

FINAL TRANSCRIPT

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SIG - Q1 2008/09 Signet Group Earnings Conference Call

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CORPORATE PARTICIPANTS

Terry Burman

Signet Group plc - Group Chief Executive

Walker Boyd

Signet Group plc - Group Finance Director

CONFERENCE CALL PARTICIPANTS

Michael McDonald

Third Eye Investment - Analyst

Ben Spruntulis

Citigroup - Analyst

Rod Whitehead

Deutsche Bank - Analyst

Andrew Hughes

UBS - Analyst

PRESENTATION

Operator

Good day and welcome to the Signet Group quarter one conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Terry Burman. Please go ahead sir.

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

Thank you operator. And welcome to the conference call on Signet's first-quarter results. I am Terry Burman, Group Chief Executive, and I have with me Walker Boyd, Group Finance Director. Walker will review the financial results and then I will comment on our operations in the U.S. and the UK. We will then take any questions.

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

In today's presentations 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 that was filed with the SEC on May 9, 2008, and which can be found on the Group website at www.SignetGroupplc.com.

In the first quarter Group total sales were little changed at just over \$822 million. The exchange rate for the quarter was \$1.98 to the pound against \$1.96 in the comparable period last year.

Group like-for-like sales decreased by 2.5%. Operating profit was \$43.8 million against \$54 million last year, primarily reflecting the U.S. performance. As a result, operating margin was 5.3% compared with 6.6 in the first quarter of fiscal '08.

Net financing costs were up by \$2 million over the comparable period, primarily reflecting the cash outflow in fiscal 2008, as well as a reduced pension credit.

Q1 profit before tax was \$38.6 million against \$50.8 million last year. The tax rate was 36%, in line with the anticipated full year rate. Our basic earnings-per-share were \$0.014 compared with \$0.019 in the first quarter of last year.

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Looking at the cash flow, there was a net inflow from operating activities in the quarter of \$20.3 million against \$4.3 million outflow in the first quarter of last year as a result of tight control of working capital and lower tax payments, which more than offset the decline in operating profit.

Capital expenditure was \$26.4 million versus \$28.3 million last year. And the Group is anticipating a full year spend, also similar to last year, at about \$140 million.

Net debt at the end of the quarter was \$377 million, up \$90.8 million from the level 12 months ago, again, as a result of the cash outflow during fiscal 2008. In the quarter the net debt position was little changed against a \$53 million output in the comparable last year, which included a \$29 million share buyback.

We continue to manage working capital tightly and to maintain our strict investment appraisal procedures. As a result of tight inventory control, cash outflow this year is now expected to be towards the \$40 million end of the \$40 million to \$80 million range previously indicated.

I will now hand you back to Terry who will talk about the developments in the business and the operational initiatives that we have taken.

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

Looking first at the U.S., three features in the first quarter standout. First, retail trading conditions remain difficult. Second, as we set out in April at the year end results, we have taken action to realign costs and the rate of growth at the store portfolio to reflect the changed conditions. And third, we have implemented a new pricing architecture designed to at least maintain gross margin percentage at last year's level. The price increases take account of both the substantial increase in the cost of gold and an increase in promotional activity.

Reflecting a continuing difficult trading environment, total sales were little changed at just over \$630 million. Like-for-like sales decreased by 4.7%, with some benefit from better weather over Valentine's Day.

For the quarter as a whole, gross margin was up 50 basis points on last year. Average transaction values were up about 7% in the mall brands and 6% in Jared. However, gross margin and average transaction values during the period are less relevant than normal due to the phasing in of price changes.

Our overall conclusion is that so far we are encouraged by the results of the price increase, but it is still early days. We will conduct a full evaluation this summer.

So far we have seen better than expected volumes and gross margins. Many competitors have increased some private prices, however, none have taken action that is as comprehensive as the steps that we have implemented.

We continue with our gross margin objective of at least maintaining last year's level. The final outcome will depend on merchandise mix, the level of promotional activity undertaken, and the cost of gold and diamonds.

U.S. operating profit was \$45.5 million against \$59.9 million in the comparable period. Operating margin was 7.2%, down by 230 basis points on last year, primarily reflecting the deleverage due to like-for-like sales decline. While action has been taken during the quarter to realign costs to the current levels of sales, the benefit of these initiatives will not fully impact until later in the year.

The net bad debt charge to sales ratio increased by 70 basis points on the comparable quarter, and is outside the tight range of the last 10 years. However it was largely offset by additional income from the portfolio.

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Credit participation increased by 170 basis points over Q1 fiscal '08, reflecting a higher level of credit applications while approval rates were lower.

We have continued to review our store portfolio and net space growth plans for the current year. While there has been little change to the number of new openings, our planned level of closures has increased by 12 to just over 40. These stores are split roughly one-third Kay and two-thirds regional brands, and are at the end of the lease terms. We now anticipate a net space increase this year of between 4 and 5%.

Turning now to the UK. The feature that stands out is the strong like-for-like sales performance of 5.3% in a demanding marketplace. Both H.Samuel and Ernest Jones were up by a similar amount. This reflected the benefit of operational initiatives we have been implementing for some time now, which includes better targeted promotional activity. Fashion and premium watch brands were particularly strong categories.

The business continues to implement its long-term strategy of improving store productivity. This is being achieved by improving customer service by focusing on staff training and incentives, evolving the merchandise mix to better reflect our competitive strengths, executing our marketing more effectively, and investing in the real estate portfolio to significantly enhance the in-store environment. As a result of these initiatives we are increasingly differentiating ourselves in the marketplace.

At constant exchange rates total sales rose by 4%. On a reported basis total sales were up 5.1% to \$191.4 million, with a small benefit from the movement in the U.S. dollar exchange rate from \$1.96 to the pound to \$1.98 to the pound.

In the quarter the average selling price of both H.Samuel and Ernest Jones was up by about 14% and 19%, respectively, on the first quarter of fiscal '08, benefiting from mix changes, particularly the strong performance of diamonds in H.Samuel and luxury watches in Ernest Jones.

In addition, selective price increases have been implemented, reflecting the rise in the cost of gold. Overall, gross margin was up 40 basis points on the comparable period last year. The tight control of cost has been maintained and they showed only a marginal increase in the quarter. As a result, the UK reported an operating profit of \$2.7 million compared with an operating loss of \$1.9 million in the same period last year.

To spread the Ernest Jones store refurbishment rollout more evenly over the medium-term, we have decided to reduce the number of refits and relocations scheduled for fiscal 2009 from 46 to about 35. We now anticipate a similar level for the following three years.

With regard to current trading, given the increasing pressure on consumer expenditure in the UK and demanding second-quarter comparatives, like-for-like performance is not expected to continue at this level.

Now, turning to the potential move of our primary listing to the US. As was indicated in the 2007/08 results statement, the Board believes that shareholders would on balance support a recommendation regarding such a move and a redomicile of the Company to Bermuda.

Good progress continue to be made in facilitating such a change. And the Board intends to bring forward a proposal for shareholders to consider later this summer. Any such proposal would include the intention to obtain a secondary listing of the shares on the London Stock Exchange to coincide with the primary listing becoming effective on the New York Stock Exchange.

And now we will be happy to take any questions that any of the callers may have, operator.

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QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Michael McDonald, Third Eye Investment.

Michael McDonald - Third Eye Investment - Analyst

Good afternoon. I was wondering if you could provide a little bit more detail on the receivables portfolio, what drove bad debt expense higher? And are you seeing any increase in delinquencies given the credit markets in the United States? Thank you.

Walker Boyd - Signet Group plc - Group Finance Director

Well, I think the main driver on the portfolio and the increase in bad debts is just the general consumer. When we analyze the portfolio it is not as if there is one particular class or category of our customers that in the credit portfolio who are particularly underperforming. All of our consumers, and that would include those who pay on time, are taking a little bit longer to pay, and hence the higher income from the portfolio. So from that respect, we conclude that this is basically a function of the general economic and consumer environment in the States.

Clearly the increase in the bad debt by 70 basis points is a reflection of higher delinquency. Our provisioning policy is that we will provide for bad debt as an expense at 100% when a consumer is three months pass due on a recency basis. So clearly increasing delinquencies is reflected in that increased charge.

As I said, I think if one looks at most -- or all of our KPIs, they are the hallmarks of a consumer who is more credit challenged. And Terry mentioned a higher percentage of applicants during the period, similarly approval rates being slightly lower. All of these points to, as I say, a consumer who is more credit challenged.

Michael McDonald - Third Eye Investment - Analyst

So when you talk about the increase in participation on the credit side, that is despite a reduction in approvals as well?

Walker Boyd - Signet Group plc - Group Finance Director

It is the net impact of a higher proportion of our consumers applying, but equally a higher proportion being rejected, so a lower approval rate. The net debt outcome was still an increase in participation of 170 basis points compared to the same period last year.

Operator

[Ben Ho], Citigroup.

Ben Spruntulis - Citigroup - Analyst

It is Ben Spruntulis from Citigroup. Just a couple of very quick questions. Firstly on the bad debt charge, given the increase we have seen in the quarter, do you still feel that your -- the current stands you have for accepting your applicants -- do you still think that is appropriate going forward?

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And the second question, just on the like-for-like comment current trading, you say you're not expected like-for-like growth to continue at same rate in the UK. Does that mean you are still expecting like-for-like growth, let's say, in the second quarter despite the tough comparatives?

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

Taking your second question first. As we said in the statement, which is kind of a blinding flash of the obvious, the tough retail marketplace in the UK, and being cogniscent of that and being cogniscent of an almost 7% like-for-like increase last year, we just thought it was appropriate to call attention to the fact that the 5.3% that we'd achieved in the first quarter is unusual. And we are just not expecting it to -- we are just saying that everyone shouldn't expect that to continue at that level. There was no more meaning behind it than that.

In terms of the -- what was your [unclear] credit question?

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

As far as the credit question is concerned, I think, yes, we are 70 basis points higher than the comparable period last year. But I think when we look at the trendlines in terms of against the third and fourth quarter [particularly] we had seen deterioration.

The results in the credit analysis of our scorecard and the performances of them continue to lead us to believe that our lending strategies are appropriate. As we mentioned at the time of the prelims I think, there are a couple of particular attributes on the scorecard that we'd see an increase in risk against reward in terms of performance, such that we have effectively shut these two particular cells down.

But these are not fundamental changes. Because as I said in response to the previous question, it is not as if there is one particular core of customers who have particular characteristics who are the cause of the decline. Generally speaking, it is across all categories of consumer, and therefore we continue to believe that the basic lending strategies are appropriate, always subject to this analysis that we will do that says if particular attributes are showing unfavorable risks against the reward, then we will close that down. But that is an ongoing exercise rather than a one-off project.

Operator

(OPERATOR INSTRUCTIONS). Rod Whitehead, Deutsche Bank.

Rod Whitehead - *Deutsche Bank - Analyst*

A couple if I may. On the move in the primary listing, you have mentioned in the past that dividend yields tend to be a fair bit lower in the U.S. than the UK. Would you therefore move to a more U.S. style dividend payout approach?

Secondly, do you think the clearance activity at Zales has had a material effect on your run rate in the U.S., particularly in the malls? Is that what your store managers are telling you?

And thirdly, does the reduction in space growth, is that purely an increase in the closures or are you also reducing the number of Jared or mall openings?

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Terry Burman - Signet Group plc - Group Chief Executive

Let's see, in terms of the dividend should we move the primary listing, the Board will consider the dividend policy in light of the needs of the business -- or the entire distribution policy in light of the needs of the business, the balance sheet, the outlook for the business, and our results. Having said that, we obviously would take a very close look at the norms for the market in which we are listed.

In terms of Zales, there is -- we compete directly with them in about -- in stores that achieve about 60% of our sales volume. And we do measure -- we have been measuring the performance of those stores that are directly competing with them. And if you look at those stores versus the stores that are not competing with them, there is a little frosting that has come off, maybe a couple of a percent, which is reasonable considering the heavy level of discounting that is going on there. But that well -- in our opinion, that will wash through pretty quickly, because all you have to do is look at the P&L results from it, and it is in our opinion not sustainable to continue to clear -- to sell merchandise at those prices.

And in terms of the reduction in space growth, the reduction from that which we announced at the end of the -- or back in January, the reduction is primarily coming from additional closures. The openings will still be -- we will still have just under 20 openings in Jared and about 50 openings in our mall brand stores. The closures, which we normally close about 15 to 20 stores a year, I think I said it in the -- earlier will be in the low 40s somewhere.

Operator

Andrew Hughes, UBS.

Andrew Hughes - UBS - Analyst

I have got a couple of questions. Firstly, was on a comment you made at the start [of the] commentary about the price increases recovering gold price and [the rise of] promotional activity. Could you just take us through what that means on promotion? So you are putting prices up to then promote more aggressively. If you can address that one.

And secondly, it was on bad debts, where looking at the accounts, you have actually provided more than you have utilized for the last three years. Is that something that is likely to continue? When we look at that 70 basis point figure you give, I guess that is the actual provision here, not what you utilize, so is there a chance that you will do the same thing again in the current year?

Terry Burman - Signet Group plc - Group Chief Executive

The primary of most of the impact of the price rises is to cover the increased cost of gold. We have increased our promotional cadence somewhat on various categories of merchandise, and that is in response to the general environment, which I would think most retailers in the marketplace are increasing their promotional activity. And we are not saying we that put the prices up to mark them down. Those are really two separate actions, but the result -- the net result of those actions we expect to be at least hold our gross profit margins from the prior year. Walker will address the debt question.

Walker Boyd - Signet Group plc - Group Finance Director

I think in times when the overall portfolio is increasing, and clearly over the last two or three years it has been increasing because of the space growth and increase in like-for-like sales. And obviously it has increased a bit in the last six months as the monthly collection rate has decreased. Therefore when you have got times like that when the portfolio is increasing, you are always likely to have a higher provision being charged to the P&L account, which is the 70 basis points we are talking about, than the utilization which is effectively when the debt is written off both sides of the balance sheet. So you write off gross and net. And because

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that clearly happens about four or five months after we would provide, when the debt gets to like [210] days, we would normally write off completely. Which it has no P&L effect, it is just a writing off of the asset and the provision.

So [it appears] as though you have got a rising level of portfolio, that is just a phenomenon of the difference between the P&L impact and the balance sheet impact of effectively writing debt off the balance sheet. So, [I don't think] it is purely down to that. The 70 basis points, as I said, is the important one, because that is the increase in the P&L charge, which is the amount we are providing.

Andrew Hughes - UBS - Analyst

I suppose then what you are saying earlier on about the average monthly payment percentage coming down, if that gets down to the monthly minimum, as well as taking the provision against your payments issue, which are three months overdue, do you have to -- you have to provide more if anyone misses a monthly payment along the way, or would you be tempted to provide more?

Walker Boyd - Signet Group plc - Group Finance Director

No, I think our provisioning policy is a fairly cautious one, and is one that has stood the test of time. So we provide specifically, as I say, for any debt that is 90 days past due, which is that missing three payments, we did carry what would be seen as a more general type provision, which is our statistical estimate of those debts that have not hit the bad debt provisioning level, and we would make a provision for that.

So if the monthly collection rate goes down, then that level of bad debt providing will go up, because it is a percentage of the outstanding balance that is not otherwise provided, so we normally would have a -- we would have a marginal effect there.

Andrew Hughes - UBS - Analyst

One more thing on the store closures, is there any material asset write-off or the -- you said it comes at the end of the lease, so I guess the fixtures and fittings are fully depreciated?

Walker Boyd - Signet Group plc - Group Finance Director

There is no material charge. As Terry said, these are stores that have come to the end of the lease. Typically they are ones where we have been rolling over. If we have stores that have been marginally profitable we haven't not been prepared to write a new ten year lease and the required investments. So typically these are stores that we have been renewing on short-term one year leases. And as they expire, certainly from a materiality point of view, there is no asset write-off.

Operator

As we have no further questions, I would like to turn the call over to Mr. Berman for any additional or closing remarks.

Terry Burman - Signet Group plc - Group Chief Executive

In closing I would just like to remind you that our next scheduled announcement is the second quarter sales figures on August 7, and that our half year results are expected to be announced on September 3.

In addition, Walker will be presenting at the 28th Piper Jaffray Consumer Conference in New York next week.

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Goodbye, and thank you for participating in this call.

Operator

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

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