

FINAL TRANSCRIPT

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SIGY - Q3 2008/09 Signet Group Earnings Conference Call

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PRESENTATION

Operator

Good day and welcome to the Signet Jewelers Ltd. Q3 results 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 - Group Chief Executive*

Thank you, operator, and welcome to the conference call and Signet's third-quarter results. I'm Terry Burman, Group Chief Executive, and in London is Walker Boyd, Group Finance Director. Walker will discuss the financials and then I will cover the US and UK operations. We will then open the call to questions.

Walker Boyd - *Signet Group - Group Finance Director*

Thanks, Terry. 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 risks and other factors and cautionary language in the Signet Group PLC's annual report on accounts furnished as an exhibit on Form 6K to the SEC on May 1, 2008 and other filings made by the Company with the Commission, which can be found on the Group website at www.SignetJewelers.com.

In this call we also refer to growth at constant exchange rates, which is a non-GAAP measure, and we ask you to look at today's announcement, which is available on our website, for a reconciliation to the reported GAAP numbers.

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The key feature of the quarter is that, despite the continued adverse impact of the economy on profits, our focus on tight cost control and inventory management as well as swift action to reduce the rate of space growth has resulted in the seasonal increase in net debt since the beginning of this year being about \$90 million less than prior year.

Looking at the quarter in detail -- group total sales declined by 7.3% to \$629 million, a decrease of 4.3% at constant exchange rates. Same-store sales were down 6.6%. The Group reported a net operating loss of \$14.2 million against an operating income of \$10.1 million last year.

Third quarter is a period of seasonally low profitability and the loss reflected the de-leverage of the cost base as a result of the decline in same-store sales. Net financing costs of \$9.4 million were above last year. A loss before income tax of \$23.6 million was reported compared to net income of \$3.8 million last year.

Turning to the figures for the nine months. Group total sales fell by 1.6% and constant exchange rates were down 2.6% as reported and by 4.3% on a same-store basis. The average exchange rate for the period to date was \$1.92 against \$2.00 for the same period last year.

Group net operating income for the nine months was \$69.2 million against \$133.8 million in the comparable period, with an operating margin of 3.1%, down from 5.9% last year. In the current year net operating income included a charge of \$10.5 million associated with the move of the Group's primary listing to New York and its domicile to Bermuda. Excluding these costs the operating margin was 3.6%.

Net finance costs were \$22.1 million, up \$5.8 million on the comparable period in 2007/08, primarily due to a higher net debt levels. Group income before tax was \$47.1 million against \$117.5 million in the prior year. The year-to-date tax rate of 35.7% reflects the anticipated level for the full year. Net income was \$30.3 million against \$76.8 million last year. Diluted EPS were \$0.35 and the full cost associated with the move in the domicile of the Group were \$0.44.

Looking at the balance sheet, net debt at the end of the quarter was \$578 million compared with \$525 million a year ago. The seasonal increase in net debt for the year of \$203 million was significantly below the \$292 million in the corresponding period last year. While year-to-date cash flow from net income was down \$31 million, the increase in inventory was \$141 million less than the prior year.

Also in last year there was a \$25 million outflow from the net movement in equity. These were partly offset by the effect of exchange-rate movement on our sterling cash deposits with the sterling/dollar exchange rate moving from 197 at the 2nd of February, 2008 to 162 at the end of this quarter, a near 20% movement.

Group capital expenditure for the year is planned to be about \$125 million, slightly below last year's level of \$140 million reflecting a lower level of store investment in the US partly offset -- partly offsetting increased spending on store refurbishments in the UK with the rollout of the new Ernest Jones store format. This level is about \$15 million less than previously indicated. Whilst plans for 2009/10 have not been finalized, Group capital expenditure is anticipated to be in the region of \$65 million.

We continue to expect the movement of net debt before exchange rate movements in the current year to be neutral to an increase of \$40 million compared to an increase of \$144 million last year. In 2009/10 it is anticipated the level of net debt, again before any exchange-rate movement, will be reduced reflecting lower capital expenditure and a working capital inflow. I now hand you back to Terry.

Terry Burman - Signet Group - Group Chief Executive

Thanks, Walker. Now I'd like to review the Group's operations. The key feature has been the very challenging trading environment on both sides of the Atlantic. As a result we have managed the business tightly with good control of cost and inventory while

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continuing to reinforce our competitive position and strength of our balance sheet. In addition, in the US sector consolidation has accelerated and we expect it will remain at an elevated level next year. Therefore we believe we will be well placed when the consumer recovers.

Looking in detail at the US, total sales for the quarter decreased by 4.3% to \$467.3 million, same-store sales were down by 7.9% with a performance in the first six weeks of the period being similar to the first half. However, the last seven weeks of the quarter showed a marked deterioration reflecting heightened consumer uncertainty and same-store sales declined by about 11% with Jared being impacted by more than the mall brands.

Clearance and going-out-of-business sales within the specialty jewelry sector again had an adverse impact. This has continued into the fourth quarter. In the mall brands the average transaction value continued to rise and is up about 5.7%. For Jared ASP was up in the quarter and volumes declined excluding a new range of charm bracelets with a low average price point. Also in the last seven weeks there were fewer large ticket transactions in Jared. We believe that this is in line with the experience of other retailers as the consumer has become more reluctant to make major purchases.

In the third quarter there was a net operating loss of \$6.2 million against net operating income of \$12.6 million last year. While there was a tight control of expenses the results primarily reflect the impact of the same-store sales decline. In the year to date US same-store sales were down 6% and total sales by 1.8%. US net operating income for the nine months was \$90.7 million compared to last year's level of \$142.5 million.

Operating margin for the nine months was 5.4%, down 300 basis points on last year, reflecting the deleverage of operating costs and the impact of new space. Gross merchandise margin for the 39 weeks was up 80 basis points which, as expected, was a little less than in the first half. For the full year we now expect the gross merchandising margin to be somewhat ahead of last year's level.

While the price of fine gold has fallen meaningfully in recent weeks, this will have very little impact on gross margins in the fourth quarter given the slow stock turn, use of average cost of inventory methodology and hedging positions. At current levels the cost of gold represents a margin opportunity for next year.

With reference to diamonds, prices for polished stones in our sizes and our qualities continue to show little movement. In recent months the market for rough diamonds has seen much greater price volatility. This has been a difficult market in which to develop the rough diamond initiative and to date we have been at about breakeven. However, in the current environment, when we are shortening and narrowing our focus across all of our business, we have decided to discontinue it.

The bad debt charge for the nine months was 4.8% of total US sales against 3.3% in the comparable period. It is well above the range of the last 10 years, but is not out of line with the increase experienced by other credit providers and continues to be somewhat offset by increased income from the portfolio. Credit participation year to date is up 70 basis points with a 260 basis point reduction in the approval rate being more than offset by a higher number of applications reflecting the generally tighter credit market.

Our real estate investment in 63 new stores and 47 refurbishments and relocations is substantially completed. This compares with 108 openings and 62 relocations and refurbishments last year. The number of closures this year is planned to be just over 60 compared to 15 to 20 in a normal year. In 2009/10 we expect to open about 20 units of which some 10 will be Jared and to close about 30. Overall we anticipate little net store space growth next year.

Training continues to be at record levels and in-store execution has been improved. However, we have trimmed store staff hours where possible as transaction volumes are significantly lower than last year. Home office headcount is expected to be down by a about 150 by the end of January compared to the start of the fiscal year.

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As we have already indicated, we have realigned advertising expenditure this holiday season and focused expenditure on those media and brands that produce the most effective returns. We have planned the gross advertising expenditure to sales ratio would be nearer to historic levels in fiscal 2008/09 and last year, but that may be impacted by the current trading environment.

This holiday season expenditure on national television for Kay will be similar to last year, although, due to media inflation, the number of impressions will be down by mid-single digits. We anticipate that Kay's share of voice in our sector will again increase, reinforcing its industry-leading position. Radio advertising will not be used in the fourth quarter. The new creative work continues the highly successful "Every Kiss Begins With Kay" theme and performed well in our consumer research.

Advertising for the regional brands will primarily be catalogs and direct mail with radio support eliminated. National TV expenditure for Jared will be up with impressions at a similar level to Christmas 2007. Two new "He Went to Jared" commercials have been tested with good results; national radio advertising will be used for the first time.

A number of merchandising initiatives are in place for the holiday season. These include a greater emphasis on exclusive branded merchandise to increase our differentiation in the mall. For example, we are rolling out designs by the actress and artist Jane Seymour which tested very strongly earlier this year. These will be featured in some of Kay's TV ads. And three new collections from LeVian have been introduced. Other initiatives include designs featuring champagne and black diamonds and an expanded range of Russell Simmons Jewelry.

This holiday season will be very challenging. Our well-trained staff, experienced management and excellent systems are competitive advantages. In this environment an even greater premium is placed on the quality of execution -- getting the basic retail disciplines right and being able to respond in a timely manner to changes in the marketplace.

Turning now to the UK. In an increasingly difficult trading environment our UK division continued to outperform the nonfood retail sector in the third quarter with same-store sales down 2.4%. However, in the last three weeks of the quarter they declined by some 8%. Total sales decreased by 4.4% at constant exchange rates to \$162 million; the reported decline being 15%. The seasonal net operating loss was \$3.9 million against a net operating profit of \$1.7 million in the comparable period last year.

For the year to date UK same-store sales increased by 0.8% and total sales decreased by 1% at constant exchange rates to \$546.7 million, a reported decline of 5%. The net operating profit was \$1.9 million compared to \$4.3 million last year. Gross merchandise margin was up 50 basis points with price increases more than offsetting higher commodity costs and the continued comparative strength of the watch category. For 2008/09 as a whole we anticipate the gross merchandising margin will be broadly similar to last year.

The division's average selling price increased further in the 39-week period with H. Samuel up 12.5% and Ernest Jones up 14.7%. Diamond participation was up in H. Samuel. In Ernest Jones it was down reflecting the strength of the watch category. In H. Samuel 11 stores have been refitted this year. A net reduction of six stores is expected by the end of the year.

In Ernest Jones 31 refits or relocations have taken place this year, including two Leslie Davis stores, and store numbers are anticipated to be up by two at the end of the year. The new Ernest Jones format continues to perform comparatively well and at year end some 41 stores will be trading in the format against seven last holiday season.

With respect to merchandising there has been an increase in the number of key volume lines where our scale and supply chain expertise allows us to buy very competitively. This enables us to broadly maintain our gross merchandise margin while offering the consumer attractive prices compared to our competitors. We believe this will be important in a retail marketplace that is likely to be more promotional with a more value conscious consumer.

A new television advertisement for H. Samuel has been produced building on the success of last year's campaign. Ernest Jones we have increased our emphasis on customer relationship marketing and catalog distribution. However, we will not be using television advertising this year.

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While our third-quarter results are disappointing across the Group, they reflect the broader retail and consumer environment. We have a strong business which we continue to manage cautiously in the current very difficult trading conditions. We are focused on maximizing gross margin dollars, managing costs and inventory tightly as well as maintaining a strong balance sheet.

As ever the results for the year will depend on the very important holiday trading season, the vast majority of which is still ahead of us. As is our normal practice, we will not be commenting on trading in November, particularly this year the shift -- particularly as this year the shift in the calendar makes it even more challenging to do so. And now, operator, we'd like to open up the call to take any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Rod Whitehead, Deutsche Bank.

Rod Whitehead - Deutsche Bank - Analyst

Hi there, Terry. A couple of questions. You mentioned that the headcount in the home office would be down I think 150 people by the end of the year. What is that in percentage terms? And secondly, you did make a comment about something continuing into November in relation to sales, but I didn't quite catch it.

Terry Burman - Signet Group - Group Chief Executive

In terms of the headcount, we have a base here that -- it fluctuates seasonally, but the average base here is about 2,000 people. So 150 is obviously about 7.5%. I don't recall what I said continuing into November. Walker, do you have any (multiple speakers)?

Walker Boyd - Signet Group - Group Finance Director

(multiple speakers) referring to the clearance and going out of business activity?

Rod Whitehead - Deutsche Bank - Analyst

Maybe that's what -- I thought you were talking about the lower -- fewer larger ticket transactions. That's the way I've written it down, but I wasn't quite sure what you --.

Walker Boyd - Signet Group - Group Finance Director

The specific comment about continuing into the fourth quarter was referenced, the ongoing clearance following our business activity.

Rod Whitehead - Deutsche Bank - Analyst

Okay, that's great. And Terry, in terms of your thoughts for next year, obviously we haven't done this year yet, but you flagged much lower CapEx and a lower starting point for home office costs. If you are faced with continuing negative comps through next year, are there other initiatives in train or a least ones that you're thinking about to reduce the cost base?

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Terry Burman - *Signet Group - Group Chief Executive*

Yes. The divisions are in their -- the US and UK divisions are both in their budget cycles and we're doing bottoms-up budgeting, so we're looking at every cost item and seeing that which is core to running our business and that which is -- I don't want to call them [fringe] because you're not fringe, but those which may not be appropriate for the environment that we're currently in. So we're looking at opportunities to cut any costs that we can cut.

In addition to that, in this kind of environment, opening new space is a riskier proposition than it is in a more normal or certainly robust economy. Fewer stores hit our hurdle rate; it's just not appropriate to take that kind of risk and to add that kind of -- those kinds of costs into the business. So we're just -- we have significantly reduced the number of stores that we're opening and we'll be closing more stores, more stores go from -- at end of lease term stores that we would normally remodel into stores that are more marginal and we might do short-term leases on those.

So there is a range of initiatives there that will help us reduce our capital expenditure. And as you can see, it's done quite significantly from our traditional levels over the last five years.

Rod Whitehead - *Deutsche Bank - Analyst*

Thank you very much.

Operator

(Operator Instructions). James Pan, CP&E Partners.

James Pan - *CP&E Partners - Analyst*

Just a question about your projected balance sheet. I know you're doing an admirable job trying to get your net debt down. But let's say it's a really tough Christmas like everyone is expecting. Where don't we want to be and how -- what can you do if we get to that point in terms of the balance sheet in terms of debt covenants, ratios and stuff like that?

Terry Burman - *Signet Group - Group Chief Executive*

Walker...

Walker Boyd - *Signet Group - Group Finance Director*

Yes, I think obviously in terms of strength of balance sheet the impact as we have reduced net space growth, i.e. coming down from last year in the US towards 10%, in the current year it will be somewhere under 4%. And as we're seeing as we look out to next year, then space growth is likely to be negligible, if anything.

The impact in cash flow is not clearly driven by the reduction in fixed capital expenditure, but also then the impact on working capital is also significant. Because remember for every, for example, Jared store that we open, virtually three quarters of that investment is actually in working capital as opposed to fixed capital.

I think also clearly in terms of inventory, looking at the underlying levels, as we have seen comp stores increase in prior years we have seen they're less than (inaudible) proportionate, but nevertheless an increase in underlying inventory and clearly we

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would be challenging or we are challenging the divisions that the reverse works. So as we see lower levels of sales activity, then also we would look to gain some inventory reductions.

So I think in terms of this year's cash flow we've said, again clearly depending on Christmas, a net outflow or net debt will increase on an underlying basis between -- somewhere between zero and \$40 million. And going into next year, again it's too early to make projections, but the impact of the reduced fixed and working capital investment would see us maintaining a strong balance sheet.

Remember our gearing coming into this year, i.e. net debt to equity was somewhere around about 21%. So I think alongside tight control of costs the impact of new space on fixed and working capital is the biggest lever we can pull in predicting the strength of the balance sheet.

James Pan - CP&E Partners - Analyst

Okay. May I ask a follow-up question real quick?

Walker Boyd - Signet Group - Group Finance Director

Sure.

James Pan - CP&E Partners - Analyst

Okay. Let's say for some reason Christmas is so bad that we break the debt covenants that -- the ratio fixed cost to EBITDA and we have to raise capital for some reason. Have you thought about scenarios -- a scenario like that and is there a preference to do -- I know this is a doomsday scenario and I knew chances are we're not going to hit that. But just in case we do, have you thought about what our plan B is in terms of raising capital?

Walker Boyd - Signet Group - Group Finance Director

I think the covenant you're referring to specifically is the fixed charge cover covenant because the net debt to EBITDA covenant, which is three to one, is clearly not a threat at all. I think we do keep a close watch on our fixed charge cover and certainly, given the uncertainty of the environment, it is possible that we would go below that covenant in the forthcoming months.

Our initial thoughts would be to have -- to open dialogue with the banks, we continue to enjoy an excellent relationship with our lending banks. But to be frank, I think we are a bit premature in considering what plan B or C would be. Clearly the fixed charge cover is the most sensitive of our three covenants.

James Pan - CP&E Partners - Analyst

I would just encourage -- what we've seen in the last six months no one's seen in quite a while. I would encourage that you guys think about a plan B -- you might not want to tell us what your plan B is, but be thinking about a plan B and a plan C just in case the banks are tough on the covenants issue.

Walker Boyd - Signet Group - Group Finance Director

I can assure you we keep a very close watch on our fixed charge cover ratios.

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James Pan - CP&E Partners - Analyst

Okay, great. Thanks.

Operator

John Baillie, Societe Generale.

John Baillie - Societe Generale - Analyst

Good morning, good afternoon. Can you say what hedging you've got in place at the moment just looking at dollar/sterling at 150 and how much caveats you're taking for 2009/2010?

Walker Boyd - Signet Group - Group Finance Director

Yes, John, I'll take that one. I think in terms of currency cover next year we are very significantly covered in terms of our volume forward of dollars for 2009/10. So I think the potential issue is a factor as we'll be thinking forward into 2010/11 for UK as opposed to 2009/10.

John Baillie - Societe Generale - Analyst

Can you indicate the level you've got cover at?

Walker Boyd - Signet Group - Group Finance Director

No, I'd rather not do that. But I'd just say I think as we think about margin for 2009/10 the currency implications are relatively small. So I think you can take from that it's a very significant level of coverage. But the exact percentage is difficult to call in any event because clearly it's a question mark what the total level of dollar requirement will be next year and that's variable. But even on our projected outlook that we took several months ago, then we have a very significant coverage such, as I say, the implications of a weaker pound are really in 2010/11 margin as opposed to 2009/10.

John Baillie - Societe Generale - Analyst

Okay, thank you.

Operator

(Operator Instructions). Julian Martin, Merrill Lynch.

Julian Martin - Merrill Lynch - Analyst

Good afternoon, guys. I understand you don't want to comment on current trading, but just maybe to get a bit of color on how is that working after the three weeks at the end of October, are we saying like a smaller (inaudible), a deterioration or an improvement there both in the US and in the UK?

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Secondly, on covenants going back on the previous questions. First question would be, when did you test basically the covenants on the revolver and as well on the private placements? Secondly, have you thought about refinancing the revolver which I think is maturing in '09? Maybe I got mistaken, you've refinanced that already, but I thought that would be maturing next year?

And on the third question that's on the sourcing, why -- I mean, could you explain a bit more on why did you stop looking at that diamond sourcing initiative? Thanks.

Terry Burman - *Signet Group - Group Chief Executive*

I'll take the non-question about business in November and the diamond sourcing and then Walker will answer the covenants. As we said, we're not going to be commenting on trading in November. It is very, very difficult to read what is going on right now. First of all, there's over 80% of the November/December Christmas business is still to be done, we're prior to Thanksgiving in the United States.

Moreover, making it even more difficult to understand our figures, we've changed our promotional calendar in line with movement of Thanksgiving to the last -- to this week where it was last week on a comparative basis last year, and this being a Leap Year, Christmas being on a December fiscal basis two days later in the month.

So, with all these changes it's just very difficult for us to read what's happening. And as we said, we don't comment about Christmas in our third quarter announcements and it's -- and we're not going to this year.

In terms of the rough sourcing initiative, the first year and a half we were working on that the market was more -- was a lot less volatile than it has been this year in terms of rough diamonds. The level of volatility has increased and the inconsistency between the premiums required on rough and the more flat level of polished make this a very difficult market in which to be operating and trying to develop an initiative, a rough sourcing initiative.

As we said, we're about breakeven to date in the initiative and we think that this is not the appropriate time for us to be involved in this kind of -- developing this kind of medium-term initiative. We have -- these are clearly not normal times. We have changed our focus across the business to preserving capital, strengthening our balance sheet and only working on initiatives that are profitable in the very short term.

Having said that, the rough sourcing initiative was more of a long-term initiative to build competitive advantage. So, we're discontinuing it for the time being. There is no reason that we can't start it up again in the future should we feel the opportunity to do so. But in this kind of environment we think that it's consistent with the way that we're running the rest of the business to discontinue the initiative.

Julian Martin - *Merrill Lynch - Analyst*

Should we expect a minor negative impact on your currency sourcing based on this action or that the --?

Terry Burman - *Signet Group - Group Chief Executive*

No, as I said -- year to date we're -- I'm sorry. Initiative to date we're about breakeven on it. So you're not going to see -- net, net to the business there's not going to be an impact. Walker, do want to take the questions about the covenant?

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Walker Boyd - Signet Group - Group Finance Director

Yes. The first one is in terms of when it's tested. The covenants and their timing are identical for both the revolver and the private placement, so they're tested twice a year on a 12-month rolling basis as far as the fixed charge cover and then just tested twice a year in terms of net assets and net debt to EBITDA. As far as the facility is concerned -- the revolver is concerned --

Julian Martin - Merrill Lynch - Analyst

Sorry, Walker. Just on the time -- twice a year, which month is that tested?

Walker Boyd - Signet Group - Group Finance Director

The end of the year and the half year -- (multiple speakers).

Julian Martin - Merrill Lynch - Analyst

End of the year is (multiple speakers).

Walker Boyd - Signet Group - Group Finance Director

(multiple speakers) end of July --.

Julian Martin - Merrill Lynch - Analyst

February and July/August?

Walker Boyd - Signet Group - Group Finance Director

Yes -- well, end of January and end of July. So the year end this year I think is the first of February, so it would be the 1st of February and either the 31st or 1st of August, whichever the half year falls on. As far as the revolver is concerned, we did review it during the summer, so that extends at the moment through to 2013, we renewed it in the amount of \$520 million as opposed to the \$390 million that was previously there.

Julian Martin - Merrill Lynch - Analyst

Have you disclosed the amount you're paying on that revolver?

Walker Boyd - Signet Group - Group Finance Director

The spread on that is 120 basis points at the current level.

Julian Martin - Merrill Lynch - Analyst

Which is pretty good. Okay, thanks a lot.

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Terry Burman - Signet Group - Group Chief Executive

I'd just repeat something that Walker said earlier. We continue to enjoy very excellent relationships with our lending banks and our note holders. And in reply to a comment earlier about thinking ahead, we keep a close eye on all issues of the business, as we do with all operational issues. And we think ahead on all issues that can affect the business.

Operator

(Operator Instructions). Andrew Hughes, UBS.

Andrew Hughes - UBS - Analyst

Yes, afternoon, guys. How about just a couple of questions on gross margin? I think you were saying in your comments that you expect to give back something in the fourth quarter. I think from memory it's probably the guidance hasn't changed very much. But could you just take us through your thoughts on how the mix might change, what you're expecting in terms of promotional activity impact and whether there's anything in Q4 last year that we should know about? And just finally, whether there's likely to be any write-offs included within the numbers on the exit from the rough diamond initiative?

Terry Burman - Signet Group - Group Chief Executive

There are no write-offs that are expected on the rough diamond -- are you talking about on the rough diamond (multiple speakers)?

Andrew Hughes - UBS - Analyst

Yes, on the -- yes, where you're discontinuing that rough diamond initiative.

Terry Burman - Signet Group - Group Chief Executive

On the rough, we only bought rough that we could -- we bought rough that we could manufacture. There was always some element of that that we would sell off because it wasn't our quality. But we're not expecting a negative impact by the liquidation of all of this. Most of the liquidation is going to be just cutting the rough into diamonds that we're going to utilize.

Walker Boyd - Signet Group - Group Finance Director

Just in terms of -- in terms of closing the operation down, there will be some physical closure costs, but they would not be material to the business.

Andrew Hughes - UBS - Analyst

Yes, okay.

Terry Burman - Signet Group - Group Chief Executive

In terms of our promotional activity, as you would expect in this kind of environment, we are somewhat more promotional than we were last year. Offsetting that is we had longer to plan for this more difficult environment. So in the UK, as we said, offsetting some of the negative impact on gross margin from being more promotional we had a chance to buy in a lot of the items that

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will be promoting as opposed to just reducing our prices. However, we do and expect -- well, we gave you our guidance for the year as a whole in the UK that we expect to be broadly similar in gross margin to last year.

In the US, again, plan to be more promotional this year, are somewhat more promotional. And offsetting that will be the price increases -- the price increases that we took. I want to stress that these additional promotions in both businesses -- is we approach that kind of activity, that kind of promotional activity, very cautiously. You've heard me say time and time again that this -- that the jewelry business can be very inelastic in responding to -- in responding to promotional activity.

So we test the promotional items and the promotional -- the category promotions that we do before we implement them; we look at gross margin dollars on a going-in rate during the promotion and then an exit rate to see if we should be repeating for instance category promotions. So we're very careful that we're going to maximize gross margin dollars when we run either an item promotion or a category promotion.

And we're also careful about keeping our mix appropriate so that we're not just trading our customers down from higher price and better margin merchandise to more promotional merchandise. So we study these initiatives very closely and you can feel confident that we are -- that we do have a heavy focus on maintaining our gross -- on improving gross margin dollars.

Andrew Hughes - UBS - Analyst

Terry, you're saying on -- certainly with Ernest Jones that the -- Ernest Jones that the watch mix was up. I can't remember if that was the UK you were referring to as well or just Ernest Jones? And has the mix gone the other way in the US from what you were saying about higher ticket prices within Jared as watches come down there?

Terry Burman - Signet Group - Group Chief Executive

The mix is reasonably stable in the US between watches and -- as you know, watches are about 30% of our UK business and they're only about 7% to 8% of our US business. So it has much less of an impact and there's a lot less volatility in it. The UK watch business, especially the upper end of the business which is in Ernest Jones, has been very -- has performed very well this year. So that mix shift by increased watches has put pressure on our gross margins all year in the UK.

Andrew Hughes - UBS - Analyst

Okay, thank you, Terry.

Operator

(Operator Instructions). James Pan, CP&E Partners.

James Pan - CP&E Partners - Analyst

I'm sorry if you guys covered this already, but I must have missed it. Can you talk about the accounts receivable and how much -- and how the credit trends are for the accounts receivable versus last year and give us some color on that? If you already talked about it if you can repeat it, please.

Walker Boyd - Signet Group - Group Finance Director

So did you -- you said the credit terms -- is that the question?

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James Pan - CP&E Partners - Analyst

No, the credit performance on the accounts receivable.

Terry Burman - Signet Group - Group Chief Executive

Credit trends, Walker.

Walker Boyd - Signet Group - Group Finance Director

Trends, I beg your pardon. I think as we said in the statement, our bad debt charges have increased in the nine-month period. In terms of as a percent of total sales they were up about 150 basis points against prior year at 4.8%. So clearly that is a number that is significantly higher than our range of the last 10 years.

In terms of our research, and we've had some independent people review it, we do not believe it's out of line with the increase experienced by other credit providers. That increased charge has been to some extent offset by increased income from the portfolio, although in the third quarter that offset was less than what we had seen in the first half of the year.

As far as trends on participation, participation for the year as a whole in the US is about -- is up about 70 basis points and that's driven by two factors -- one, a higher number of applications reflecting the generally tighter credit market, but on the other hand our approval rates are down by about 260 basis points which, again, is I think what you would expect in today's environment where our scorecards -- clearly as consumer balance sheets continue to deteriorate and our scorecards are rejecting a higher proportion of those applicants.

So I think the overall trend, if you like, in bad debt has continued in the third quarter similar to what we've seen in the first two quarters and with some offsets in terms of the income from the portfolio.

James Pan - CP&E Partners - Analyst

Okay, so the scorecards -- the criteria has remained the same, it's just less people are able to fulfill the criteria, is that accurate?

Walker Boyd - Signet Group - Group Finance Director

I think the general lending strategies and lending practices have not been changed, but as well as the impact on the approval rates of consumers' balance sheets. One of the things that we continue to do (inaudible) credit analysts in our (inaudible) do is they look for groups of customers with common characteristics in terms of the scorecards.

And if these groups -- specific any group of customers shows a bad debt charge that is inappropriate for the gross margin dollars earned, then these particular attributes we will either shut down or tighten up in terms of our willingness to take credit. So we do continue to make changes at the margin in terms of our approval methodology, but the fundamental lending practices have not been altered, no.

James Pan - CP&E Partners - Analyst

Do the consultants have any idea how bad the credit rates -- I guess they don't. I guess that no one is willing to guess (multiple speakers).

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Walker Boyd - *Signet Group - Group Finance Director*

The consultants we asked that came in that were asked to do two things. One was to look at our processes in terms of both the approval and collection on the portfolio; and secondly, to look at the performance against what they were seeing -- at what they were seeing going on in the rest of the industry.

As far as our processes were concerned, they did come back and make some recommendations at the margin to improve our efficiency, particularly in collection. But they were not fundamental, they were tweaking it at the edges. And as I said in terms of the performance of the portfolio, they concluded that we were largely in line with what they were seeing in the rest of the industry.

James Pan - *CP&E Partners - Analyst*

Okay, thank you.

Operator

Julian Martin, Merrill Lynch.

Julian Martin - *Merrill Lynch - Analyst*

Thanks, guys. Going up -- maybe back again to this question on the account receivable. I was wondering on the P&L perspective, how is that working filtering through your P&L? Do you have a net loss provision on your P&L line and a doubtful debt provision as well, how basically is that going through your P&L number?

Walker Boyd - *Signet Group - Group Finance Director*

Basically in terms of our provisioning for bad debt, we take a provision of 100% and charge that to P&L for any debt that is 90 days past due on a recency basis. So we provide 100% for any debt that has not paid us for 90 days and that is the charge that goes through the P&L. Obviously there are a number of customers, a relatively small number but some, who don't pay us for that period of time and then resume payment and if they resume payment to a certain level then they would get credited (multiple speakers).

Julian Martin - *Merrill Lynch - Analyst*

And you (multiple speakers) provision on that account?

Walker Boyd - *Signet Group - Group Finance Director*

Well, they become a credit to that provision. So the way we provide is very objective, there is very little judgment taken in terms of our provisioning methodology. And with a 90-day 100% provision then, you're going to see any movement in the portfolio plus or minus very quickly in our bad debt charges.

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Julian Martin - *Merrill Lynch - Analyst*

So you don't actually provide provisions for doubtful debt. So i.e., customers are in between 50 and 90 days for which you expect them to go up to 90 days?

Walker Boyd - *Signet Group - Group Finance Director*

We have a small provision. But as you can see in the accounts where we do make -- when I say a small provision -- a small percentage of our charge to P&L is for a statistical calculation as to how many we think eventually will go bad. But the main -- that number remains relatively static because if the portfolio is fairly flat in terms of quantum, in terms of total dollars, then that provision remains fairly constant. So what you see in the P&L charge, which is the movement obviously on the provision, is very much that movement through the 90 days past due on a recency basis.

Julian Martin - *Merrill Lynch - Analyst*

Okay. But arguably as the credit book deteriorates in quality, then we could expect a substantially higher bad debt number in your P&L after Christmas, after the big season, right? I guess three or four months after -- and for which you would have provisioned against?

Walker Boyd - *Signet Group - Group Finance Director*

It will be driven by the performance of those customers as they pay us on time or not and if the customer doesn't pay. So seasonally yes in terms of the absolute dollar amount, then you do get a higher bad debt charge in dollar terms in the first half of the year relative to sales, because effectively your bad debt is logged to the peak of Christmas. Which is why the percentages at the quarters are obviously not necessarily a guide to the full-year percentages because they are impacted by that seasonality, yes.

Julian Martin - *Merrill Lynch - Analyst*

So assuming a 4.8% bad debt number for Christmas, which i.e. would be what -- [150] basis points also on top of last year's Christmas bad debt? What was Christmas bad debt last year?

Walker Boyd - *Signet Group - Group Finance Director*

It you can't tell that because it works like credit cards. So you can't tell exactly what the bad debt was for Christmas because some customers can go straight through down to the 90 days, others will pay regularly for to two or three, four, five months and then cease to pay. So you can't tie it to the credit card what effectively is a revolving credit. So you can't specifically relate the actual bad debt to specific sales over Christmas.

Julian Martin - *Merrill Lynch - Analyst*

Okay. Okay, thanks.

Operator

(Operator Instructions). Craig Albert, Sheffield Asset Management.

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Craig Albert - *Sheffield Asset Management - Analyst*

Good morning, good afternoon, guys. Could you give some details on credit in terms of what the participation rate was and what the bad expense -- bad debt expense was in this quarter as opposed to the year to date number and what the comparison was for last year so we can make the comparison easier?

Walker Boyd - *Signet Group - Group Finance Director*

Well, as I just said, I think giving percentages of sales is going -- on a quarterly-by-quarterly basis is somewhat misleading, because you're comparing bad debts on a [lagged] basis with actual sales. In terms of the actual bad debt charge as a percent for the quarter, then clearly it was up more than it had been up in the first half of the year. And the biggest -- to be frank, the biggest impact on P&L then was a reduced offset from the higher income on the portfolio. But the statistics themselves on a quarterly basis are somewhat misleading as a percent of sales.

Craig Albert - *Sheffield Asset Management - Analyst*

Right, I understand, but the quarter over -- that shouldn't impact the investor's ability to make a year-over-year comparison because the seasonality generally applies to the same (multiple speakers).

Walker Boyd - *Signet Group - Group Finance Director*

It also depends on how the sales are performing in that quarter. (multiple speakers) if I take the number then, as I said, clearly from the analysis the number has continued to trend in the first two quarters and is well above our range of the last 10 years. I think it would be -- I don't know that it would be appropriate to go further than that.

Craig Albert - *Sheffield Asset Management - Analyst*

Okay.

Operator

Thank you very much. As we have no further questions at this time I would like to turn the conference over to you, Mr. Berman, for any additional or closing remarks.

Terry Burman - *Signet Group - Group Chief Executive*

Thank you. I'd just remind everyone that our holiday season trading statement is scheduled for January 8th next year and it will be followed by a conference call. I want to thank you all for taking part in this call. We wish you a happy and healthy Holiday and Christmas season. Goodbye.

Operator

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

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