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## Conference Call Transcript

SIG - Signet Group Christmas Trading Statement

Event Date/Time: Jan. 10. 2008 / 2:00PM UKT

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## CORPORATE PARTICIPANTS

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## CONFERENCE CALL PARTICIPANTS

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**Rod Whitehead**

*Deutsche Bank - Analyst*

**John Baillie**

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**Barach Shariari**

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**James Pan**

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**Jamie Isenwater**

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**Naomie Schapira**

*JPMorgan - Analyst*

**David Jeary**

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**Tian Chen**

*HSBC - Analyst*

## PRESENTATION

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### Operator

Good day and welcome to the Signet Group Christmas trading statement. For your information, today's conference is being recorded. At this time, I would like to turn the conference over to your host today, Mr. Terry Burman. Please go ahead, sir.

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### Terry Burman - Signet Group - Group Chief Executive

Thank you, operator and welcome to all of you to the conference call on Signet's Christmas trading statement. I am Terry Burman, Group Chief Executive and with me is Walker Boyd, our Group Finance Director. I will comment on the Group's performance and then we will be available for questions.

During today's call, we will in places discuss Signet's business outlook and make 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 urge you to read the risk and other factors and cautionary language in the annual report on Form 20-F filed with or the SEC on May 4, 2007 and which can be found on the Group website at [www.signetgroupplc.com](http://www.signetgroupplc.com).

Additionally, certain financial information used during this call are considered to be non-GAAP financial measures. For a reconciliation of these to the most directly comparable GAAP financial measures, please refer to the Company's release dated 10 January, 2008 available on the news section of the Company's website at [www.signetgroupplc.com](http://www.signetgroupplc.com).

Now I would like to start with an overview of the Group. Like-for-like sales decreased by 6.8% over the Christmas period in a very challenging consumer environment on both sides of the Atlantic. In the same period, total sales were down by 3.7% at constant exchange rates and 2.8% on a reported basis. In the 47 weeks to 29 December, 2007, like-for-like sales declined marginally by 0.2%. Total sales increased by 3.7% in constant exchange rates and 5.6% on a reported basis.

Profit before tax for fiscal 2008 is currently expected to be within the range of \$330 million to \$340 million. The exchange rate for the year is anticipated to be \$2.01 to the pound against \$1.88 to the pound last year. The Group's operating margin is expected to be between 9% and 10% with a return on capital employed of about 18%. The Group's cash flow for the full year reflecting an investment in new space of approximately \$200 million is expected to show an outflow of about \$150 million before movements in equity. While inventory is a little higher than planned, it is in good shape as a result of our strong merchandising disciplines and tests before we invest policy. The balance sheet remains strong with year-end gearing likely to be about 22% and a fixed charge cover of 1.8 times.

Turning to the detail of the Christmas trading period and starting with the US, in a retail environment that became more challenging as the year progressed, the division focused on the basic retail disciplines of quality of customer service, merchandising marketing and applying strict criteria for new store investment. In addition, a disciplined approach to credit and pricing was maintained.

In the eight-week period to 29 December, 2007, US like-for-like sales declined by 8.1% and total sales by 3.6%. While this performance was clearly disappointing, we believe it reflected weak trading by the jewelry sector as a whole due to macroeconomic factors rather than executional or strategic issues associated with our business.

During the eight-week period, the division's average unit selling price increased by about 1% in both Jared and the mall brand stores. Pricing discipline was generally maintained. Although in response to competition, there was additional promotional activity within the Journey product category, particularly with regard to the basic iconic style, which had some adverse impact on gross margin. Overall, the decline in gross margin, including the impact of commodity cost increases, is likely to be in line with expectations. We are still modeling the price changes planned for implementation after Valentine's Day and we've not made a decision as to quantum. Gold is now at record highs and this clearly is an important factor in our considerations.

Journey merchandise as a category outperformed as did larger and higher quality diamonds. Sales of three-stone diamond jewelry and circle merchandise underperformed. Advertising was maintained at the planned level. Television and print impressions for Kay increased over the holiday season and was again supported by a national radio campaign and direct-mail advertising. Jared used both national network and cable TV advertising for the first time. The ratio of gross marketing spend to sales by brand will be up on last year on a 52-week basis and about 7.8% given the sales performance.

The Kay e-commerce website saw very strong like-for-like sales growth, but is still small in the context of the division as a whole.

In the 47 weeks to 29 December, 2007, US like-for-like sales decreased by 1% with total sales up by 4.8%. As a result, there will be some expense deleverage and operating margins are anticipated to be close to 10%, still well above the typical level of the specialty jewelry sector.

Credit sales participation for the year is likely to be up a little on fiscal 2007. Bad debts as a percentage of credit sales for the year is anticipated to be at the high end of the range of the last 10 years, reflecting the weak sales in the fourth quarter rather than a material deterioration in the performance of the credit portfolio. This increase in bad debts has been offset by additional income on the portfolio as a result of the higher level of receivables outstanding.

At the fiscal year-end, we expect to have 1399 stores, a net new store space increase of 10% from last year. The increase is comprised of 19 Jareds, 27 additional net mall locations, 40 Kay off-mall stores and five in outlet centers. We expect to close 17 mall sites in fiscal 2008, in line with last year. It is anticipated that in fiscal 2009, our new store space increase will be at the low end of our 8% to 10% growth objective because our investment appraisals will take account of recent sales performance.

In conclusion, while trading conditions continue to be very challenging, we remain focused on implementing our proven strategy and on gaining further profitable market share.

Now turning to the UK business, the trading environment became more challenging during the Christmas period and like-for-like sales decreased by 3.1% with H. Samuel down by 2% and Ernest Jones 4.4%. Total sales at constant exchange rates were down 3.8% and by 0.3% on a reported

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basis. In a retail marketplace, it was highly promotional. Pricing discipline was maintained and the gross margin is anticipated to be in line with last year's level.

H. Samuel's performance was comparatively encouraging and benefited further from initiatives begun in fiscal 2007 and developed further during fiscal 2008, including the introduction of revised training and development courses in all stores, better marketing, in particular the TV commercial, which was much improved, a refocusing of promotional activity and the development of jewelry collections and exclusive merchandise that helped to differentiate the brand, further conversion of 16 -- and finally, further conversion of 16 stores into the open format. We plan to develop these programs even further in fiscal 2009.

In H. Samuel, the average selling price was up about 6% compared to last Christmas and diamond participation increased. Sales of watches and fashion categories were strong, but gold and collectibles were weak. Ernest Jones experienced a sharp weakening in performance over Christmas compared to the first nine months of the year. While the watch category continued to outperform, diamonds, with the exception of the Leo range and a special Christmas ring, were disappointing. The average selling price increased by some 9%.

E-commerce in both H. Samuel and Ernest Jones saw significant growth from a low base, but remains a small part of the business.

For the year to date, the UK jewelry division's like-for-like sales increased by 1.8% while total sales in were up by 0.7% at constant exchange rates and by 7.7% on a reported basis. On a like-for-like basis, H. Samuel sales were up 1.2% and Ernest Jones by 2.6%. As expected, the gross margin for the year is anticipated to be slightly below last year. A very tight control of cost has also been maintained.

At the fiscal 2008 year-end, we expect to have 356 H. Samuel stores and 204 Ernest Jones. In fiscal 2008, 25 UK stores were refurbished. During the eight-week period, stores trading in the revised format accounted for over 50% of sales. The trial of the enhanced design for Ernest Jones has been very encouraging and in fiscal 2009, the initial phase of the rollout will be implemented. In total, 61 refurbishments are planned for next year, of which 42 are Ernest Jones.

UK operating profits are expected to be similar to last year on a 52-week basis and the division continues to achieve a healthy operating margin, a good return on capital and strong cash flow.

In summary, the trends that we saw in November largely continued. As I said earlier, profit before tax for fiscal 2008 is currently expected to be between \$330 million and \$340 million. Our proven operating strategies in both the US and the UK remain in place. Against the background of more difficult economic conditions, the Group's strong balance sheet, superior operating metrics and sector-leading execution are vital medium and long-term competitive advantages.

Before opening the call to questions, I would also like to cover the possibility of Signet becoming a domestic issuer for SEC purposes. The consistent growth in the holdings of US beneficial shareholders has meaningfully accelerated in recent weeks. As a consequence, the proportion of voting securities held by US residents in mid-December was just below 50% compared to approximately 38% in October 2007. As over 50% of the Group's assets are in the US, if the percentage of US beneficial ownership were to rise above 50%, Signet would no longer satisfy the definition of a foreign private issuer under the rules and regulations of the US SEC and would become a domestic issuer for US regulatory purposes.

The level of beneficial holding is monitored for this purpose on a quarterly basis and includes money managed on behalf of US beneficial holders by fund managers outside the US. Due to the need to look at beneficial holders, which requires obtaining information from custodians, we will not know the position at the end of this fiscal year until mid to late February.

In the event of becoming a domestic issuer, Signet would work diligently to meet additional US reporting and accounting obligations. Signet also would continue to file financial statements in the UK under international financial reporting standards and to meet the obligations of a public listed company on the London Stock Exchange. However, this will involve some extra cost and may on occasion result in the need to carefully examine the interplay of the regulations between the UK and the US.

The Signet Board has for some time kept under close review the most appropriate domicile and stock market listing for its shareholders as a whole. In light of the recent changes in the shareholder base of the Company, the Board will further consider these matters, including seeking the views of shareholders. There is no certainty as to the outcome of this assessment even in the event of Signet becoming a domestic issuer.

Now I'd like to open the call to any questions that you may have. Operator?

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## QUESTION AND ANSWER

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**Operator**

(OPERATOR INSTRUCTIONS). Mal Patel, Merrill Lynch.

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**Mal Patel - Merrill Lynch - Analyst**

Good afternoon, all. Good morning wherever you are I guess. I have a few questions.

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**Terry Burman - Signet Group - Group Chief Executive**

We are in the UK, so it is good afternoon.

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**Mal Patel - Merrill Lynch - Analyst**

Good afternoon then. Can we talk about the current year and some of the comments you made on the call? You say that in the US, you expect gross margins to be in line with expectations. Where do you think expectations are on gross margins in terms of the year-on-year movement?

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**Terry Burman - Signet Group - Group Chief Executive**

Most analysts have us down a half a point to a point to last year.

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**Mal Patel - Merrill Lynch - Analyst**

Okay. And can you comment a little bit about whether you have been able to do anything with regard to costs given the short timeframe that you're reporting? In November, for example, you had reported very negative like-for-like. Were you able to do anything on cost at all?

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**Terry Burman - Signet Group - Group Chief Executive**

Not really. A little trimming around the edges, but not much. Most of the cost impact -- most of the -- as you know, we have some variable costs such as percentage rent, supplies. When the level of sales goes down, the level of commissions and incentives goes down. So all of those were impacted by the lower level of sales. We trimmed a little around the edges in terms of base payroll as it was clear that we weren't hitting our numbers, but very marginal, very marginal at this point in time.

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**Mal Patel - Merrill Lynch - Analyst**

Sure. And I understand that your price review is still ongoing, your pricing review. You won't be implementing it until the middle of February, but do you have some idea of what you might expect for gross margins next year or what kind of like-for-like environment are you budgeting for?

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**Terry Burman - Signet Group - Group Chief Executive**

Well, it is pretty hard to make that determination about the gross margins until we settle on the -- until we settle on the price increases and we don't -- we wouldn't disclose it anyway and we don't disclose our sales plans either.

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**Mal Patel - Merrill Lynch - Analyst**

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Sure. Okay, thank you.

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**Terry Burman - Signet Group - Group Chief Executive**

You're welcome.

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**Operator**

Rod Whitehead, Deutsche Bank.

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**Rod Whitehead - Deutsche Bank - Analyst**

Afternoon there.

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**Terry Burman - Signet Group - Group Chief Executive**

Hi, Rod.

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**Rod Whitehead - Deutsche Bank - Analyst**

Hi, there. On the inventory, you mentioned it is a little higher than planned. Could you quantify that figure? I am wondering whether -- I know you will be carrying that inventory forward to clear over the next two or three months, what kind of implications, if any, that has for the repricing exercise? And secondly, over the last four or five years, you have typically outperformed your listed competitors. There is only Zales and Finley's left now. Whereas this time around, that doesn't seem to be the case with Zales down 9% like-for-like and Finley down 6% like-for-like and whether you feel that you missed any tricks over the Christmas period?

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**Terry Burman - Signet Group - Group Chief Executive**

In terms of the inventory, we are about \$30 million over inventory on a \$1.5 billion inventory -- not significant. The only implications that it really has is we will reduce our buying over the first quarter of the coming year and we should be back in line -- most of that \$30 million, by the way, is in the US. We should be back in line by the end of Mother's Day, US Mother's Day, which, as you know, comes right at the end of the -- beginning of the second quarter.

In terms of the repricing effort, it really doesn't impact the repricing effort -- that small amount of excess inventory. There is no clearance required on it. It is the same merchandise that we will be selling. It is all good merchandise, all current merchandise that we will be selling through the next season.

In terms of -- I didn't -- I heard your question, I didn't quite understand it. We still did outperform Zales. We have been outperforming them for six years in a row every quarter and we outperformed them this quarter. It may have been by a smaller amount, but these numbers -- these numbers -- sometimes it is a smaller amount, sometimes a little larger amount and frankly, we are on such a higher base, our outperformance of them is not our primary focus. Our primary focus is internal on our own business and how to drive -- how to drive our sales.

In terms of Finley, I don't know that we've outperformed them every quarter. Their sales were down about 6%, certainly in the range of ours. JC Penney announced today that their sales were down 7.5% in total and they called out that jewelry was one of their weakest categories. So that was obviously above a 7.5% decrease and they had a very strong a much stronger than last year jewelry offering. So it is obvious that -- from that -- from all of this specific information and from some -- a lot of anecdotal information that we have that we certainly have nothing to be -- I think we have nothing to be embarrassed about. Our performance is fine.

Did we miss any tricks? If you -- if one could have predicted that we would go from a plus 2.5 year-to-date through the first three quarters to a minus eight in November and December, yes, we might have done a few things differently. We might have had a little more balance into lower-

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priced goods, a little more promotional activity going, but I don't know anybody that would have or could have predicted that kind of sharp drop-off in results. It is obvious from the competitor information that it is not company-specific; there was a macro factor. It was just not -- it was not able to be predicted. So there is always things that you can do better. We always have -- we always review the season when we are through it, look at opportunities for improving. We have started that process already and we do have some initiatives in response to the current environment, which I am certainly not going to share on an open line with you, that we will be implementing in the first and second quarters, but I think -- I think by and large coming off the sector-leading performance that we have had and maintaining that and gaining further market share, I don't think that there is a lot that we missed.

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**Rod Whitehead - Deutsche Bank - Analyst**

Thanks a lot.

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**Operator**

John Baillie, Societe Generale.

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**John Baillie - Societe Generale - Analyst**

Good afternoon, gentlemen. Just a question really around the credit book. Can you give a feel for actually how much that grew year-on-year and where it is now and what is actually happening with the average collection rate, the monthly collection rate and maybe even the number of active accounts and outstanding balance?

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

Yes, John, it is Walker here. I think in terms of the overall performance of the portfolio, as we said in the release, the net loss as a percent to credit sales is likely to be at the top end of a 10-year range to some extent, driven as much by the fact that it's sales that have clearly been less than we would have expected.

I think when you look at the other characteristics around the portfolio, they all continue to show the same factors as we said at the end of Q3. They all show signs of a tighter, more credit conscious consumer, but not showing any fundamental changes so that, for example, the average outstanding balance that we would expect by the end of this year will be largely in line with the increase in ASPs. So there is no fundamental shift in terms of the shape of the average outstanding balance.

If we look at the average monthly collection rate, we are in a range I think over the last 10 years of about 13.5% up to the high 14%. This year, again, projecting a little bit, in terms of the next three weeks, we believe it will be around about 14%. So again, within that 10-year range.

One outcome of that or one factor driving that is that, on average, consumers who are paying on time tend to pay more than the minimum required. What we have seen over the last period of time and continuing through the fourth quarter is that that excess above the minimum is less than it has been, which says clearly that consumers are keeping a little bit longer to pay off the debt.

One outcome of that in terms of P&L, as Terry mentioned on the call, is that to some extent, the additional bad debts that we are charging off are offset by an increase in other income because people are taking longer to pay even if they are paying on time then our other income goes up.

In terms of the year-end total balance on Accounts Receivable, I am not going to get into that number particularly because to some extent it is not a particularly relevant number because the year-end is a year high effectively. The average I would expect in terms of overall throughout the year is the average outstanding balance in total somewhere around about \$800 million, which is a bit higher than last year. A, because total sales are higher, participation is slightly higher and as I said, people taking, even if they are paying on time, still taking a little bit longer to pay. I think I just about covered all the metrics.

The other one I would say that was participation is up over the fourth quarter (inaudible), particularly the accept rate or our reject rate has also seen an increase. Although we are getting more applications, we are rejecting a higher percentage and again, I think that is a sign of consumers personal balance sheet showing a deterioration and the strong credit score systems that we have there, then effectively have a higher rate of rejection, which is our lending standards give us this I think the underpin to the strong performance of the portfolio.

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**John Baillie - Societe Generale - Analyst**

So have you moved your scoring materially in the last couple of months to reach that rejection rate?

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

No, I think our stance is what we want to do is have the bar at a consistent height and that will vary at the margin as people analyze it, but fundamentally keep the bar at a consistent height and you apply these rigid lending standards. If consumers' personal balance sheet then deteriorates, then by definition, fewer will clear that bar. I think it is when you start altering the height of the bar, then you get into more problems about well what is going on within the portfolio. So no, I think it is maintain credit standards, apply them rigidly and then there will be effectively self-regulation there in terms of the quality of the portfolio.

**John Baillie - Societe Generale - Analyst**

So the greater rejection rate was not sort of a key factor in the weaker sales performance then?

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

Well, I think it has an effect. Clearly, it would have an effect because we would have -- I think more people applied for credit as a percent. There were higher rejections, so clearly, yes, it has an overall impact on sales because we are rejecting a higher proportion of people, but by maintaining these lending standards, I think in terms of risk reward to the reward of the sale against the risk of bad debt, then it is appropriate to reject the higher percentage.

**Terry Burman - Signet Group - Group Chief Executive**

But the higher rejection rate did not -- doesn't even come close to the level of -- to covering up the level of sales decrease.

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

No, because net net overall credit as a percent of total sales still went up.

**John Baillie - Societe Generale - Analyst**

Can you give a feel for how much it moved? I think last year it was (multiple speakers) or something like that.

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

It will be less than one percentage point, in that sort of 80 to 100 basis points. So you'll be looking at the 52.5% credit sales to total sales.

**John Baillie - Societe Generale - Analyst**

Great. Thank you very much.

**Operator**

[Barach Shariari], Basso Capital.

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**Barach Shariari - Basso Capital - Analyst**

Good afternoon. I had a question on the watch subsegment. You mentioned that the category was outperforming. I wanted to get more color if possible on the breakdown of that geographically by types of stores, price points, as well if you could mention any color on the inventory levels and the order backlog on watches. That would be great.

**Terry Burman - Signet Group - Group Chief Executive**

That is all proprietary information. We wouldn't -- I can tell you, the only color I can put around that are certainly fashion watches were strong, but the category was strong in both HS and EJ, which is what we were talking about in terms of watches being strong across the UK division, but we don't give geographic breakdowns. We wouldn't -- certainly wouldn't give breakdowns by brand.

**Barach Shariari - Basso Capital - Analyst**

Okay. And can you quantify the outperformance? Is it comparable to last year or do you see any acceleration or deceleration?

**Terry Burman - Signet Group - Group Chief Executive**

Is the outperformance comparable -- I don't understand your question.

**Barach Shariari - Basso Capital - Analyst**

I am saying -- you are saying it is continuing to outperform. Can you just quantify if it is just comparable to the outperformance that you have seen in the past period to which you are comparing it or even stronger?

**Terry Burman - Signet Group - Group Chief Executive**

At about the same -- at about the same rate approximately. It gained -- the watch category gained as a share of our total sales over the Christmas period.

**Barach Shariari - Basso Capital - Analyst**

Okay. Understood. Thank you.

**Operator**

James Pan, PPE Partners.

**James Pan - PPE Partners - Analyst**

Hi, given your balance sheet and your expansion plans and possibly other venues to pick up market share, how much flexibility do you have to possibly take advantage of the low prices and low valuation, especially on the price of the book, of buying back shares at this point?

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

I think, as we have always said, the Board looks at overall distribution policy, which would clearly include dividends, as well as buybacks. It looks at the performance of the business. It looks at economic outlook and it looks at -- on the needs of the business. We remain committed to our proven strategy in the US, which, as Terry said, says that we will -- our space growth range of between 8% and 10%. We believe we are likely to

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stay in that range acknowledging more likely in the new fiscal year, i.e. fiscal '09, to be at the lower end of that range as opposed to the top end. So I think the question of buybacks is something that the Board will consider in line as part of its overall distribution policy.

But I think clearly the major objective of the Group will be to maintain a strong balance sheet because in more difficult time such as this, it is key that we have the flexibility to remain on strategy because historically it is those who are able to do that through more difficult times that (inaudible) able to take a stronger, more profitable market share.

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**James Pan - PPE Partners - Analyst**

Thank you.

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**Operator**

Jamie Isenwater, Deutsche Bank.

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**Jamie Isenwater - Deutsche Bank - Analyst**

Good afternoon, gentlemen. Just a couple of questions actually. The first one in the US. What the difference -- if you can give us a difference between Jared and the rest of the business in terms of like-for-like run rates and whether that has moved in the quarter versus the rest of the year. And then in the UK, the TV advertising campaigns seem to be quite different this year compared to last year. Just wondering if you could give us some feedback on whether you think they have been successful and if you can give us a little bit more detail on that.

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**Terry Burman - Signet Group - Group Chief Executive**

Jared outperformed the mall divisions and Kay was stronger than the regionals. Jared was a little stronger than its outperformance during the year-to-date. Jared's performance over the Christmas season was a little stronger compared to the mall divisions than its performance year-to-date.

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**Jamie Isenwater - Deutsche Bank - Analyst**

Sorry. Is that driven by one thing in particular, watches maybe or was that just a general pattern?

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**Terry Burman - Signet Group - Group Chief Executive**

I really think it is a market issue -- macro issue. In terms of the TV commercials, are you talking about the H. Samuel, the Ernest Jones or both?

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**Jamie Isenwater - Deutsche Bank - Analyst**

Both actually I thought were quite different year-on-year.

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**Terry Burman - Signet Group - Group Chief Executive**

Right. They both tested better than their commercials last year. We believe that they probably helped our business compared to last year. We don't have any hard evidence of that. We don't have any consumer -- it is too early to have had any consumer surveys or enough feedback to know, but just anecdotally, we believe that, from the mentions that we got from customers and others that we hear from, we believe that they were better received than the prior year. It is very difficult to pin one issue down, especially one that is as difficult to read as advertising and attribute the results of your business to that one factor. But we believe that we did a better job on our TV advertising than we did the year before.

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**Jamie Isenwater - Deutsche Bank - Analyst**

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Okay, great. Thank you very much.

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**Operator**

Naomie Schapira, JPMorgan.

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**Naomie Schapira - JPMorgan - Analyst**

Good afternoon, all. This is Naomi from JPMorgan. I have a couple of questions for you. The first one is in Ernest Jones, you were talking about a weak diamond performance. I know that you only have a few [additions] in the new format right now, but did you see that diamonds performed better in those stores than in the rest of the store park?

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**Terry Burman - Signet Group - Group Chief Executive**

Yes, they did. Yes, they did. It is about -- it is seven stores and diamond participation did do better in those seven stores than in the chain as a whole.

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**Naomie Schapira - JPMorgan - Analyst**

Okay, thanks. And the second question is about the potential change of listing to the US. Did you have the opportunity to talk about that with your main shareholders and if yes, what do they think about listing in the US?

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**Terry Burman - Signet Group - Group Chief Executive**

Well, that is the very issue that we need to talk to our shareholders about. This is an issue that the Company has regularly reviewed for years. You can imagine that we would be doing that since 75% of our business and our profits are in the US. Based on the recent sharp increase in our US beneficial holders, we are going to do a further assessment of our shareholders' wishes and make a decision about domicile, about listing and those can be two different issues based on shareholder feedback and several other issues like taxes.

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**Naomie Schapira - JPMorgan - Analyst**

Okay, thanks. And just a quick last one, did I understand well that the gross margin in the UK for the full year was slightly down?

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**Terry Burman - Signet Group - Group Chief Executive**

Yes.

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**Operator**

David Jeary, Investec.

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**David Jeary - Investec - Analyst**

Yes, good afternoon, gentlemen. A couple of quick questions. One on CapEx implications for next year, I am not sure if you're prepared to give any guidance on that given the lower end of range that you're going for in terms of space growth. And secondly, just a quick clarification. Your comment and statement on the divisional operating profit in the UK broadly in line, is that on sterling local currency basis or in reported US?

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

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Sorry, David, I didn't quite get your --

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**Terry Burman - Signet Group - Group Chief Executive**

Operating income in the UK.

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**David Jeary - Investec - Analyst**

You said it was broadly in line with last year's, but it is not stated whether that is on the reported or local currency basis.

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

It is on a local currency basis.

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**David Jeary - Investec - Analyst**

Okay. I see that, but I just wanted to check, thank you.

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

As far as CapEx is concerned I think for next year, we clearly have still to finalize budgets. I suspect in terms of overall capital expenditure for the Group as a whole that it will be largely in line with the current year and a couple of factors there. One, on the one hand, as we said, we would expect US space expansion to be at the lower rather than the top end of the range, but against our UK refit program for next year, particularly based on the very encouraging performance of the EJ and new concepts, will be at higher levels. So for example, I think Terry mentioned we will be doing about 40 of the Ernest Jones stores, which is a much higher level in the coming year. So overall, I suspect the CapEx budget will end up -- will be much of a muchness with the current year. With the year just about to end --

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**Terry Burman - Signet Group - Group Chief Executive**

But when we are trading CapEx between the US new stores and UK existing stores, obviously there is a working capital implication by opening less space in the US.

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**David Jeary - Investec - Analyst**

Okay, thanks, Terry.

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**Operator**

(OPERATOR INSTRUCTIONS) [Tian Chen], HSBC.

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**Tian Chen - HSBC - Analyst**

Hello, good afternoon, gentlemen. Just one quick question. Are you still keen on acquiring one of your US competitors in the coming financial year? [Even if] the investor activities [is] on your competitors?

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**Terry Burman - Signet Group - Group Chief Executive**

Jan. 10. 2008 / 2:00PM UKT, SIG - Signet Group Christmas Trading Statement

Yes, I am not sure -- well, we would -- we are still ready, willing and able to do an acquisition if it meets all of our acquisition criteria, which is good real estate -- good real estate locations, our sector of the market and the right price and the appropriate geography. So if it meets all of those qualifications, we are still prepared to do an acquisition.

**Tian Chen - HSBC - Analyst**

Will there be any kind of limit on the size you are looking at?

**Terry Burman - Signet Group - Group Chief Executive**

I guess at some point there is. Bigger makes it more difficult because it is a larger integration process and distracting ourselves during a difficult time for consumers with a bigger acquisition makes it more challenging and it is something we would have to consider, but again if it is the right - if it is good store locations, the right geography, the right price, we would certainly consider an acquisition.

**Tian Chen - HSBC - Analyst**

Thank you very much.

**Operator**

(OPERATOR INSTRUCTIONS). Gentlemen, if we have no further questions in the queue at this time, I would like to turn the call back over to you for any additional or closing remarks.

**Terry Burman - Signet Group - Group Chief Executive**

I would like to thank all of you for your participation in this call. Our next trading announcement will be the fourth-quarter sales, which is scheduled for the seventh of February. And now I would like to close by wishing all of you a happy new year. Goodbye.

**Operator**

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

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