnover leases are charged in the period to which the turnover relates. Premiums paid to acquire short leasehold properties are amortised over their lease period and incentives received relating to leased properties are amortised over the period to the next rent review.

In accordance with FRS 12, where the Group has onerous lease obligations, provision is made for the discounted cash outflow that is expected to arise under the lease. Account is taken of any sublet income received or reasonably expected, incentives to be received or paid and the time to lease expiry or reversal of the net cash outflow, whichever is the later.

The Group policy is to recognise a provision for onerous leases when the leased property ceases to be used by the Group.

Receivables

Full provision is made for debts that are 90 days past their due date on a recency basis. A provision is also made based on the historic performance of the receivables portfolio. The bad debt experience of the US division has been relatively stable over the past five years at between 2.8% and 3.4% of sales.

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UK retirement benefits

The surplus or deficit on the Group Scheme that is charged to shareholders funds through the Statement of Recognised Gains and Losses is subject to a number of assumptions and uncertainties. A qualified actuary is engaged to calculate the expected liabilities of the Group Scheme based on assumptions regarding salary and pension increases, inflation rates, discount rates and the long term rate of return expected on the Group Scheme s assets. Details of these assumptions are given in note 20 on page 88. The value of the assets of the Group Scheme is measured as at the balance sheet date, this being particularly dependent on the value of equity investments held by the Group Scheme at that date. However the impact on the Group balance sheet is significantly mitigated as the members of the Group Scheme are only in the UK and account for less than 12% of UK employees. The Group Scheme closed to new members in 2004/05.

Advertising and promotional costs

Advertising costs are expensed as incurred. In accordance with the guidance issued in the US under EITF 02-16, where vendor contributions are received in respect of identifiable promotional events, these are matched against the costs of these promotions. Vendor contributions that are received as general contributions and not against specific promotional events are allocated against stock.

International Financial Reporting Standards

Signet currently prepares its primary financial statements under UK GAAP. For financial years commencing on or after 1 January 2005 the Group is required to report in accordance with International Accounting Standards (IAS) and IFRS as adopted by the European Union. Therefore Signet will in future prepare its results under IFRS, commencing with the 13 weeks to 30 April 2005. That announcement will contain comparative information for the year ended 29 January 2005 prepared under IFRS, which may continue to be revised and be subject to new interpretations. Based on current expectations of the standards that the Group will need to adopt, an overview of the principal changes from UK GAAP to IFRS to the accounts for the year ended 29 January 2005 is set out below.

Overview of impact in 2004/05

	UK GAAP £m	IFRS £m
Sales	1,614.4	1,606.1
Operating profit	218.9	212.5
Profit on ordinary activities before tax	210.3	203.9
Profit for the financial period	141.2	134.8
Earnings per share	8.2p	7.8p
Net assets	739.1	769.2

The most significant elements contributing to the change in financial information are:

- the inclusion of a charge for share-based payments,
- the cessation of goodwill amortisation,
- the timing of dividend recognition,
- the disclosures relating to taxation,
- the treatment of leases, and
- revenue recognition.

These changes have no impact on the Group s historical or future net cash flow, the timing of cash received or the timing of payments.

Transitional arrangements

The rules for the first time adoption of IFRS are set out in IFRS 1 First-time Adoption of International Financial Reporting Standards . In general a company is required to determine its IFRS accounting policies and apply these retrospectively to determine its opening balance sheet under IFRS. A number of exceptions from retrospective application are allowed to assist companies in their transition to reporting under IFRS. Where Signet has taken advantage of the exemptions they are noted below.

Changes in accounting policies

IFRS 2 Share-based payments

In accordance with IFRS 2, Signet has recognised a charge to income in respect of the fair value of outstanding employee share options. The fair value has been calculated using the binomial options valuation model and is charged to income over the relevant option vesting period. The optional transitional arrangements, which allow companies to apply IFRS 2 fully retrospectively to all options granted but not fully vested at the relevant reporting date, have been used. The operating profit impact in 2004/05 is a charge of £3.9 million.

IFRS 3 Business combinations

IFRS 3 requires goodwill to be carried at cost with impairment reviews both annually and when there are indications that the carrying value may not be recoverable. Under the transitional arrangements Signet will apply IFRS 3 prospectively from the transition date. As a result, all prior business combination accounting is frozen at the transition date of 31 January 2004, and the value of goodwill is frozen, subject to exchange rate movements, at £16.8 million with amortisation previously reported under UK GAAP for 2004/05 of £1.0 million not charged for the IFRS presentation.

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Financial review (continued)

IAS 10 Proposed dividend

Under IAS 10 a dividend is not provided for until it is approved. As a result net assets are increased by the amount of the final proposed dividend of £45.5 million.

IAS 12 Income tax

The application of IAS 12 results in the separate disclosure of deferred tax assets and liabilities on the Group s balance sheet. Opening balance sheet adjustments will be made to reclassify these assets and liabilities.

IAS 17 leasing

IAS 17 requires that where operating leases include clauses in respect of predetermined rent increases, those rents are charged to the profit and loss account on a straight line basis over the lease term, including any construction period or other rental holiday. Such lease clauses are commonly found in the US and will result in an acceleration of lease charges for accounting purposes from the later to the earlier years of the lease term. In addition, Standard Interpretations Committee (SIC) 15 requires inducements to enter into a lease to be recognised over the lease term rather than over the period to the next rent review as under UK GAAP.

These result in an additional charge to the profit and loss account of £3.5 million and a decrease in net assets of £17.9 million before deferred tax. There is no impact on cash flows.

Reconciliation of UK GAAP sales and profit before tax to IFRS sales and profit before tax
for the 52 weeks ended 29 January 2005

	Sales £m	Profit before tax £m
As reported in accordance with UK GAAP	**1,614.4**	**210.3**
Principal accounting adjustments:		
Share-based payments		(3.9)
Goodwill amortisation		1.0
Leases		(3.5)
Principal presentational adjustments:		
US insurance income	10.4	
Voucher promotions	(12.0)	
UK warranty sales	(6.7)	
Proposed reporting in accordance with IFRS	**1,606.1**	**203.9**

IAS 18 Revenue recognition

IAS 18 requires that revenue is only recognised when all significant risks of ownership have been transferred to the buyer. There is no impact on profit before tax for 2004/05 although net assets are reduced by £6.0 million before deferred tax.

There are a number of other presentational changes that do not have an impact on the profit or net assets of the Group. Insurance income and voucher promotions in the US and only the commission element of warranty sales in the UK, will be recognised in sales. Interest receivable from the US in-house credit programme will be classified as other operating income.

IAS 32 and IAS 39 Financial instruments

The Group has taken the exemption not to restate comparatives for IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement . As a result, the comparative information in the 2005/06 accounts will be presented on the existing UK GAAP basis. IAS 32 and IAS 39 will apply from the start of the financial year ending 28 January 2006. The Group intends to apply the hedge accounting provisions of IAS 39 as they relate to forward currency and commodity contracts to the extent practically and economically appropriate in order to minimise future volatility arising from its implementation.

Reconciliation of UK GAAP net assets to IFRS net assets
at 29 January 2005

	Net assets £m
As reported in accordance with UK GAAP	**739.1**
Principal adjustments:	
Share-based payments	
Goodwill amortisation	1.0
Leases	(17.9)
Revenue recognition	(6.0)
Deferred taxation	7.5
Dividend recognition	45.5
Proposed reporting in accordance with IFRS	**769.2**

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Risk and other factors

Forward-looking statements

All statements, other than statements of historical fact included in this document, are or may be deemed to be forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. These statements, based upon management s beliefs as well as on assumptions made by and data currently available to management, appear in a number of places throughout this document and include statements regarding, among other things, our results of operation, financial condition, liquidity, prospects, growth, strategies and the industry in which the Group operates. The use of the words expects, intends, anticipates, estimates, may, forecast, objective, plan or target, and other similar expressions are intended to id forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to a number of risks and uncertainties. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include:

- adverse trends in the general economy which may impact negatively on discretionary consumer spending, including unemployment levels, the level of consumers disposable income, consumer confidence, business conditions, interest rates, consumer debt levels, availability of credit and levels of taxation;
- the Group s ability to anticipate consumer preferences and the merchandising, pricing and inventory policies it follows;
- the reputation of the Group and its trading names, together with the success of the Group s marketing and promotional programmes;
- the ability to recruit, train and retain staff;
- the extent and results of the Group s net store expansion and refurbishment strategy together with the availability of suitable real estate;
- the level of competition in the selling of jewellery and the development of new distribution channels in competition with the Group;
- the level of dependence on particular suppliers of merchandise;
- fluctuations in the supply, price and availability of diamonds, gold and other precious and semi-precious metals and stones as well as the consumer attitude to those and other products;
- the seasonality of the Group s business, the risk of disruption during the Christmas trading period, and the availability of inventory during the three months leading up to the Christmas season;
- social, ethical and environmental risks;
- the suitability and reliability of the Group s systems and procedures, including its information technology, warehousing and distribution systems;
- regulatory requirements;
- acquisitions;
- pensions actuarial assumptions and investment returns;
- the cost and availability of borrowings and equity capital; and
- financial market risks, including fluctuations in exchange rates between the pound sterling and the US dollar which may affect reported revenues, costs, the value of the Group s consolidated borrowings, and the cost of capital.

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 realised. The Group undertakes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances.

Impact of general economic conditions

Jewellery purchases are discretionary and may be particularly affected by adverse trends in the general economy.

The success of the Group s operations depends to a significant extent upon a number of factors relating to discretionary consumer spending. These include economic conditions and perceptions of such conditions by consumers, employment, the rate of change in employment, the level of consumers disposable income, business conditions, interest rates, consumer debt levels, availability of credit and levels of taxation for the economy as a whole and in regional and local markets where the Group operates. There can be no assurance that consumer spending on jewellery will not be adversely affected by changes in general economic conditions. However, due to the limited seasonality in the product mix, the risk of having to discount inventory in order to be correctly stocked for the next selling season is more limited than for some other retail sectors. While the level of consumer expenditure may vary, the occasions when jewellery is purchased engagements, weddings and events such as Christmas, wedding anniversaries, birthdays, Valentine s Day and Mothers Day occur on a regular basis.

As a substantial proportion of the Group s US sales are made on credit, any significant deterioration in general economic conditions or consumer debt levels may inhibit consumers use of credit and cause a material adverse effect on the Group s revenues and profitability. Furthermore, any downturn in general or local economic conditions in the markets in which the Group operates may adversely affect its collection of outstanding credit accounts receivable and hence the net bad debt charge. Currently there are all-time high levels of consumer debt in the US, however, the level of net bad debt charge as a percentage of credit sales in the Group s US division in 2004/05 was towards the bottom end of the range.

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Risk and other factors (continued)

Merchandise selection, pricing, inventory and purchasing

The Group depends on consumer fashions, preferences for jewellery in general and the demand for particular products. Design trends in jewellery normally only change over relatively long periods and there is little seasonality in the merchandise mix. The ability to predict accurately future changes in taste, respond to changes in consumer preferences, carry the inventory demanded by customers, deliver the appropriate quality, price products correctly and implement effective purchasing procedures, all have an important influence on determining sales performance and achieved gross margin (see pages 13 and 20 for more details of the Group s merchandising and purchasing procedures).

The Group s operating experience suggests that while the price of jewellery is a consideration for consumers, it is not among the top three factors in determining where they buy jewellery. The Group believes these factors to be the level of service provided to the customer, the quality, together with the selection, of merchandise offered and the reputation of the retailer. Therefore while discounting price may increase sales, it may not increase profit.

Reputation and marketing

Primary factors in determining customer buying decisions in the jewellery sector include customer confidence in the retailer and the merchandise sold, together with the level and quality of customer service. The Group carries out quality control and staff training procedures and provides customer service facilities to help protect its reputation (see page 116 for details of the processes by which the Group obtains an understanding of customer attitudes).

The ability to differentiate the Group s stores from competitors by its branding, marketing and advertising programmes is a factor in attracting consumers. Therefore these programmes are carefully tested and their success monitored by methods such as market research (see pages 14 and 21 for more details).

The Diamond Trading Company (DTC), a subsidiary of De Beers Consolidated Mines Limited (De Beers), promotes diamonds and diamond jewellery in the US and the UK. The level of support provided by the DTC and the success of the promotions influence the size of the total jewellery market in those countries.

The Group s reputation in the financial markets can influence the availability of capital, the cost of capital and the share price.

Staff

In speciality jewellery retailing, the level and quality of customer service is largely determined by the effectiveness of recruitment, training and retention of suitably qualified sales staff and this will help determine sales and profitability. The support provided to the Group s store employees by staff at the divisional head offices and in the corporate functions will also influence the performance of the Group. Consequently the Group has in place comprehensive recruitment, training and incentive programmes, and employee attitude surveys (see pages 9 and 18 for more details).

Store portfolio

The future growth of sales is partly dependent on the extent and results of the Group s net space expansion and refurbishment strategy. The Group has followed a steady programme of space expansion and refurbishment and has established capital expenditure procedures with investment criteria set by the Board. The projections used for investment decisions are reviewed and adjusted based on experience and economic conditions.

In particular, the success of the Jared off-mall destination store concept, which accounts for the majority of the Group s net increase in new store space, will influence the future performance of the Group. This concept has been tested and developed over a number of years and its performance against the investment model is regularly reviewed. The rate of new store development is dependent on a number of factors including obtaining suitable real estate, the capital resources of the Group and the availability of appropriate staff and management.

The Group s results are dependent on a number of factors relating to its stores. These include the availability of property, the location of the mall or shopping centre, the availability of attractive locations within a mall or High Street, the terms of leases, the Group s relationship with major landlords and the design and maintenance of the stores. In addition, the Group s operations, particularly in the US, are dependent upon the continued popularity of malls as a shopping destination and the ability of malls, their tenants and other mall features to attract customers.

Competition

Competitive factors in the jewellery sector are discussed in the US and UK operating reviews (see pages 7 to 22).

If the Group falls behind competitors with respect to one or more of these factors, the Group s operating results or financial condition could be adversely affected. In the US the Group has an estimated 7.2% market share of the speciality jewellery sector

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and has only one major national competitor. While another major national brand could develop, the sector is highly fragmented. In the UK the Group has an estimated 17% share of the total jewellery sector and has only limited scope to increase sales by opening new stores.

The channels through which consumers buy jewellery continually evolve and a major non-speciality retailer could enter the wider jewellery market. In the US, for example, sales by discount retailers have increased, while those of the department stores have been in relative decline and catalogue retailers have withdrawn from the market. In the UK a number of fashion and general retailers have introduced jewellery into their ranges whilst others have reduced their selection. In both the US and the UK, internet retailers sell jewellery and watches. The Group monitors the competitive environment and the development of possible new channels of distribution such as the internet. As part of this process there are marketing web sites for each of the Group s major brands, and regular exercises to shop the competition take place.

Supply chain

During 2004/05 the Group had one supplier that accounted for 8% of its merchandise. No other supplier accounted for more than 4% of its merchandise. Although the Group believes that alternative sources of supply are available, the abrupt loss of any significant supplier during the three month period (August to October) leading up to the Christmas season could result in a material adverse effect on the Group s business. The Group is therefore in regular dialogue with suppliers and uses its merchandising systems to test and predict its future inventory needs.

Raw materials

The jewellery industry generally is affected by fluctuations in the price and supply of diamonds, gold and, to a lesser extent, other precious and semi-precious metals and stones. The Group undertakes some hedging of its requirement for gold through the use of options, forward contracts and outright commodity purchasing. It does not hedge against fluctuations in the cost of diamonds. The Group does hedge the exposure of the UK division to the US dollar with regard to diamond and other costs of goods sold. The cost of raw materials is only part of the costs involved in the retail selling price of jewellery with labour costs also being a significant factor.

Diamonds are the largest product category sold by the Group. The supply and price of diamonds in the principal world markets are significantly influenced by a single entity. The DTC (and its predecessor, the Central Selling Organisation) has for many years controlled the marketing of a substantial majority of the world s

supply of rough diamonds and sells diamonds to diamond cutters in quantities and at prices determined at its sole discretion. In 2000 De Beers announced a change in corporate strategy designed to improve the efficiency of the supply chain and increase the level of marketing support for diamonds.

The availability of diamonds to the DTC and the Group s suppliers is to some extent dependent on the political situation in diamond producing countries. Until alternative sources can be developed, any sustained interruption in the supply of diamonds from the significant producing countries could adversely affect the Group and the retail jewellery industry as a whole.

Consumer confidence in diamonds, gold and other metals and gemstones also influences the level of Group sales. Confidence could be affected by a variety of issues including the availability and consumer awareness of substitute products such as cubic zirconia, moisanite and of laboratory created diamonds; labour conditions in the supply chain; and concern over the source of raw materials. The Group, therefore, has a Supplier Code of Conduct which sets out the Group s expectations of its suppliers. An example of an issue that could affect confidence in this way is that of conflict diamonds, which is the term used for diamonds sold by rebel movements to raise funds for military campaigns. There have been a number of United Nations resolutions regarding conflict diamonds and an international agreement, known as the Kimberley Process, was signed in November 2002. This was designed to exclude conflict diamonds from the legitimate diamond trade. During 2003 legislation was passed, in the European Union and the US, implementing the Kimberley Process. The impact of the Kimberley Process and its associated legislation has not resulted in any disruption to the supply of rough diamonds to date and has helped to improve the integrity of the supply chain.

The Group reviews its procedures and documentation for compliance with the Kimberley Process and makes appropriate amendments. In addition, staff are briefed and suppliers reminded about the procedures. During the year the Group s internal audit function and mystery shopper programmes check for compliance. See page 116 for further information on the Supplier Code of Conduct, the Kimberley Process and the Group s policy on conflict diamonds.

Seasonality

The Group s business is highly seasonal, with a very significant proportion of its sales and operating profit generated during its fourth quarter, which includes the Christmas season. The Group expects to continue to experience a seasonal fluctuation in its sales and profit. Therefore the Group has limited ability to compensate for shortfalls in fourth quarter sales or earnings by

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Risk and other factors (continued)

changes in its operations and strategies in other quarters, or to recover from any extensive disruption, for example due to inclement weather conditions. A significant shortfall in results for the fourth quarter of any financial year would thus be expected to have a material adverse effect on the Group s annual results of operations. However, due to the limited seasonality in the product mix, the risk of having to discount inventory in order to be correctly stocked for the next selling season is more limited than for some other retail sectors. Disruption at more minor peaks in sales at Valentine s Day and Mothers Day would impact the results of the Group to a lesser extent.

Social, ethical and environmental risks

Social, ethical and environmental (SEE) matters influence the Group s reputation, demand for merchandise by consumers, the ability to recruit staff, relations with suppliers and standing in the financial markets. Signet, therefore, is committed to managing the SEE risks and responsibilities facing the Group. This commitment stems from the understanding that Signet s success is dependent on the strength and effectiveness of its relationships with its various stakeholders: shareholders, customers, employees and suppliers.

In recent years stakeholder expectations of public companies have increased. Managing and responding as a business to these changing expectations, including with regard to SEE issues, is part of the normal responsibilities of corporate management.

The Group regularly carries out SEE risk reviews and benchmarking exercises with the assistance of an external adviser. Such reviews include an assessment of Group policies, procedures and controls in respect of SEE matters. Reports are regularly made to the Group s Risk Committee and to the Board. The greatest SEE risks are judged to relate to the integrity of the merchandise and to the SEE standards in the Group s supply chain.

On 21 October 2001 the Association of British Insurers published guidelines on Socially Responsible Investment. In line with that guidance the Board confirms that it has identified and assessed the Group s SEE risks and that these are being managed.

SEE matters are dealt with in more detail on pages 115 to 119 and in the corporate social responsibility section on *www.signetgroupplc.com.*

Systems

The Group is dependent on the suitability and reliability of its systems and procedures, including its information technology, warehousing and distribution systems. The Group has emergency procedures which are regularly tested. The Group carries out evaluation, planning and implementation analysis before

updating or introducing new systems that have an impact on a function critical to the Group.

Regulatory requirements

Regulations govern various areas of business activity and changes in regulations can therefore influence the Group s performance. For example in the US approximately 50% of sales utilise the Group s in-house credit programmes therefore any change in the regulations or application of regulations relating to the provision of credit and associated services could affect the Group s results.

The presentation of the Group s accounts can also be affected by changes to generally accepted accounting policies, such as the adoption of International Accounting Standards for 2005/06 (see pages 33 to 34 for details). Such changes may influence the valuation of the Group s shares.

Acquisitions

The Group may in the future make acquisitions and any difficulty integrating an acquisition may result in expected returns and other projected benefits from the acquisition not being realised. A significant acquisition could also disrupt the operation of the Group s current activities. The Group s growth strategy does not depend on acquisitions and an acquisition would be intended to accelerate the implementation of that strategy.

Pensions

In the UK the Group operates a defined benefit pension scheme. This Group Scheme was closed to new employees in 2004/05. The valuation of the Group Scheme s assets and liabilities partly depends on assumptions based on the financial markets as well as longevity rates and staff retention rates. Funding requirements and the profit and loss items relating to this Group Scheme are also influenced by financial market factors. At 29 January 2005 there was a net pension liability of £1.3 million compared with a net asset of £1.2 million at the prior year end (see pages 87 to 89 for more details). In the UK the Group introduced a defined contribution plan which replaced the Group Scheme for new employees. The US also operate a defined contribution plan.

Equity and debt financing

The Group is dependent upon the availability of equity and debt financing to fund its operations and growth. Therefore it prepares annual budgets, medium term plans and headroom models which help to identify the future capital requirements so that appropriate facilities can be put in place on a timely basis. If these models are inaccurate adequate facilities may not be available.

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Financial market risks

The Group publishes its consolidated annual accounts in pounds sterling. The Group held approximately 65% of its total assets in US dollars at 29 January 2005 and generated approximately 68% of its sales and 68% of its operating profit in US dollars for the financial year then ended. Thus, although the Group s US operations make substantially all of their sales and incur substantially all of their expenses in US dollars, in translating the results of its US operations, the Group s results are subject to fluctuations in the exchange rate between the pound sterling and the US dollar. Accordingly, depreciation in the weighted average value of the US dollar against the pound sterling could decrease reported revenues and operating profit (as was the case in 2002/03, 2003/04 and 2004/05), and appreciation in the weighted average value of the US dollar against the pound sterling could increase reported revenues and operating profit (as was the case in 2000/01 and 2001/02). The Board has chosen not to hedge the translation effect of exchange rate movements on the results of the Group given that there is little movement of cash between the Group s two divisions.

As part of its long-term strategy, the Group seeks to finance its US net assets with borrowings denominated in US dollars as a hedge against the impact of exchange rate fluctuations on its US operating profit. Currently nearly all of the Group s borrowings are denominated in US dollars. Therefore fluctuations in the exchange rate between the pound sterling and the US dollar affect the amount of the Group s consolidated borrowings.

In addition, the prices of materials and certain products bought on the international markets by the UK division are denominated in US dollars, and therefore the Group has an exposure to exchange rates on the cost of goods sold which will have an opposite effect to its exposure on US operating profit. The Group does use hedging operations in respect of purchases of US dollars by its UK division, within the treasury guidelines approved by the Group s Board.

Cash dividends paid by the Group in respect of the shares will be in pounds sterling and fluctuations in the exchange rate between the pound sterling and the US dollar will affect the dollar amount received by holders of ADSs upon conversion of such dividends. Moreover, fluctuations in the exchange rate between the pound sterling and the US dollar will affect the US dollar equivalents of the pound sterling price of the shares on the London Stock Exchange and, as a result, are likely to affect the market price of the ADSs in the US.

The table overleaf sets out, for the calendar years indicated, the average, high, low and period end exchange rates for the pound sterling expressed in US dollars per £1.

The Group s policy is to manage financial risk resulting from exposure to currency and interest rate fluctuations. Translation exposure relating to non-pound sterling denominated assets in the US is partially hedged by borrowing in US dollars. Interest rate exposure is managed through the use of swaps, caps and floors.

A committee of the Board is responsible for the implementation of treasury policies and guidelines which are considered to be appropriate by the Board for the management of financial risk. The Group s funding, liquidity and exposure to interest rate and exchange rate risks are managed by the Group s treasury department. The Group uses derivative instruments for risk management purposes only, and these are transacted by specialist treasury personnel.

For financial instruments held, the Group has used a sensitivity analysis technique that measures the change in the fair value of the Group s financial instruments from hypothetical changes in market rates and this is shown in the table overleaf.

The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain adverse market conditions occur. Actual results in the future may differ materially from those projected due to changes in the portfolio of financial instruments held and actual developments in the global financial markets. These may cause fluctuations in interest and exchange rates to exceed the hypothetical amounts disclosed in the table overleaf.

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Risk and other factors (continued)

Exchange rates between the pound sterling and the US dollar(1)

	Average	High	Low	At period end
Calendar year				
2000	1.51	1.65	1.40	1.50
2001	1.44	1.50	1.38	1.45
2002	1.51	1.61	1.41	1.61
2003	1.62	1.79	1.55	1.77
2004	1.79	1.96	1.75	1.92
2005 (cumulative to 6 April)	1.90	1.93	1.85	1.88
Month				
September 2004	1.80	1.82	1.77	1.81
October 2004	1.81	1.84	1.77	1.84
November 2004	1.85	1.90	1.84	1.91
December 2004	1.92	1.96	1.90	1.92
January 2005	1.89	1.89	1.85	1.88
February 2005	1.88	1.93	1.85	1.92
March 2005	1.90	1.93	1.85	1.89

(1) Based on unweighted data points sourced from Reuters.

The example shown for changes in the fair values of borrowings and associated derivative financial instruments at 29 January 2005 is set out in the table below. The fair values of borrowings and derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the period end.

The estimated changes in fair values for interest rate movements

Fair value changes arising from:

are based on an instantaneous decrease of 1% (100 basis points) in the specific rate of interest applicable to each class of financial instruments from the levels effective at 29 January 2005 with all other variables remaining constant. The estimated changes in the fair value for foreign exchange rates are based on an instantaneous 10% weakening of the pound sterling against the US dollar from the levels applicable at 29 January 2005 with all other variables remaining constant.

	Estimated fair value at 29 January 2005 £m	1% decrease in interest rates (unfavourable) £m	10% weakening in £ against $ favourable/ (unfavourable) £m	Estimated fair value at 31 January 2004 £m
Borrowings	(180.3)	(2.4)	(20.1)	(207.9)
Foreign currency receivable	319.0		(35.4)	292.6
Foreign exchange contracts	(0.8)		1.3	(2.9)
Commodity hedging contracts				(2.1)

The analysis above should not be considered a projection of likely future events.

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Directors, officers and advisers

Directors

James McAdam CBE, 74, Chairman, appointed in 1992. He was also Group Chief Executive from 1992 until March 2000. From 31 March 2001, while continuing as Chairman, he ceased to be a full-time executive. Mr. McAdam is the non-executive Chairman of Bisley Office Equipment Company Limited, Chairman of the British Clothing Industry Association Limited and Chairman of the British Apparel & Textile Confederation; he devotes approximately 25% of his time to these latter roles. Mr. McAdam has indicated his intention to retire from the Board no later than at the conclusion of the annual general meeting in 2006.

Robert Anderson, 46, appointed in April 2005 (after completion of the period under review). He was appointed Chief Executive of the Group s UK division in January 2003 having joined the Group as Chief Operating Officer of the UK division in August 2000. Prior to joining the Group Mr. Anderson had worked at Marks & Spencer Plc for 19 years, latterly as Business Unit Director.

Robert Blanchard*, 60, appointed in 2000. He was a Group Vice President of Procter & Gamble and President of its Global Skin Care and Cosmetics business until his retirement in 1999. He is a non-executive director of Bandag Inc. and is a non-executive director of Best Buy Co. Inc. although he has indicated his intention to retire from that board in June 2005.

Walker Boyd, 52, appointed Group Finance Director in 1995. He is a member of the Institute of Chartered Accountants of Scotland. From 1992 he was Finance Director of the Group s UK division. Mr. Boyd was appointed a non-executive director of WH Smith PLC in March 2004 but resigned in January 2005 in order to meet good corporate governance requirements on the appointment of Robert Walker as Chairman of WH Smith PLC.

Terry Burman, 59, appointed Group Chief Executive in 2000. He is also Chief Executive Officer of the Group s US division. Mr. Burman was appointed to the Board in 1996. Prior to joining the Group in 1995 he was Chief Executive Officer of Barry s Jewelers, Inc.

Dale Hilpert*, 62, appointed in 2003. He was Chief Executive of Williams-Sonoma, Inc. from April 2001 until his retirement in January 2003. Prior to this he was Chairman and Chief Executive of Foot Locker, Inc. (formerly the Venator Group, Inc.) which he joined as President and Chief Operating Officer in 1995.

* Non-executive directors, all of whom satisfied the definitions of independence in the revised Combined Code (the Combined Code) and are viewed as independent by the Board.

Brook Land*, 56, appointed in 1995 and first elected to the Board in 1996. Until 1996 he was a senior partner of, and is now a consultant to, solicitors Nabarro Nathanson. He is also non-executive Chairman of RPS Group plc and Medal Entertainment & Media plc. Mr. Land was nominated as the senior independent director of Signet in June 2002.

Robert Walker*, 60, appointed in November 2004. He was Group Chief Executive of Severn Trent Plc, from August 2000 until his retirement in February 2005. Prior to this Mr. Walker had been a Division President of PepsiCo International and had previously worked for McKinsey and Company and Procter & Gamble. He is non-executive Chairman of WH Smith PLC and Williams Lea Group Limited and a non-executive director of Wolseley Plc. He is also an adviser to Cinven.

Russell Walls*, 61, appointed in 2002. He was Group Finance Director of BAA plc until his retirement in August 2002 and was the senior independent director of Hilton Group plc until May 2003. Mr. Walls is the senior independent director of Stagecoach Group plc and a non-executive director of Aviva plc. He is a Fellow of the Association of Chartered Certified Accountants.

Committees

Remuneration Robert Blanchard (Chairman), Russell Walls, Brook Land (until 1 March 2005) and Robert Walker (from 1 March 2005).

Audit Russell Walls (Chairman), Dale Hilpert and Brook Land.

Nomination Brook Land (Chairman), Robert Blanchard and James McAdam.

Under the Company s Articles of Association, directors appointed by the Board since the last annual general meeting, either to fill a vacancy or as an additional director, must retire at the next annual general meeting.

The Articles also specify that every director is required to retire at the annual general meeting in the third calendar year after he was last elected or re-elected, except for directors over the age of 70 who are required to retire at every annual general meeting. Similarly the Combined Code requires non-executive directors who have served longer than nine years; if they are to continue to serve, to do so subject to annual re-election. Such directors may, in these circumstances, seek re-election.

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Directors, officers and advisers (continued)

Messrs. Anderson, Burman, Land, McAdam and Walker retire from the Board at the forthcoming annual general meeting. Following consideration by the Board of the recommendations of the Nomination Committee, they offer themselves for re-election.

Officers

Mark Jenkins, 47, Group Company Secretary, appointed March 2004. Previously he was a director and Company Secretary at COLT Telecom Group plc and Group Company Secretary at Peek plc. He is a barrister.

Liam O Sullivan, 33, Group Treasurer, appointed 2003. Previously he was Group Treasury Manager at Rank Group Plc. He is a member of the Institute of Chartered Accountants in England and Wales and a member of the Association of Corporate Treasurers.

Timothy Jackson, 46, Investor Relations Director, appointed in 1998. He is a Fellow of the Association of Chartered Certified Accountants. In March 2004 he resigned as Company Secretary to focus on his duties as Investor Relations Director.

No director or officer has any family relationship with any other director or officer.

Advisers

Auditor

KPMG Audit Plc,
8 Salisbury Square, London EC4Y 8BB.

Financial adviser

Lazard Brothers & Co. Limited,
50 Stratton Street, London W1 J 8LL.

Stockbrokers

Deutsche Bank AG,
Winchester House,
1 Great Winchester Street, London EC2N 2DB.

JP Morgan Cazenove Ltd,
20 Moorgate, London EC2R 6DA

UK lawyer

Herbert Smith LLP,
Exchange House,
Primrose Street, London EC2A 2HS.

US lawyer

Weil, Gotshal & Manges,
One South Place, London EC2M 2WG.

Principal bankers

Barclays Bank PLC,
5 The North Colonnade, Canary Wharf, London E14 4BB.

HSBC Bank plc,
8 Canada Square, Canary Wharf, London E14 5HQ.

Royal Bank of Scotland plc,
135 Bishopsgate, London EC2M 3UR.

Wachovia Bank N.A.,
London Branch, 3 Bishopsgate, London EC2N 3AB.

Registrar
Capita Registrars,
The Registry,
34 Beckenham Road, Beckenham, Kent BR3 4TU.

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Report of the directors

Business review

The principal activity of the Group is the retailing of jewellery, watches and gifts with branches throughout the UK and the US. A review of the Group s performance during the year, with comments on the financial results and likely future developments, is set out on pages 7 to 34 and forms part of this Report.

Going concern

On the basis of current financial projections and facilities available, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to continue to adopt the going concern basis in preparing its annual accounts.

Results and dividends

The results of the Group for the year appear on page 66. The directors recommend the payment of a final dividend of 2.625p per share, to be paid on 8 July 2005 to shareholders on the register of members at close of business on 10 June 2005. An interim dividend of 0.375p per share was paid in November 2004 making a total of 3.000p for the year (2003/04: 2.501p). See note 8 on page 80 for waiver of dividends.

Directors

The directors who served during the period were James McAdam (Chairman), Robert Blanchard, Walker Boyd, Terry Burman, Dale Hilpert, Brook Land, Robert Walker and Russell Walls. Details of the current directors are shown on page 41.

Independence of non-executive directors

Mr. Land was first elected to the Board as a director in June 1996, and therefore under the terms of the Combined Code maintenance of his independent status needs to be re-affirmed from June of this year. The Board has considered Mr. Land s position and has concluded that he continues to be independent for the following reasons.

Mr. Land has no relationship with the Company, nor with any of the directors, which could impact his ability to remain objective or independent of mind. He does not provide any service to the Company and has no connections or ties to the Company other than in his capacity as a member of the Board.

Having been a practising lawyer Mr. Land comes from a professional background used to taking an independent approach. He, where appropriate, challenges and questions

proposals in a positive and constructive way. This is an essential requirement of a strong independent non-executive director and the Board continues to value Mr. Land s contribution.

Mr. Land will offer himself for re-election to the Board at the forthcoming annual general meeting.

Directors remuneration, service contracts and share interests

Details of directors remuneration, service contracts and the interests in the share capital of the Company of the directors and their immediate families at 29 January 2005 are given in the Directors remuneration report on pages 51 to 63.

Allotment of equity securities

There were no equity securities allotted save in relation to the exercise of options as set out in note 27 on page 95.

Social, ethical and environmental matters

Matters relating to these issues, including employees, payment of creditors and charitable and political donations, are set out on pages 115 to 119.

Substantial shareholdings and control of the Company

Details of substantial shareholdings and control of the Company are as set out on pages 122 and 123.

Purchase of own shares

At 29 January 2005 there was outstanding an authority, granted by the shareholders at the annual general meeting in 2004, to purchase, in the market, up to 172,640,523 shares of 0.5p each in the Company at a minimum price of 0.5p per share and a maximum price of 105% of the average of the market values derived from the London Stock Exchange Daily Official List for the preceding five business days. During the financial year no purchases were made under this authority or proposed to be made and no purchases or options or contracts to make purchases have been made or entered into since the end of the financial year. The authority expires at the forthcoming annual general meeting and a resolution to renew it will be proposed at the meeting.

Pension funds

Information about the Group s pension schemes is set out in note 20 on page 87. Information about pension arrangements for executive directors is set out in the Directors remuneration report on pages 51 to 63.

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Report of the directors (continued)

Auditor

The auditor, KPMG Audit Plc, is willing to continue in office and a resolution for its re-appointment as auditor of the Company will be submitted to the annual general meeting.

New York Stock Exchange (NYSE)

The Company s shares were listed on the NYSE with effect from 16 November 2004 in the form of American Depositary Shares (ADS) having been until that date listed on the Nasdaq National Market (Nasdaq). Each ADS represents ten ordinary shares. Prior to 18 October 2004, the ratio of ordinary shares per ADS had been 30:1.

Annual general meeting

The annual general meeting is to be held at 11.00 am on 10 June 2005 at The Café Royal, 68 Regent Street, London W1B 5EL. A description of the business to be transacted at the annual general meeting is included with the notice of the meeting.

By order of the Board

Mark Jenkins

Group Company Secretary

6 April 2005

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Corporate governance statement

The Board

The Board has as its prime objective the sustainable enhancement of business performance and shareholder value. It carries the responsibility for determining all major policies, for ensuring that effective strategies and management are in place, for assessing the performance of the Group and its senior management and for reviewing the system of internal controls, including those relating to social, ethical and environmental matters (see pages 115 to 119). The Board also seeks to present to shareholders, potential investors and other interested parties a balanced and coherent assessment of the Company s strategy, financial position and prospects. The Board retains responsibility for a range of specific matters including approval of the annual report and other documents circulated to shareholders by the Company; quarterly and annual results announcements; other trading statements; distribution policy; acquisitions, disposals, material agreements and capital expenditures outside predetermined limits set by the Board; risk management; budgets; long range plans; senior executive appointments; succession planning; corporate governance and the setting of social, ethical and environmental policies.

The Board monitors all developments in corporate governance, including the Combined Code and changes due to the Sarbanes-Oxley Act of 2002 in the US. The Board reviews its performance and procedures in the light of changing expectations regarding best practice and makes amendments, where it believes appropriate, to take account of them.

The formal schedule of matters reserved for the Board was updated in early 2004 and reviewed in 2005, and the division of responsibilities between the Chairman and the Group Chief Executive was set out in writing and agreed by the Board. In summary, the Chairman is responsible for:

- the effective running of the Board, including the evaluation of its performance and that of the individual directors, the balance of the Board and the Board s compliance with corporate governance;
- the review, prior to their presentation to the Board by executive management, of strategy, medium term plans and annual budget;
- reviewing, prior to their presentation to the Remuneration Committee, the recommendations of the Group Chief Executive regarding the remuneration of senior executives and for making a recommendation regarding that of the Group Chief Executive;
- maintaining contact with major shareholders to understand directly their issues and concerns;
- keeping the non-executive directors appropriately informed of developments within the business and shareholders attitude to the Group; and
- the reputation of the Group, and representing it both internally and externally.

The Chairman is also a member of the Nomination Committee.

In summary, the Group Chief Executive is responsible for:

- the executive leadership of the Group;
- the development, and presentation to the Chairman and the Board, of strategy, medium term plans and budgets;
- within this framework, for the performance of the business;
- compliance with legal and corporate governance requirements, together with the social, ethical and environmental principles of the Group; and
- making recommendations on the appointment and remuneration of senior executives and management development.

The Group Chief Executive is also Chief Executive of the US division.

The Board met eight times in 2004/05, including three extended sessions of more than one day. All directors attended all meetings of the Board with the sole exception of one meeting at which Mr. Walls was unable to attend.

The Board currently consists of nine directors: the Chairman, three executive directors (the Group Chief Executive, the Group Finance Director and the Chief Executive of the UK division), and five independent non-executive directors, one of whom is nominated as the senior independent director. Incumbents are identified on page 41. Directors are subject to election at the first annual general meeting after appointment and then to re-election by shareholders at no more than three yearly intervals. The Board is of the view that fixed term or age limits should not be set for non-executive directors as it considers it important that the particular contribution being made by individual directors be taken into account in deciding their tenure of office and that the performance of each director be reviewed annually. Any non-executive director who has served on the Board for nine years since first being elected as a non-executive director must stand for annual re-election; also any director over the age of 70 must stand annually for re-election.

The mix of skills and business experience of the directors is considered to be appropriate for the proper and efficient functioning of the Board. The terms of reference of the Nomination Committee include the regular review of the composition and balance of the Board. No one individual has unfettered powers of decision and no individual or grouping is in

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Corporate governance statement (continued)

a position to unduly influence the Board s decision makingAt least once a year the non-executive directors meet without the executive directors being present. They also meet occasionally without the Chairman being present.

On appointment new directors take part in an induction programme and are given an opportunity to familiarise themselves with the Group s business, procedures and investor perceptions. In addition to meeting with management this process includes briefings from the Group s external auditors, lawyers, financial advisers and stockbrokers. Directors are kept informed of the latest developments and best practice in corporate governance and attend relevant courses or receive appropriate training to equip them to carry out their duties. The non-executive directors are given regular opportunities to see the operations of the business and to meet management and staff.

All directors receive written reports in a timely manner prior to each meeting which enables them to make informed decisions on the issues under consideration.

The performance of the Board, its Committees and individual members is rigorously monitored to ensure that each director continues to contribute effectively and demonstrate commitment to the role. The Board has agreed a formal written procedure for the evaluation process which is conducted by the Chairman, in conjunction with the senior independent director and the Group Company Secretary. It consists of a structured discussion based upon a number of suggested questions and a questionnaire, completed by directors before the discussion session, designed to help in assessing the future development needs of the Board and the directors. The performance evaluation of the Chairman is led by the senior independent director and takes into account the views of both the non-executive and executive directors.

The Group Company Secretary is responsible, through the Chairman, for advising the Board on all governance matters and ensuring that Board procedures are followed. All directors have access to his advice and service. There is also a procedure for directors to take independent advice in the course of their duties, if considered appropriate, at the Group s expense.

Board committees

Certain matters are delegated to Board committees, each with defined terms of reference, procedures, responsibilities and powers. The principal committees are as follows:

The Audit Committee has written terms of reference which are available on request from the Group Company Secretary and on the Group s web site. The terms of reference were updated during 2003 and further reviewed during 2005.

The Audit Committee s responsibilities include the review of theappropriateness and effectiveness of the Group s accounting policies and financial procedures and oversight of the external auditor s work, including the scope and result of the audit. The Audit Committee also reviews the effectiveness of the internal auditors, the Disclosure Control Committee and the Group s whistleblowing procedures. The review of the whistleblowing procedures includes receiving reports on all matters raised and on actions taken. The Audit Committee also reviews the effectiveness of the Group s internal control and risk management procedures and reports to the Board on these matters. The Audit Committee reviews, discusses with management and approves for submission to the Board all Group audited accounts, trading statements and selected internal financial reports. It also reviews reports submitted to the Board by the Group s external auditor.

The external auditor s objectivity and independence is monitored by the Audit Committee having primary responsibility for making a recommendation on the appointment of the external auditor, the determination of their fees and making an annual assessment of their independence (including consideration of a written disclosure by the external auditor of all relationships that they have with the Group). The planned rotation of partners and staff of the external auditor, together with a cooling off period before anyone from the external auditor joins the Group, also assist in maintaining the independence of the external auditor. The Audit Committee has reviewed and approved a policy for the provision of audit and non-audit services by the auditor which is compliant with the requirements of the Sarbanes-Oxley Act in relation to non-audit work. The policy requires that the Audit Committee approves in advance all audit and non-audit work carried out by the external auditor (subject to a de minimis amount, this being then reported to the Audit Committee on a quarterly basis). The approval process requires disclosure of the objectives and scope of services to be performed in addition to the fee structure. The Audit Committee also reviews all approved services and fees at subsequent meetings. See page 77 for details of fees paid to the external auditor.

The Audit Committee has an established channel of direct communication with the external auditor who normally attends meetings except in relation to certain aspects of their own appointment, assessment of their independence and determination of their fees. The Chairman, the Group Chief Executive, the Group Finance Director and others attend the meeting by invitation. The Audit Committee meets at least once a year with both the external auditor and internal auditors without executive management being present. The Audit Committee also meets on two occasions during the year for the purpose of being briefed on business and technical developments and to meet with divisional management to assess the risk and

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internal audit functions of both of the divisions. During 2004 a Business Risk Assurance Manager was appointed who reports to the Committee on the processes in relation to the mitigation and review of business risks.

All members of the Audit Committee are independent, as defined by the Combined Code, the SEC and the NYSE and the only remuneration members of the Audit Committee receive, from the Group, is as directors. Russell Walls is Chairman and an audit committee financial expert as defined by the applicable SEC regulations. During the year the Audit Committee consisted of Dale Hilpert, Brook Land and Russell Walls with all having significant financial experience either as a result of positions held in other companies or from advising on such matters. The Audit Committee met nine times in 2004/05, including a meeting entirely dedicated to the consideration of corporate governance matters. All directors attended all Audit Committee meetings except for Mr. Walls who was unable to attend one meeting.

The Nomination Committee terms of reference were revised in early 2004 to reflect corporate governance developments in the UK and the US. The terms of reference were reviewed in 2005 and are available on request from the Group Company Secretary and on the Group s web site. The Nomination Committee has responsibility for reviewing the composition and balance of the Board, as well as Board and senior management succession. It also makes recommendations to the Board on all new Board appointments and nominations for re-election as directors. Once the Nomination Committee has agreed a job specification, the services of external recruitment agencies are used to identify suitable candidates for senior executive posts and for all Board appointments. The Nomination Committee carries out interviews with such individuals. The re-election procedures have been reviewed and formalised, particularly with regard to the performance evaluation procedures for individual directors. The review of any non-executive director, who is serving beyond six years from first being elected to the Board, is considered with particular care. No director is involved in any decision about his own re-appointment. The procedure for the election of directors is laid out on page 41.

When the role of the Group Chairman or any matter relating to succession to that role is discussed, the Chairman may be consulted, but the responsibility for preparing a job specification and making any recommendation to the Board rests solely with the independent non-executive directors of the Nomination Committee. The Nomination Committee also reviews a number of other senior appointments within the Group, such as that of the Group Company Secretary.

The senior independent director chairs the Nomination Committee. During the year the Nomination Committee consisted of Robert Blanchard, Brook Land, and James McAdam. The Group Company Secretary acts as secretary to the Nomination Committee. The Nomination Committee met six times in 2004/05 and there was full attendance at all meetings.

The role of the **Remuneration Committee** is discussed in the Board report on remuneration on page 51.

Further details regarding the chairmen and members of these Committees are set out on page 41.

Executive management

The Group comprises two separate operating divisions, one in the US and one in the UK, each with a separate executive committee which meets regularly. The Group Chief Executive is also Chief Executive of the Group s US division. The Group Finance Director and the Chief Executive of the UK division report to the Group Chief Executive.

The executive management is responsible to the Board for the performance of the Group and its compliance with the internal policies and procedures set by the Board. As part of this responsibility the executive management regularly reports to the Board on the performance of the Group, the competitive environment and its relations with stakeholders.

Business strategies; long range plans; budgets; acquisitions, disposals, material agreements and capital expenditures outside predetermined limits set by the Board; and internal policies and procedures are presented to the Board by executive management for consideration. Within this approved framework the executive management is responsible for the day to day running of the business including: merchandising; store operations; human resource management and planning; marketing; real estate; financial reporting; treasury management; risk management; tax management; social, ethical and environmental matters; and communications with investors.

Code of Conduct and Code of Ethics

Signet strives to act in accordance with the laws and customs of each country in which it operates; to adopt proper standards of business practice and procedure; to operate with integrity; and to observe and respect the culture of each country in which it operates. To that end, the Group has adopted a Statement of Social, Ethical and Environmental Principles and supporting policies applicable to all officers and employees of the Group and substantially complies with the requirements of the NYSE. In

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Corporate governance statement (continued)

addition, it has a policy on business integrity, as well as more detailed guidance and regulations in the Group s staff induction, training and operational procedures. During 2004 the Group reviewed these policies in order to meet the recently revised corporate governance requirements of the Nasdaq, and implemented a code of business conduct and ethics. The Company moved its US listing for its ADSs to the NYSE with effect from 16 November 2004, for which a similar code is required.

A code of ethics meeting the requirements of the Sarbanes-Oxley Act, covering the Chairman, the Group Chief Executive, the Group Finance Director and senior officers, is also in place. These codes are available on request from the Group Company Secretary and on the Group s web site.

Relations with shareholders

The Board recognises the importance of relations with shareholders and communicates regularly with them about the Group s strategy, financial performance and prospects. It does this through documents distributed to shareholders, stock exchange announcements and in meetings. Presentations on quarterly and annual results and the Christmas trading statement are open to all interested parties, including private shareholders, through the use of teleconferences and web casting. Other presentations are available on the Group web site.

The Board recognises that the prime opportunity for private investors to question the Board is at a general meeting of shareholders. At the annual general meeting the chairmen of the Audit, Nomination and Remuneration Committees, in addition to the Chairman of the Board, are required to be available for questions relating to the function of their respective Committees and all directors are expected to attend.

The Group Chief Executive, the Group Finance Director and the Investor Relations Director carry out an extensive programme of meetings with institutional investors. The Chairman and the senior independent director are also available to meet with investors from time to time. Major shareholders are offered an opportunity to meet new non-executive directors following the appointment of the individual.

The Board is kept informed of investment market attitudes to the Group by receiving regular reports on investor relations, copies of brokers research, press cuttings and third party surveys of investor perceptions.

Compliance statement and Combined Code

In July 2003 the Combined Code was issued that applies for reporting years starting on or after 1 November 2003. During 2003/04 the Board reviewed the Combined Code, the Smith

Report and corporate governance developments in the US. Based on that review the Board agreed a programme of action that was completed during 2004/05. A further review of US requirements was undertaken when the Group moved its US listing for its ADSs to the NYSE from Nasdaq. The NYSE requirements are not mandatory for foreign issuer companies such as Signet, but the Group has chosen in general to comply as a matter of best practice.

In a limited number of areas the Group, as is permitted by the NYSE rules, has elected to defer to the UK corporate governance practices. This is permissible provided significant variations are explained. The explanation of those variations can be found on the Group s web site.

The Board considers that it has complied throughout the year with the provisions of the Combined Code required to be observed by companies.

Internal controls

The Combined Code requires that the directors review the effectiveness of the Group s system of internal controls including the following areas:

- Financial

- Operational
- Compliance
- Risk management

Internal Control: Guidance for Directors on the Combined Code (the Turnbull guidance) was published in September 1999. The Board of Directors considers that it has complied with the Turnbull guidance throughout the year and up to the date of approval of this Annual Report & Accounts. In addition, during 2004/05 the Board continued to review the implications of the Sarbanes-Oxley Act and took steps to ensure compliance.

The Board exercises ultimate responsibility for the Group s system of internal controls and for monitoring its effectiveness. The internal controls system is designed to safeguard shareholders investments and the Group s assets, both tangible and intangible, including the reputation of the Group with its various stakeholders. Procedures are in place to ensure the maintenance of proper accounting records, the reliability of the financial information used within the business or for publication and the determination of disclosure obligations and of materiality. These procedures also cover disclosure on a timely

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basis of information to the investment markets. However, such procedures are designed to manage rather than wholly eliminate the risk of failure to achieve business objectives and can provide only reasonable, not absolute, assurance against material misstatement or loss.

Signet s disclosure control procedures are designed to help ensure that processes and procedures for information management are in place at all levels of the Group. The disclosure control procedures aim to ensure that any information disclosed by the Group is recorded, processed, and summarised appropriately. The procedures are also designed to ensure that information is accumulated and communicated to management to allow timely decisions to be made regarding required disclosure. The Group s Disclosure Control Committee consists of the Group Finance Director, the Group Company Secretary, the Investor Relations Director and the Group Financial Controller who consult with the Group s external advisers and auditor, as necessary. These procedures are designed to enable Signet to make timely and accurate public disclosures.

Key procedures designed to provide effective internal controls are:

- **Control environment** control is exercised through an organisational structure with clearly defined levels of responsibility and authority together with appropriate reporting procedures, particularly with respect to financial information, capital expenditure, investment, granting of guarantees and the use of treasury products (see page 39 for more detail) as well as health, safety, environmental and customer service issues.

- **Reporting and information systems** the Group has a comprehensive budgeting and five year strategic planning system with an annual budget and strategic plan approved by the Board. Reported monthly trading results and balance sheets include the corresponding figures for the budget or revised forecast and for the previous year. Any significant variances are examined by divisional operating management and discussed with Group management, with action being taken as appropriate. A forecast of the full year s results is updated regularly, based on performance to date and any changes in outlook. The executive directors regularly report to the Board on the development of the business, the competitive environment and any material breaches of procedure. Through these mechanisms, the Group s performance is continually monitored, risks identified in a timely manner and their implications assessed.

  The Group as part of its ongoing review of procedures has taken steps to strengthen resources committed to meet the increasing demands of corporate governance, to comply with the Sarbanes-Oxley Act, to monitor and address evolving and more complex accounting standards, including changes in the application and interpretation of US GAAP and the transition from UK GAAP to IFRS. Accordingly during the year, the Group has separated the roles of Group Company Secretary and Investor Relations Director. In addition, a Business Risk Assurance Manager was appointed to co-ordinate risk management information and processes; he is responsible for assessing the risk management and internal controls for the Group, ensuring such processes satisfy the applicable standards in both the UK and the US and he reports his findings to the Group Audit Committee. At the divisional level in both the UK and the US, the internal audit functions have been strengthened with particular focus on review of internal control processes. In the near term, the Group also intends to strengthen its Group Finance function reflecting the increasing demands of IFRS accounting and US GAAP requirements.

  The Group issues both sales and financial results on a quarterly basis. The external auditor reviews the quarterly and half year statements, and Christmas trading statement and presents reports to the Audit Committee for consideration.

- **Risk management** the identification of major business risks is carried out in conjunction with operational management and appropriate steps are taken to monitor and mitigate risks. The Risk Management Committee, whose members include the Group Finance Director, the Business Risk Assurance Manager and senior divisional executives, meets on a regular basis, at least four times a year. Matters considered by the Risk Management Committee include reviews of the Group s risk register, emerging issues, new regulations and the activity of the internal audit function. The external auditor receive copies of the papers submitted to the Committee. A report from each Risk Management Committee meeting, and any material non-compliance or emerging issue, is considered by the Board in a timely manner.

- **Control procedures** each operating division maintains documented financial and operating controls as well as procedures appropriate to its own business environment and in conformity with Group guidelines. Each of the operating divisions has an internal audit function which primarily reviews the processes in the store operations but also reviews central service functions. The work of the internal audit function is monitored by senior divisional executives, Group management, the Risk Management

Committee and the Audit Committee.

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Corporate governance statement (continued)

Other than as discussed under Reporting and Information Systems above, there have been no changes in the Group s internal controls over financial reporting during the period covered by this Annual Report & Accounts that have materially affected, or are reasonably likely to materially affect those controls.

Reviews of effectiveness the Board, in addition to receiving the Risk Management Committee reports, annually reviews the effectiveness of the internal controls system on the basis of a report submitted to the Risk Management Committee. This report is based on annual written self-certification statements prepared by the operating divisions and head office departments which confirm the extent of their compliance with all material internal financial operating and disclosure controls. These statements are prepared by the divisional finance directors on behalf of each operating division and are reviewed by senior divisional executives, Group management and the Board. The Disclosure Control Committee reports to the Audit Committee on a quarterly basis as to the effectiveness of the disclosure control procedures.

Based on their review of the Group s disclosure controls and procedures, as of the end of the period covered by this Annual Report & Accounts, the Group Chief Executive and Group Finance Director have concluded that the Group s current disclosure controls and procedures are effective in achieving their objective of ensuring that information regarding the Group is recorded, processed, summarised and reported and that the information is accumulated and communicated to management to allow timely decisions regarding required disclosure.

In reaching the conclusion on effectiveness of disclosure controls, the Group Chief Executive and Group Finance Director considered the disclosure controls in light of the restatement of the US GAAP reconciliation for adjustments for lease accounting and accounting for extended service plans described in note 31 to the financial statements. After considering the materiality, timing and nature of the information relating to restatements they continued to conclude that the disclosure controls were effective as of the evaluation date.

It should be noted that while the Group Chief Executive and Group Finance Director conclude that its disclosure controls and procedures are effective to provide a reasonable level of assurance, they recognise such disclosure controls cannot eliminate all error and fraud. They are designed to provide only reasonable, not absolute, assurance that the objectives of this control system are met.

Sarbanes-Oxley Act of 2002