**Signet Jewelers**

Will Hutchings: Hi, and welcome to the afternoon session, and I'd like to welcome and thank Signet for being here. Terry Burman, Chief Executive, and Walker Boyd, Finance Director, for the same format I think Terry will open with some comments, we'll have our standard questions, and then we'll open up the floor for some questions. So, go ahead, Terry.

Terry Burman: Thank you. Just some opening comments and an introduction for some of you who aren't as familiar with Signet as some others might be. We're the world's largest specialty retail jeweler in the US, which accounts for about 75% of our sales and operating profits. Kay is the number one brand by sales in the mass middle market. Last year, Kay's sales were $1.4 billion and in the first two quarters of this year, Kay's had positive same-store sales.

Jared is the leader in the upper middle market. It's an off-mall category, killer concept. Last year, sales in Jared were $725 million, while this year it has been impacted more by the economic environment than Kay. We believe that Jared has outperformed other middle market jewelry formats over the last nine months.

In the UK, which counts for about 25% of our sales and our operating profit, H Samuel is the number one brand and it's targeted at the middle market. Ernest Jones, I'm sorry, H Samuel had sales last year of $400 million, and Ernest Jones is the number two brand in the UK. It's focused on the upper middle market segment, with sales of about $325 million last year.

The last couple years have been the most challenging in that the US and UK retail sector have faced in a very long time. It's resulted in a major capacity reduction in all areas of retail, but I suspect that jewelry's been more impacted than most.

This process is continuing at an accelerated pace in terms of capacity reduction. Therefore, it puts a premium on the ability to generate profits in cash. Having a strong balance sheet and reliable financing in place, excellence in execution, and sustainable competitive advantages.

These factors enable management to focus on gaining profitable market share by reinforcing the competitive strengths of the business, such as the ability to recruit and retain the best staff as a preferred employer in the sector, having the best staff training and development, and being able to sustain the investment.

Having sector-leading supply chain expertise, merchandising function and ability to develop differentiated products, the scale to do national TV advertising as we have in both brands, Kay and Jared, and in H Samuel in the UK, and a much greater ad spend or share voice than our competitors.  We believe that the results we reported yesterday clearly demonstrated our strengths.  For example, in the year to date, we have broadly maintained operating income, excluding the $10.5 million of  re-listing costs last year, and increased earnings per share by 19%.

We have also increased our original target for free cash flow by some $100 million, between $275 million to $325 million.  And if achieved, this would reduce our net debt by about two-thirds from the last year end.

A copy of our release is available on our website, and also contains the Safe Harbor and Regulation G tables relevant to today's meeting.

We're a company that's driven by return on investment, in good times and in more challenging times.  In the good times, it's an invaluable discipline in helping to avoid over-expansion and marginally effective expenditures that come back to haunt you in difficult times.  In challenging times, the focus on return on investment is an invaluable guide to in terms of where to cut resources to a business.  When the upturn in the economy returns, we'll maintain our ROI discipline in respect of our capital allocation and all of our investment decisions.  Our continued focus will be on increasing sales per store, while we rebuild reliable sales models for appraising store investment.  And, this may result in a somewhat different strategy than adopted during the period 2000 to 2007.

As often in retail, that sounds disarmingly - all of this sounds disarmingly simple.  In practice, it requires dedicated focus management with the ability to execute on a consistent basis.  Within the jewelry sector, there are few companies with that sort of culture within the business at every level, and we believe that we have it in our business in both the US and UK divisions, and a group.  And I'm happy now to take any questions, and I think you have some starter questions for us?

Will Hutchings: Absolutely, thanks, and you've probably heard these quite a few now.  We've got three standard questions we've been asking every session.  I guess the first one is, the current sort of macro-environment, and the shape of the recovery, in your eyes, how do you see the recovery?  Is this a normal sort of downturn now that we're looking at?

Terry Burman: Well, I don't think there's any, there hasn't been anything normal about this recession.  And frankly, we don't know what the recovery's going to look like.  What we can do, however, is prepare our business for the worst and also prepare to take advantage of the best, should that occur.  So, we started off the year with a target to lower expenses by $100 million, lower inventory by $100 million, maximize sales and cash flow.  We're sticking to our $100 million expense reduction, even though our sales are better than our original plan for the year.  We're also adhering to our inventory reduction targets.  Actually, we increased it to $120 million.  About half of that is taken out of our supply chain, so it's invisible to the consumer.  Some efficiencies in our distribution center, taking out some over-inventory from last year, and also shutting down a rough diamond sourcing initiative that we had.

In jewelry, you don't have to make big bets about your inventory well advance of the season, and then clear all the merchandise.  You can consistently replenish because you're selling the same merchandise in the fall season as you're selling in the spring season, or the summer or the winter.  And so the manufacturers are all geared up to consistently supply you, so we can - we have a great planning team, they have every technological tool known to man that can be invented in terms of planning inventory.  So we're quite confident that we'll be able to take advantage of a more robust consumer environment, should it occur, both on inventory and staffing levels.

However, we're keeping our expenses tight and our margins tight, so that if we don't get an uplift from this Christmas, that we'll be able to hopefully continue the kind of results that we've had for the first half of this year.

Will Hutchings: Fantastic, and I think your results yesterday probably can give testament to this, but you know, the progression of your margins over the 12 months, up down or flat, I imagine, going in a positive direction for the full year.

Terry Burman: Over the next 12 months.

Will Hutchings: Over the next 12 months.

Terry Burman: Over the next 12 months, the - look, they're very dependent on, it kind of goes back to the question, to the first question. Our operating margins are very dependent on our sales level. And should we get the sales kick that we're hoping for in the fourth quarter, as I said, we'll be able to take advantage of it. Operating leverage in the US is about 40%, falls down to the operating income line. In the UK, it's a little higher than that. But it's going to be dependent on productivity, and we will benefit by the expense cuts that we have already made, already planned, for the business.

Will Hutchings: Fantastic, and I think this, the final point's quite interesting in terms of the changes you've alluded to already in terms of the store growth for the industry and yourself, but in terms of the capital allocation plans going forward from here, I wonder if you could touch on your CapEx plans, or your balance sheet.

Terry Burman: We've cut back on CapEx spending, just because of the lack of visibility. As I said earlier in my introductory comments, we're very ROI-focused. And when you don't have visibility into your returns because you can't figure out your sales, our sales models have been blown out of the water with this environment. Our predictive sales models. So when you can't, when it's difficult to predict the sales, it's difficult to predict returns. And therefore, we have interrupted our space expansion, space growth. For four years, we expanded space at about 10% a year, and we're doing so successfully in terms of hitting our ROIs.

We've stopped that because of the lack of visibility into how new stores will perform in this environment. When the economy normalizes or stabilizes, at whatever that normal is, we'll then look at the various formats that we have developed, Kay off-mall, Kay on-mall, Jared stores, and we will, if it's appropriate and we think we can earn our returns, then we'll develop strategies and rebuild our expansion capacity to take advantage of those formats and to build our brands, and to build new stores.

If we can't earn our returns, then we'll look at other ways of deploying our capital such as returns to shareholders, and maybe it's a combination of both. But we need to get some visibility before we make these decisions.

Will Hutchings: Interesting. There is a mic at the back, so if you open up for questions, there's a question just here.

Unidentified Participant: Thank you. Can you discuss what you've seen in malls, where there's been either a Zales or a Whitehall go out of business, what kind of comp left to be seen, or maybe differential between the whole fleet? The locations?

Terry Burman: Right. We're not - obviously there's a lot of variables. And there's a lot of capacity that's come out of the malls, rightly you say Whitehall, also Friedman's last year had mall stores that have been eliminated. And the Zales stores are more recent, but there are 161 stores, we have about 100 that directly compete in those malls. We haven't tracked by retailer going out by mall, what our experience is in those malls, but we're confident that we'll capture some of that market share and that that's one of the things that's helping us outperform the market right now. Total retail jewelry sales for the first six months of the year are down. The total market's down 11.5%. So, we're running at about a minus 4 comp and about a minus 2 total in the US. Obviously, we're gaining some advantage.

We think it's because of our competitive advantages, and also because of capacity reduction. Exactly how much, not certain of that, and we're not - there's too many moving parts to sit there trying to track every one of those stores, and it's only one variable.

Unidentified Participant: You talked about eliminating the rough diamond sourcing initiative. Just wondering if you're considering, or if and when you're considering, getting that back on line? And then if you could just comment on what you're looking for in terms of a result of that, in terms of margins, etc., and what would be your target sales level that you would be looking to direct source?

Terry Burman: I didn't hear the last part of that.

Unidentified Participant: Just in terms of what percentage of your sales would you eventually be looking to source directly?

Terry Burman: Oh, from the rough diamond initiative?

Unidentified Participant: Yeah.

Terry Burman: Yeah, we were into the rough diamond initiative, and we got to a point where it needed a capital investment, a serious capital investment. And at that point in time, where we were still not making money from it, not really losing money from it, but kind of break even, some instability - the first signs of instability in the diamond, in prices of rough diamonds, started creeping into the market. And we just said, "Shut this down, we're not willing to make a big investment and start pressing the bet in an unstable environment." Turned out to be the right decision. We took some small losses from liquidating that inventory and getting out of our contracts.

The -- we currently source loose and polished about 50% of the diamonds that we use. A reasonable estimate could be that maybe 50% of that 50%, so 25% of our total diamonds, might have been able to be sourced in that fashion, but this is more of a - this is an estimate, at this time. When could we look at possibly getting back into an initiative like that is going to depend on our outlook for the environment, and the stability of rough prices before we would enter back into that, into an initiative like that.

Unidentified Participant: And then what could it potentially do to the margin structure?

Terry Burman: I'm sorry, I'm still not hearing you?

Unidentified Participant: What would that do to the gross margin?

Terry Burman: Oh, to the gross merchandise margin? Well, it would be enhancing, but I - for competitive reasons I don't want to say exactly how much.

Will Hutchings: Question here…

Unidentified Participant: Thanks very much. If you could explain your staffing strategies in how in the downturn you can find the right people? Because it seems like the business stays fragmented because so much of it is a people business. How do you find and how do you retain the best staff?

Terry Burman: Well, you're quite right. It's very much, this is very much a people business. But we're an attractive employer, for several reasons. One is, we're known to have the best training programs in the industry and people want to come into our company because they know that they're going to get trained. We're also well known to have the best quality for money offering, and they have more pride in the merchandise that they're selling. But, I think in the end, prospective employees want to be with a winner, for a couple reasons. Their commissions and incentives are higher, and that's about 20% to 25% of their compensation of store staffs. And in addition to that, positions, there's more positions that open up in management and district management, in a growing retailer, than with a shrinking retailer. So, there's a clear path to promotion in our organization, and we have a policy of promoting from within. So, prospective employees know that once they're with the Company, we only promote our store managers from within. We only promote our - every district manager and every vice president of operations in our company, has been a store manager in our system. So, it's another attraction to get integrated into our system so that you can take advantage of that promotion path, and at the rate that we have been growing and certainly we're not growing right now, but we're not cutting back like others. All of that just makes us a very attractive employer in the sector.

Unidentified Participant: Could you talk a little bit about Jared and its competitors in terms of like, who are its principal competitors, and what would be its sustainable competitive advantages in your opinion?

Terry Burman: The competitive advantages that Jared has is first of all, huge inventory selection. Specialist salespeople, who are - because of the bigger store, and the bigger format, and the bigger level of inventory, we can afford to staff specialists. So, people in the watch department, they get specialty watch training. And these watches are very complicated these days. People in the diamond department that are well experienced and well trained in selling diamonds, and individual managers of those individual departments. So, an ability to deliver better product knowledge and better customer service. The repair facility in each of the Jareds is a big advantage in terms of attracting increased traffic.

Some of the features that we have, like the children's play area, just the whole environment in the store. But it goes to customer service and size of the selection. The competitors are mostly independents, off-mall independents. You're attracting, Jared attracts an upper middle market customer, about a $95,000 average household income. The competitors in that off-mall environment tend to be independents. There's one chain called Shane's, which just actually went into bankruptcy, that would be the closest chain competitor and they had about 28 stores. I think that they downsized in their bankruptcy to something in the 15-20 range.

The independents usually don't have as big a box, as robust an offering, the specialized help in the additional services that we have in Jared, and again I call your attention to the repair services which significantly increase our traffic. And then another competitive advantage that we have is Jared can advertise on national network television, so it has the mass to do that. And hopefully, you'll all see our "He Went To Jared" campaign this Christmas, which has been running for about, this will be the second Christmas that it's run nationally. And that's a huge competitive advantage.

Unidentified Participant: Can you talk about your margins over the medium term, if you assume some recovery in sales? Can you get back to the margins you had in 2006-2007?

Walker Boyd: I don't think there's anything that's structurally changed in terms of the margins that we have an our ability to earn the margins that we had between 2002-2007 when the US operating margin was about 12%. I think clearly with the expense reductions that we've taken this year, that will help in terms of mitigating the current sales decline. To get back to that high level of operating margin, however, we'd need a period of sustained positive comps. There's a number of factors that might help us getting there, apart from the cost reduction. This year clearly as we go forward, we will not have the immature stores that were somewhat of a drain on our operating margin as we were increasing space by 10% around in the previous four or five years, that was costing us about 50 basis points a year because of the immaturity factor.

It was certainly not going to be able to cut our expenses to the extent that we're going to get back to these margins. We would need a period of sustained positive comp growth, but we don't see anything structurally that's changed in terms of the market. The exiting of the capacity is clearly going to be helpful.

Unidentified Participant: If you were to compare 2001-2002 time periods, to maybe 2007, what would be the difference in your average ticket per transaction, if you could discuss that by your different concepts, at least within the US?

Terry Burman: Just give us a chance to look back at these. Doesn't go back that far? Well, between '05 - we've only got a schedule that shows '05. My - in '05, our Kay average price point was $282, and then last year it was $327. So you're talking about what is that, about close to 20% increase. And, my recollection is that this had been, that this average price point had been increasing since '01-'02, through '05, so I guess that it's probably someplace in the 30%, last year was probably 30% higher. And this year, it's coming down a bit. So, I would say that we're just interpolating, here. I'd say we're probably in 15% to 20% higher than we were in Kay in the 2001 time frame. In Jared, not quite as big a lift, so again, I've only got back to 2005. I would guess probably in the 10% range.

Unidentified Participant: Just following up on that, as you think about the business over the next three or four years, and you're trying to get to a more normalized environment, would you expect that transaction to continue to increase? Do you think that maybe there might have been some credit inflation in there, and really, those numbers should probably roll over a little bit more? How do you think about what a transaction price would be, even when you think about mix?

Terry Burman: I think it's going to - it's going to depend very much on macro factors. It's going to depend on consumers' willingness to spend. It's going to depend on consumer confidence, which goes back to the value of consumers' retirement accounts, the value of their homes, unemployment levels, wage rates, hours worked. It's just a whole bunch of macro factors, and so that depends on, all of those things are dependent on how robust the economy is. So, I believe certainly in a more robust environment where people are more confident and have more disposable income, our average price point will probably increase. Why? Because people like bigger diamonds. Consumers certainly like bigger diamonds. So, in a slower environment, in a more adverse environment, I think that we may, we may see average transaction values continue to decline as people are more careful about their purchases.

Unidentified Participant: Hi. You mentioned that your sales model stopped working. How many times has this happened before, and do you remember how long it lasted when your sales model just went out of whack? And does it always come back to the same factors that drive it?

Terry Burman: We've had to adjust. We adjust our sales models, our predictive sales models, regularly. And we had to take a meaningful adjustment. I don't know, I'm trying to remember, maybe it was five or six years ago.

Walker Boyd: 2001.

Terry Burman: Oh, right, it would - that would make sense. Where we took a meaningful adjustment, but it was - they went right back into predictability. The - we need some stability in order to recalibrate those models. The factors that we use to calibrate them are a range of site selection criteria and demographics. So, site selection criteria would be things like visibility, accessibility, co-tenancy, car count traffic, in malls how big the mall is, what class, what the sales per square foot are. Just a range of those, of various criteria for both mall and off-mall stores.

Unidentified Participant: Thanks, two questions. First question, your breakdown on how many stores right now are not profitable? And second, and I'm just curious, of the pricing change between '01 and '07, how much of that had to do with the underlying commodities of just gold increasing during that time, and now given where gold is now, is that going to have any impact on margins?

Terry Burman: Yeah. I don't want to keep getting into this '01-'07 because I don't even have the '01 numbers, so it's speculative. But the diamond prices during that time were relatively stable, and gold, which is about 20% of our cost to goods sold, went up from '01 was probably, if my memory is right was probably in the $300 to $400 range. So, you can work that out, you can work that out for yourself.

In terms of the number of stores that we have that aren't profitable, it normally runs at the end of the year in the range of about 5% of our units are unprofitable. And, they're usually at the -- many of those are at the end of the term of their leases or they're brand new stores that we missed on the sales models. At the end of January 2009 this year, is about 10% to 15%, it was running about 15%. During the year, it'll reduce as we close some of those stores.

But this is on a fully allocated basis. So, there's all kinds of - I mean, different retailers allocate differently and you have to be cognizant of that. When you're comparing retailers in terms of the number of stores that they have that may be unprofitable. We look at them on a four-wall basis, but we fully allocate things like advertising, centrally-incurred freight, store district managers, bad debt. So, many retailers, they have a central credit cost, whether it's outsourced or not. There's a cost to that. Do they allocate that to their stores, do they allocate advertising which is a centrally-incurred expense. We believe it's allocable to the stores, because we run 6.5% to 7% gross advertising expense before co-op.

If that store wasn't there with that volume, we wouldn't incur that level of advertising expense. So, we think it's appropriately allocable to the stores, that expense. So, we fully allocate and in order to determine our four-wall profitability, because that's so important in keeping your portfolio healthy.

Unidentified Participant: Just a quick question on the updated free cash flow guidance. I believe that included another $20 million or so drawdown in working capital. At the end of this year, how much more working capital do you think can come out, or do you want to come out?

Walker Boyd: All right, well, specifically the $20 million specifically related to inventory, there was some additional savings, some additional reduction of working capital, one impact of having higher than expected sales in the first half, is that as attachment rates on our extended warranty sales have continued at the same level so our sales of extended warranty have been higher than anticipated. Because we defer most of that revenue beyond year one, it has little impact on profit but it does help in terms of cash flow, because effectively what we're doing is just increasing our defer of income.

And there are also some timing differences because clearly, as Terry mentioned, our store staff are highly incentivized. A significant piece of that is store branch manager profit bonus and indeed home office bonus is also likely to be higher. So, our accruals at the end of the year for that are likely to be higher than originally anticipated. So that's clearly a timing difference that will reverse.

So the additional projection in terms of free cash flow comes from better than anticipated trading, a bit extra in terms of inventory realignment, and then these other more miscellaneous working capital issues. Going forward again I think it's going to depend on the level of sales activity. Clearly if there were a period where we returned to comp sales growth then our receivables are likely to go back up in proportion and certainly just as we've taken inventory out as we have seen sales decline in the last 18 months, then so if there was an increase then we would look to put not back in proportion, but certainly a piece back in terms of inventory.

So I think it will very much largely depend on activity. If there was a period of stabilization then I think our working capital at the end of this year would be in pretty good shape. So I wouldn't look for more reductions, but nor would I look for a level of reinvestment if we ended up with a period of stable comp sales.

Unidentified Participant: Would you discuss the level of your promotion right now for both the Kay Jewelers and for Jared, and then give us some idea of your opinion of where we are in the washout of excess capacity in the industry?

Terry Burman: Our professional cadence has certainly increased. We - at Kay. But many of those are promotions where we're taking advantage of promotions that we've developed merchandise for, where we've taken advantage of imbalances in the supply chain. So, some particularly good buys in diamonds.

And it's helping us protect our margins. Our margins are ahead at the half year in the US, what, 50-60?

Walker Boyd: Fifty basis.

Terry Burman: Fifty basis, fifty basis points. In Jared, we really don't promote. We've gotten a little promotional with some offerings, but we don't have percentage off sales, we don't have clearance sales. We just, it's a different kind of marketing format. We're marketing the selection and service, not necessarily price. The prices are one price, it's a one price shop. And so, we're not promoting on a price basis in Jared. Where we are, where are we in the reduction in capacity? The jewelry industry has a two-decade trend of net reduction in stores of about 400 doors a year. Last year it was about 1800 doors. This year we're predicting 750 to about 1500 net reduction in capacity. I think where we are in that cycle is very much going to depend, you're back to the macroeconomic environment. So thank you for - I see the clock's blinking here.

Will Hutchings: Yeah, the clock blinks at the back saying that we've had our time. So I'd just like to thank Terry and Walker. There is a breakout session just next door, so please feel free to follow us next door for further questions, but thanks very much.

Terry Burman: Thank you. Thanks for your attention.