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Conference Call Transcript

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PRESENTATION

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

Welcome to those joining by webcast and conference call. I'm Terry Burman, Group Chief Executive, and with me is Walker Boyd, Group Finance Director. Rob Anderson, Chief Executive of the U.K. business, is in the front row. I'll present an overview of the business, Walker will summarize our financial results. And then we will all take your questions.

During this presentation, we will be discussing Signet's business outlook and making certain forward-looking statements. Any statements that are not historical facts are subject to a number of risks and uncertainties and actual results may differ materially. We therefore urge you to read the risk and other factors and cautionary language in the annual report on form 20-F that was filed with the SEC on the 4th of May, 2007. We also draw your attention to the slide and our press release, which is posted on our website for more information on the risks and uncertainties.

In the first half, group total sales were up 9.2%, and like-for-like sales by 3.2%. Profit before tax grew 3.2% to $109 million. Earnings per share increased by 5.1% to $0.041. The board has declared an interim dividend of $0.0096. In sterling terms, this represents an increase of 7.5% using the exchange rate as of Monday.

Turning now to the U.S. business. The retail environment was more challenging in the first half than in most recent years. And this has been reflected in sales performance of most U.S. retailers. Our reported like-for-likes were up 2.7%. On an underlying basis, they increased by an estimated 2% after adjusting for the adverse impact of weather disruption over Valentine's Day and the benefit from the timing of a promotional event at the beginning of the fiscal year.

The like-for-like run rate in the last 12 weeks of the period was about 3.8%. Total sales increased by 7.6%. Operating profit was $126.3 million, little changed from last year. Operating margin was 10.4%. While expenses were tightly controlled, limited like-for-like sales growth meant that there was no offset to the impact of new space and a slightly lower gross margin. Bad debt to total sales ratio was 2.8%, comfortably within the range of the last 10 years. Once again, demonstrating our consistent accounts receivable record. As with all general retailers, we're subject to the economic cycle. And we have to manage the business accordingly.

In a slower environment, we managed costs even more tightly and align our operations to market conditions without cutting at the muscle of the business. Credit is a sales enabler, not a sales driver and our credit standards are strictly maintained. A period of slower market growth gives the

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opportunity to reinforce our competitive advantages and to continue to gain market share. Experience shows that that those retail jewelers able to execute a strategy consistently through the cycle are long-term winners. Therefore, we continue to implement our proven growth plan.

And I'll now look at these points in more detail. There are a number of volume-related costs that adjust with slower sales growth. For example, staff incentives last year made up 23% of store payroll. About 35% of our mall stores are on turnover related rents. And a number of other expense categories, such as store consumables and credit card fees, also vary with sales. Store staffing hours can be flexed to some degree to take account of slower foot fall and we achieved this by varying part-time hours into each store. Recruitment of home office staffs to support the growth of the business has been reduced.

We have also reviewed projects with a medium-term horizon to identify those that could be deferred with minimal short-term impact to the development of the business. For example, no new creative work has been commissioned for the J.B. Robinson television advertising. In merchandising, the open to buy has been adjusted to current expectations to ensure an efficient inventory. Our credit standards have not fundamentally altered for over a decade. There has been no significant change in credit performance in the first half, which has remained comfortably within the range of the last 10 years. Although we have seen a slight decrease in approval rates this year.

Our collection procedures and strategies are continually monitored and refined to reflect current conditions. For example, we have recruited over 40 collectors. As our credit operation is in-house, we're able to add resources as and when we believe it appropriate. The alternative is a third party changing the lending and collection practices due to wider credit market pressures without consulting the retailer. This potentially would have a significant impact on a payment method accounting for some 50% of our sales.

Our book is made up of short-term under 12 months, low average balances under $1,000, which helps reduce our credit risk. We also have an aggressive provisioning policy, which means a performance issue would be reflected quickly in our quarterly results. The strong balance sheet and operating margin enables us to continue to leverage our competitive advantages.

We're able to maintain a focus on training and customer service, marketing as a percent of sales and so grow our share of voice, inventory that has cut -- that is our customer selection, and the store remodeling program. Supply chain expertise and size allows us to better manage commodity cost pressures. This is even more important in a slower growth environment.

Real estate criteria, which have been consistently applied, means that we do not have marginal real estate that is particularly exposed to trading conditions. High store productivity, strong balance sheet, and consistent growth makes us an attractive tenant for landlords, particularly at times when competitors are under pressure. Our sustainable competitive advantages have enabled us to consistently gain market share over the last 10 years. Most meaningful gain came in 2001 in the downturn when we remain committed to our strategy while weaker competitors were forced to reduce important key areas like advertising and inventory.

Not only have we outperformed the jewelry industry, but our growth has been comfortably ahead of the retail sector. This market share growth has been driven by Kay, which has become the number one specialty brand by sales, and by Jared which has become the number four brand. The increasing consolidation within the sector is also highlighted on this slide. As you can see, the top five brands in 1999 had a 13.5% market share. In 2006, their share was 16.8%. Kay's significant outperformance has greatly increased our ability to promote the brand with further advertising support providing advertising leverage, additional leverage of our competitive advantage in marketing. For example, the Kay television impressions over Valentine's Day were up 34% compared to three years ago.

Now we'd like to show you one of the ads that ran this year. [Technical difficulties with video] Really like to show it to you with sound. But I guess that's not to be. There we go. I don't know what that means. Thank you. (Recorded commercial) There we go.

Research shows that these ads continue to be very effective in terms of driving customer traffic into our stores. Our marketing leverage has been very important in driving our high store productivity which is a major factor between our -- behind our superior operating margin. This is achieved even though some 35% of our store portfolio is under five years old and is therefore still increasing store contribution to sales have not yet reached maturity.

Turning now to our space expansion program. In fiscal '08, we expect a net space increase of about 10%, including a further acceleration of the rollout of the Kay off mall formats. This space growth is equivalent to opening the eighth largest specialty jewelry chain in the U.S. Jared openings will be less than last year at 19 stores. Three stores actually slipped into fiscal '09 due to normal planning and development issues.

Our disciplined approach to real estate enables us to continue to expand through the economic cycle. We maintain our strict operational real estate criteria with particular focus on high traffic flows. For Kay and both mall and off mall locations, this means prime corner sights in superior

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centers. For Jared, the preferred position is on entry pads with good visibility of the store and easy access from a major highway. The sales forecast model is based on experience in similarly located stores and is regularly reviewed to take account of changing trading patterns. The financial hurdle rate is a 20% pretax internal rate of return over a 5-year period assuming the working capital is unwound.

This year our space growth program requires an investment of about $200 million in fixed and working capital. New space constrains operating margin, inventory turn, and return on capital employed until the stores reach maturity. This is particularly so if the pace of expansion is increasing as it has been over the last few years. However, new stores help leverage home office overheads and bring buying and advertising scale so reinforcing the competitive advantages discussed earlier.

Our space growth is also increasing long-term shareholder value as the IRR hurdle. It's substantially higher than the group's cost of capital. We're often asked our preference for growth through organic or acquisition strategies. We continue to look for opportunities to pursue both. We financially evaluate them in terms of maximizing long-term shareholder value, taking into account the risks involved. And both have pluses and minuses.

With acquisition, scale is achieved sooner, particularly in marketing and buying. There is the opportunity to leverage central functions faster. And the development of a second national mall brand is accelerated. However, we have plenty of opportunity for organic growth and it is lower risk. All real estate in organic growth is hand picked to satisfy our strict criteria. If we made an acquisition, this would not be the case. Internal expansion also means inventory is selected by our merchandising department, which has a strong record. While a number of competitors have had inventory write-downs, and elements of any acquired inventory may not be consistent with our quality requirements. Newly opened stores have staff trained to our standards and all branch managers are appointed from within the division. The biggest challenge in our last acquisition, Marks & Morgan, in 2000 was to instill our customer service standards and culture in the stores' staff. Organic growth means that the investment in infrastructure can be matched to the increase in store numbers. An acquisition would achieve scale ahead of the infrastructure, particularly the availability of suitably trained staff in both field and home office.

The jewelry sector has a record of growth with sales increasing by a compound rate of 4.9% per annum over the last 10 years. We have consistently outperformed the sector with our market share increasing to 4.3% of jewelry sales and 8.8% of the specialty market. Our total sales growth has been about 12% per annum driven by both like-for-like sales growth and the doubling of store space. In aggregate, the new stores have exceeded our demanding investment hurdle rate.

We expect the jewelry market to continue to grow reflecting increases in disposable income and a strong bridal market. We're well-positioned to take advantage of this, as about 45% of our sales are in the engagement, bridal, and anniversary categories. Kay and Jared are targeted at the heart of the market with some 60% of jewelry sales being made by households with an income of $35,000 to $150,000.

We also have a significant opportunity to add stores with planned space growth of 8% to 10% per annum in our existing concepts. Of this, over 85% is expected to come from Jared and Kay in out of mall locations where the competition is largely from independent jewelers. At a time when many of our competitors are restructuring under new management, and endeavoring to put into place disciplines and practices that are embedded in our business, we have a robust organic growth plan, which means we are well-positioned to gain further profitable market share.

And now I'd like to turn to the U.K. business. Like-for-like sales are up 4.6%. Like-for-like sales were up 4.6% reflecting improved execution and some benefit from the weather. Total sales are up 4.2%, the constant exchange rates due to the closure at some H.Samuel stores. This impact is expected to be greater in the second half. The normal seasonal operating loss is largely eliminated despite a fall in gross margin.

The strong watch performance was a feature of the first half, particularly in Ernest Jones. Diamonds continued to outperform at H.Samuel. In Ernest Jones they also did well, growing in line with the like-for-like sales increase. Overall, diamond participation in the U.K. business showed another increase. Both chains continue to gain benefit from improved customer service and the ongoing focus on staff training.

This is a competitive advantage that can only be built over time through a disciplined and carefully planned program. In the past two years, we have significantly improved the content and quality of training and supporting materials. For example, I'd now like to show you a clip from a video for new recruits, which shows some of our U.K. store managers emphasizing the importance of customer service. (Excerpt from training video plays) This investment in training has been very well received by our store staff and is recognized to be sector leading by third parties such as the National Association of Goldsmiths and the British Horological Institute. We are also looking to improve customer service by offering a store card. We have been treating -- we have been testing our card in four areas. Two each for H.Samuel and Ernest Jones. And we've now decided to roll it out across both chains in time for Christmas. Cards will be operating in conjunction with GE Money, and are designed utilizing our U.S. experience to increase customer conversion, lift average transaction value, and reinforce customer loyalty.

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We continue to improve the customer experience by investing in the store environment. For H.Samuel we're now implementing an enhanced format and for Ernest Jones we're about to begin testing an improved design. We began to fundamentally change the format of the stores in 2001. The objective was to improve customer service to facilitate the sale of diamonds, fine jewelry, and more expensive watches, thereby lifting store productivity and profitability. The design drew on our U.S. experience with an open layout with display counters replacing the traditional self-select window-based presentation which is still prevalent among U.K. jewelers. This open format makes it much easier for sales staff to interact with customers and improved merchandise presentations. The designs are also less intimidating and have significantly increased the differentiation of our brands.

This slide shows one of the first mall stores to be refurbished highlighting the dramatic difference in appearance from the window-based store. More importantly, the redesign is fundamental to the long-term changes in the business, which are driving performance. This particular store is now five years old. And in the intervening years, we've learned lessons which have influenced the enhanced design we now apply to the H.Samuel refits.

Those enhancements include improved presentation of jewelry and clearer displays of branded products, easier customer flows within the store, which is particularly important at busy times, better usage of signage and lifestyle images, and is also a new logo. We believe these changes to be a further significant step forward that have again increased the differentiation of the H.Samuel stores from its competitors. 217 H.Samuel outfits -- outlets were in the open-store format at the end of last year, accounting for about 65% of sales. 21 stores are scheduled for refit or resite in the current year at a cost of about GBP5 million.

It's planned to close about 25 stores this year as appropriate property transactions become available or leases expire. The balance of the planned refurbishment program will be completed in fiscal 2009 and '10. During this time, H.Samuel will increasingly be focused on larger markets where bigger stores enable us to offer better customer service and wider selection. These stores generate a higher operating margin and a better return on invested capital.

Similarly, the Ernest Jones format has also moved to an open customer focus design over the last six years. The change has been made in fewer stores than in H.Samuel, and that's just the shape of the refit cycle. Ahead of the heavy Ernest Jones refit program in fiscal 2009 and beyond, we're testing an enhanced design this year. It's intended to make the stores more distinctive from their competitors by modernizing the image with stronger branding of the Ernest Jones name. We believe the design will increase the attraction of Ernest Jones to the more fashion-conscious customer. The internal layout of the store has been revised to further facilitate the selling process.

Visual merchandising is also being improved, which will appeal to the superior watch brands and provide greater clarity of presentation within the jewelry category.

These are illustrations of the design. And one of the first locations to be refurbished will be Bluewater, which is planned to open at the end of this month. Reflecting the refit cycle, only 38 Ernest Jones stores were in the more customer-focused format at last year-end, accounting for about 19% of EJ sales. Six locations are scheduled for refurbishment in the enhanced store format this year. And two Leslie Davis stores will also be refitted. In addition, three Ernest Jones stores are expected to be relocated.

The cycle means that some 150 stores are scheduled for refit or resite starting in fiscal '09 and ending in fiscal 2011. And this will require an investment of about GBP $35 million. The continuing store investment in both H.Samuel and Ernest Jones is complemented by the further development of customer service levels to enhance staff training. Combined with merchandising and marketing initiatives, this means that we have the opportunity to increase sales in a challenging U.K. marketplace. And now I'd like to hand over to Walker to review the financials.

Walker Boyd - ***Signet Group - Group Finance Director***

Good afternoon. Group operating profit for the six months of $116.9 million represents an increase of 5.3% constant exchange rates and reflects a stable U.S. performance and improvement in the U.K. and some increase in central costs. Finance costs have increased principally as a result of the $100 million 2006/07 buyback program. Correspondingly, pretax profit again on a constant rate basis increased by 3.8% or 3.2% on a reported basis. Sales growth in the U.S. was 7.6% with new space costs reaching 4.9%.

The underlying like-for-like sales growth is estimated to have been 2% with the benefit of a timing promotional event at the beginning of the half more than offsetting the adverse impact of weather disruption over Valentine's Day. The U.K. like-for-like was 4.6%, with space changes adverse price 0.4%. Exchange movements, as a result of an average rate of $1.99 against $1.81 a year ago, had a favorable impact on reported sales. At a group level, like-for-like growth was 2.8% on an underlying basis and total sales to constant exchange rates were up 6.7%.

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Looking at the geographical split, U.S. operating profits were little changed at $126.3 million, although operating margin of 10.4% was down from 11.1%. In the U.K., where profits are much more skewed to the fourth quarter, the normal seasonal deficit was virtually eliminated, with an improvement from an operating loss last year of $6.8 million at constant rates to only $600,000 in the current period. Group costs show an increase of $1.5 million at constant rates, primarily attributable to exchange losses largely arising on dividend payments and an increase in professional costs.

In the U.S., gross margins fell as anticipated by around 30 basis points. Reflecting tight cost control during the period, expenses remained steady as a percent to sales despite the lower like-for-like sales growth and a higher bad debt ratio. As usual, new space constrained operating margin by 40 basis points. In the U.K., the gross margin also eased by 30 basis points but the improved like-for-like, together with continued close control of costs, brought expense leverage of 190 basis points as I said largely eliminating the seasonal loss.

Dealing with the gross margin environment in more detail, in the U.S., the same mix factors, which have driven like-for-like sales had an adverse effect on gross margin percentage, were again in evidence in the first half. With regard to commodity costs, pressures have been somewhat less in the first half with polished diamonds, which account for about half of our cost of goods sold, largely stable in our qualities over the last 18 months. Gold, although only representing about 17% of cost of goods, has seen an increase of 40% over the same period, adversely impacting margin in the first half.

Market pricing has remained stable in the first half with little evidence of commodity cost increases being passed through to the consumer. We have gained meaningful offset through commodity cost increases with supply chain improvements and our initiative of purchasing rough diamonds continues to develop with further significant volume increase planned for 2008/09. In the U.K., commodity costs increases have again had only had a marginal impact with the small decrease in gross margin attributable to a strong performance during the sale period and further success in more targeted promotions throughout the first half.

Turning to the balance sheet, net debt increased by $121.6 million since the start of the financial year as we completed the 2006/07 repurchase program at a net cost of $23.5 million and we've also seen a somewhat higher than normal seasonal outflow. This is largely due to an adverse move in the working capital, which resulted from an acceleration in the range of payments reflecting overall advantageous terms. The net impact of higher capital spend and lower tax is minimal, but both interest and dividends showed meaningful increases.

Interest was higher largely as a result of the impact of the $100 million 2006 year repurchase program with dividends reflecting last year's 10% sterling increase and the impact of the weakening dollar since last year. For the full year, we would expect capital expense of about $170 million for the group and the cash outflow before exchange adjustments and movements in equity is expected to be between $90 million and $110 million, slightly higher than previously anticipated, again, as a result of the timing differences caused by the accelerated vendor payments. Now I'll hand you back to Terry.

QUESTION AND ANSWER

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

We will be pleased to take your questions now. We'll start with those people present in the room before going to those joining us by conference call and then return to the auditorium for any final questions. Please state your name and organization and if you're in the room, please wait for a microphone. So that those joining by telephone can hear.

Rod Whitehead - ***Deutsche Bank - Analyst***

Could you talk about your credit experience in a bit more detail? Have you changed your credit criteria at all or seen any different behavior in the credit book? And what's the thinking behind taking on, is there a specific reason why you're taking on 40 more collection agents.

Walker Boyd - ***Signet Group - Group Finance Director***

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I think if we look at the statistics on the credit portfolio, and I think you have to believe me when credit statistics are after sales and margin the most poured over statistics we have in the business. I think if you look at the individual ratios apart from the bad debt loss, you look at excess rates, and you look at the participation, you look at the monthly collection rate, all of these I would say are symptomatic. The movements in that are symptomatic of a tighter consumer. Having said that, and none of these movements show any sense of direction that there's a fundamental change in the performance of the portfolio. So in that sense, yes, I think the performance reflects economic situation, but no fundamental change and the comment that Terry made in terms of the loss rates being comfortable in the rate of the last 10 years, I would apply equally to these other key statistics I mentioned. I think the investment in more collectors, I think that is one area where we would say that keeping the receivables in-house is a competitive strength particularly in today's environment allows us to manage the credit portfolios to our strategy. We have maintained credit standards overall in terms of the overall level of acceptance. Deterioration and consumer balance sheet say that SAC rates go down a little. The other people tend to take slightly longer to pay and that's where we think it's appropriate then to invest in an additional collection response. And I think that is to our advantage as opposed to if we had credit on a third party basis with a bank. I think we'de take a different view in terms of their balance sheet ratios and come down on the SAC rate much more dramatically. And clearly that would have a much greater impact on our business model, then the additional cost of 40 additional collectors. So we will respond to performance of the portfolio, but we continue to strongly believe that keeping the receivables in house is a very strong competitive advantage, particularly in these uncertain credit times.

Rod Whitehead *- Deutsche Bank - Analyst*

Thanks a lot. Terry, you mentioned you're moving to national network TV advertising for Jared. Could you talk for a bit the implications what the advantages would be verses what you've been doing and whether some additional costs?

Terry Burman *- Signet Group - Group CEO*

The cost -- for Jared the cost will stay in proportion to its sales. Jared's growth makes it possible for us to increase the advertising budget that we spend on media. There's several significant benefits to national network advertising verses the regional advertising or the local advertising that we were doing. First of all, the impressions are of a higher quality. It just opens up opportunities to buy higher quality impressions rather than those impressions that are saved for the local markets. Secondly, it gives us an opportunity to do add-ons. With any TV buy, there are promotional opportunities. So for instance, in Kay, we're sponsoring the American Music Awards, we've done so for several years. We have the Kay lounge in the back where they interview the award winners. And this gives us an opportunity while we pay for our ads on the program, but it gives us an opportunity for extra promotional mentions. For instance when you go to a commercial they say American Music Awards brought to you by Kay Jewelers. We've never had these kind of opportunities. And there's many of these that we do for Kay throughout the year. We've never had these opportunities before in Jared. We'll now start to achieve them. So you get more for your money in terms of quality impressions, and you also get more for your money in terms of these promotional opportunities which can tie into your buy by allocating additional money to certain programs that you hand select. Finally, and the biggest benefit of going to national advertising is we've been able to as we've increased our sales and allocated the same percentage of sales to advertising costs in Kay, we've been able to raise our the number of impressions that we have every year. In Jared, however, because all the advertising has been local, all the additional new money has gone into funding the local advertising and adding new local areas to our advertising buy. Now, with national TV, we're going to be able to start increasing impressions as our sales and budget increase. So we'll be able to leverage our spend into increased impressions to come in from the increased budget from each new store. And that'll benefit the entire chain. We previously weren't able to do this because we didn't have enough mass to be able to get over the hurdle to buy national advertising. But now that we've reached that hurdle, now we can invest in national and start increasing our impressions like we have in Kay.

John Baillie *- SG Securities - Analyst*

Hello, John Baillie from SG. Could you elaborate a little bit on the vendor payments and the change in terms of impact that's having on the margins?

Walker Boyd *- Signet Group - Group Finance Director*

I wouldn't over estimate the scale, obviously if you look at our balance sheet, you can see that our creditors have gone down more. You would expect them to go down more at this time of the year relative to year-end, so they have gone down more than that. That really is a short count timing difference, where we are seeing vendors slightly earlier, and I think in effect using our balance sheet throughout the years, which ours is clearly stronger. So clearly it does have a benefit from to the overall operate by higher interest charges, but obviously I wouldn't meet the impact of it. If you look at it as effectively a two week timing difference in terms of the spike or our year-end -- month end vendor payments.

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John Baillie - ***SG Securities - Analyst***

(inaudible) whether they are working and whether you believe you can accelerate the pace of expansion going forward?

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

Sure. Just to tie up on Walker's question. I think you asked about the vendor payments really impacting gross margins. And no, they have no impact on gross margin.

John Baillie - ***SG Securities - Analyst***

(inaudible) gross margin .

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

We're very pleased with the first year test of the outlet centers. We opened five -- or we opened four, as you know gave us a total of five. And we're opening, we anticipate opening between five and ten next year. So good results, early days. But a good result.

Andy Hughes - ***UBS Limited - Analyst***

Good afternoon. It's Andy Hughes from UBS. Got a couple of questions. First on the level of cost growth. It seems to be a lot lower in Q2, if I'm right on the numbers. I know some sort of step change in the cost saving initiatives part of the equation. Do you think you found as much as you think you need to do for the year? Or should we expect you to be even tighter on cost growth in the second half? And the same things on the H. Samuels store closures that you've said. Can you give us any indication firstly of where you think we might be able to change size would be for HS and also what the P&L impact would be on these stores still optical at store level and this being long-term BCS offerings?

Walker Boyd - ***Signet Group - Group Finance Director***

I think on your first question, particularly if you're asking about the U.S., I think looking at the Q2 and Q1 cost increases is difficult because if you recall at the end of Q1, we did see that there was a flip of advertising spend in the U.S. for Mother's Day that had gone more into Q1 and reversed in Q2. I think if quarter on quarter at the expense levels is some what distorted. Having said that, I think if you look at the overall part, which is the appropriate way to look at to eradicate that the timing difference that we had at the end of Q1, I think both the U.K. and the U.S. have maintained underlying expense growth for the U.S. obviously net of space growth in that low single digits. I think for the balance of the year, both divisions will continue to tighten control costs. We don't have any specific cost-cutting exercises, similar to for example to what we had in the U.K. at the beginning of 2006 when we reacted to the change in activity. But overall, we'll continue tight control of costs, we'll remain important. Clearly to the second half when you look at the amount of expenses, which you can vary, they are somewhat less, typically the U.S. we're advertising then take the higher proportion of total sales. And as Terry has said, we continue to invest in advertising as a same percent of sales. So I would continue to look for underlying cost increases certainly in the low to probably under mid-single digits. But we don't have any plans for specific cost reduction exercises. I think it's just generally very tight control of the expenses. As far as H. Samuel closures are concerned, I think the eventual portfolio is there is a range I think we'll end up. Because there are a number of stores which tend to be in smaller markets, tend to have less space and therefore it's more difficult to reconfigure the store and to meet the standards that we're trying to achieve. So a number of these stores, we will make decisions over the next two to three years as they come up for recycle, if it's appropriate to exit because we get good property deals we need. On the other hand, it could be that we continue to change through the stores with more minor refits. So we at least maintain standards without necessarily fully refitting them. So there is a gray area, small number of stores, but meaningful. In terms of the overall impact, I think you've seen in the first half we have reduced space. The overall impact on operating profit in absolute sterling terms is likely to be minimal. Because these stores tend to have contributions in the low to mid single digit percent. And so that when you get some savings in terms of overall support, the impact as the operating profit in absolute dollar terms is minimal. What it would do over time is give a better return, because these stores really have a constraining effect on operating margin and working capital. in terms capital percentages it tends to go up over time.

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

I would just add to that there is a shift in the U.K. markets with some bigger centers, which obviously have an impact on the surrounding smaller market shopping centers. So you see this, and examples that come to mind are the center that's being built in Bristol or White City. And they do, these bigger centers allow us the opportunity or give us the opportunity to open bigger stores, provide a larger selection of merchandise, and better customer service. If other retailers do the same thing, and they are, then that does tend to impact some of the smaller market areas with smaller stores. And it's just a slow evolutionary market shift. And we're optimizing our portfolio because of that because that's where the market is going.

Tony Shiret - ***Credit Suisse - Analyst***

(inaudible) just a couple things. Talk about the U.S. expansion program. (inaudible) and second question is as far as the U.K. operation is, can you give us some idea as to what you hope to achieve in terms of that operation and profitability over?

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

In terms of the U.S., there's a slowdown, you're not going backwards in terms of retail sales. So the property costs are we haven't noticed any difference in property costs and don't anticipate any meaningful changes in the basic cost structure. Especially for the very best space. And that's what we require. The very best space is still rare, has more buyers than sellers. And for that space, we would not expect any fundamental change in the -- nor are we seeing any fundamental change in the pricing. In terms of the credit card program, this is I want to make it clear I want to emphasize that this is a third party, this is a third party program. So, I think your question to scale it's not an issue like in the U.S. business where we have scale. The thing that we're trying to achieve is this is a unique credit program with a lot of options and choices for the customer in terms of purchase plans that's modeled after our programs in our U.S. business. And the offering, if you will, in our U.S. business. As you know we've got 50% of our sales approximately on credit in the U.S. business. So we're not just adept at administering credit, but our sales people are very adept at selling, adept at selling it. And a lot of the program -- a lot of the skill comes in matching the customers' needs with the appropriate payment plan suggesting that knowing how to suggest credit, when to integrate it into the sale, or introduce it into the sale and how to close the sale with credit. We've taken those training methods over here, developed a unique credit offering, certainly in the jewelry market with three different choices that we'll be offering the customer this year. And this holiday, this Christmas season. With an interest-free program, a buy now pay later program, which is also interest-free. And most of our sales on those two programs. And then there's also a traditional interest-bearing program. So what we achieved, what we expect to achieve from it is that which we have achieved in testing four areas, which is increased sales. How much you want to know? That's why you're smiling?

Tony Shiret - ***Credit Suisse - Analyst***

Well yes, that might be the idea behind it.

Walker Boyd - ***Signet Group - Group Finance Director***

Well, right. I think it's important when you say how profitable, we're not -- this is in the sticks, it's not been run as profit credit business, credit has not been run as a profit center. It's a sales enabler. And clearly we would facilitate sales. In terms of profitability, it should be reflected more in the top line rather than looking at as a separate profit sale.

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

You can bet, for competitive reasons we're not going to share the list that we get. But you can bet, since we've been testing it and we're rolling it out, you can bet that the sales more than -- the incremental sales more than cover the cost for the program.

Jamie Isenwater - ***Deutsche Bank - Analyst***

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Jamie Isenwater, from Deutsche Bank. Can you tell us whether there's any CapEx differential between the new Earnest Jones refits and the old ones? And whether any of the watch brands contribute anything to this? And then secondly, just on watches in general, which have been strong industry wide and globally. What happened to gross margin in that product category?

Walker Boyd *- Signet Group - Group Finance Director*

I think the answer to your first question, both your first questions are no. I think we would expect the cost of the enhanced design that we showed the photograph the cost per store is not going to be materially different from the existing millennium research. So in terms of overall CapEx, there is no significant, no meaningful change. And no, I think in terms of contribution, we haven't received contributions in the past from our suppliers and we would not anticipate that going forward. In terms of overall gross margins, I don't think the gross margin on the watch category per se percentage has changed. Clearly, the favorable mix of the movement in mix towards watches in the first half in EJ was one of the contributing factors to overall 30 basis points decline in the gross margin. But, again, the pay back in terms of the leverage we get from the extra sales is worth the few basis points in terms of adverse mix on overall gross percentage.

Jamie Isenwater *- Deutsche Bank - Analyst*

Is there any major interest product groups mix change within the watch category?

Walker Boyd *- Signet Group - Group Finance Director*

You mean within specific brands?

Jamie Isenwater *- Deutsche Bank - Analyst*

Either brands or price points, is it all moving to higher price points?

Walker Boyd *- Signet Group - Group Finance Director*

No, I think in terms -- certain brands will do better than others. It'd be wrong to go into that at this time because that tends to be brands will perform better or worse over time I think in terms of general movement, yes. (inaudible) old-fashion brands within the Earnest Jones and the more prestigious brands, both of which have been strong. I would have to say the prestigious brands particularly.

Andy Hughes *- UBS Limited - Analyst*

Your table on market share, of the four major brands, I know you have obviously been the best performer in there. Is it notable that Tiffany seems to be going up in the ranks, as well every year and high-end luxury goods generally is performing very strongly in the market. My question is there anything that they're doing as a group, the higher end brands that you should be doing in terms of products or pushing price points higher?

Terry Burman *- Signet Group - Group CEO*

I was scrambling for my table because I thought you were referring to -- No, I've got it. I think that sector of the market has been the higher-end sector of the market has been strong. And I think that's more of a demographic issue than it is anything else. Having said that, for the past three years, we have meaningfully increased our average transaction values in both mall stores and in Jared. I think the last two years we were in double digits and this year we're in mid-single digits if my memory serves me correctly. But that's not -- we're always probing and testing. And we're testing -- as we test higher price points, customers respond to them, we're going to lift our ranges up to meet those higher average transaction values and then test it at an even higher level. So it's not -- we're not pushing this, customers are pulling the higher price points from us. We're working on our basic principle which is pull merchandising versus push merchandising. We're reacting to that, which the consumer is responding to in terms of our merchandise offering.

Andy Hughes *- UBS Limited - Analyst*

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Certainly watches is an area that worked very well for you. Do you think other accessories that's an area where you could push on?

Terry Burman *- Signet Group - Group CEO*

Our average price points are up in every category. We've got a new merchandise offering. In Jared we just put in a branded diamond, which is exclusive to us, called the Fearless. And what this is an ideal cut, ideal proportions in terms of the cut of the diamond that scores triple very high on a light reflection scale. So in the light reflection it's measured it's brighter. It's more sparkly. And that's exclusive to us. It's something that our merchandise, our merchandise team developed the idea, went to several manufacturers and asked them if they could produce it. Three of them couldn't were unsuccessful and had to drop out. Two of them are able to produce it. We've got exclusive rights to this. It's a more expensive product because to get to the right portion, you've got more waste when you're cutting the rough. Probably more than you wanted to know about diamonds. But we're very proud of the program because it gives us a product offering that can't be duplicated by our competitors. So we've got something special to offer. And the program's been very successful. It's only in the Jared stores and we're taking all the production that the manufacturers can cut. That's an example of a higher price point that's been successful in helping to drive our sales. Any other questions in the room? Okay, we'd now like to go to the conference call. And operator, would you tell us if there's any questions from the conference call?

Operator

Thank you. (OPERATOR INSTRUCTIONS) We have no questions at this time.

Terry Burman *- Signet Group - Group CEO*

That's like the fourth time in a row. Well, thank you, America. Thanks for your support. Any further questions in the room? All right. Well, thank you for attending.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen.

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