Risk and other factors

Forward-looking statements

All statements in this document (including the financial statements and notes), other than statements of historical fact included in this document, are or may be deemed to be forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. These statements, based upon management's beliefs as well as on assumptions made by and data currently available to management, appear in a number of places throughout this document and include statements regarding, among other things, our results of operation, financial condition, liquidity, prospects, growth, strategies and the industry in which the Group operates. The use of the words "expects," "intends," "anticipates," "estimates," "may," "forecast," "objective," "plan" or "target," and other similar expressions are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to a number of risks and uncertainties. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include:

- adverse trends in the general economy which may impact negatively on discretionary consumer spending, including unemployment levels, the level of consumers' disposable income, consumer confidence, business conditions, interest rates, consumer debt levels, availability of credit and levels of taxation;
- the ability to recruit, train and retain staff, including senior management;
- short term variations in consumers' preferences for jewellery compared to other product categories, the Group's ability to anticipate consumer preferences and the merchandising, inventory and pricing policies it follows, particularly if there are any significant changes such as those implemented by the US division in early 2008/09;
- the reputation of the Group and its trading names, together with the success of the Group's marketing and promotional programmes;
- long term changes in consumer attitudes to diamonds, gold and other precious metals and gem stones;
- changes to the locations in which consumers choose to shop, the extent and results of the Group's net store expansion and refurbishment strategy together with the availability of suitable real estate;
- the level of competition in the selling of jewellery and the development of new distribution channels in competition with the Group (such as online sales);
- the level of dependence on particular suppliers of merchandise;
- fluctuations in the supply, price and availability of diamonds, gold and other precious and semi-precious metals and stones, particularly if such movements are extreme and volatile as has increasingly been the case with precious metals;
- the seasonality of the Group's business, the risk of disruption during the Christmas trading period, and the availability of inventory during the three months leading up to the Christmas season;
- social, ethical and environmental risks;
- the suitability and reliability of the Group's internal control systems and procedures, including its accounting and information technology systems necessary for compliance with the Sarbanes-Oxley Act, as well as operational systems such as warehousing, distribution and e-commerce;
- regulatory requirements, particularly with regard to the in-house credit operation in the US;
- legal actions;
- revisions to, and new interpretations of, GAAP, the accounting policies adopted by the Group and the tax assumptions made by the Group;
- listing and domicile;
- acquisitions;
- pensions regulations, actuarial assumptions including longevity, pension valuation and investment returns;
- the cost and availability of borrowings and equity capital which have changed markedly during the last 12 months; and
- financial market risks, including fluctuations in exchange rates between the pound sterling and the US dollar which may affect reported revenues, costs, the value of the Group's consolidated borrowings, and the cost of capital.

All forward-looking statements should be read, in particular, in the context of the Risk and other factors described in this section. Shareholders are cautioned not to place undue weight on these forward-looking statements. Actual results may differ materially from those anticipated in such forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein may not be realised. The Group undertakes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances.

Impact of general economic conditions

Jewellery purchases are discretionary and may be particularly affected by adverse trends in the general economy.

The success of the Group's operations depends to a significant extent upon a number of factors relating to discretionary consumer spending. These include economic conditions and perceptions of such conditions by consumers, employment, the rate of change in employment, the level of consumers' disposable income and income available for discretionary expenditure, business conditions, interest rates, consumer debt and asset values, availability of credit and levels of taxation for the economy as a whole and in regional and local markets where the Group operates. There can be no assurance that consumer spending on jewellery will not be adversely affected by changes in general economic conditions. However, due to the limited seasonality in the product mix, the risk of having to discount inventory in order to be correctly stocked for the next selling season is more limited than for some other retail sectors.

While the level of consumer expenditure does vary, occasions when jewellery is purchased – engagements, weddings and events such as Christmas, wedding anniversaries, birthdays, Valentine's Day and Mother's Day – occur on a regular basis. Approximately 45% of sales in the US are in the bridal related category; which is thought to be less sensitive to changes in general economic conditions than other classifications of jewellery, while in the UK only 20% of sales are bridal related. Furthermore, a greater proportion of costs in the US business are proportional to sales than in the UK business so the impact on any change in sales, either positive or negative, has less of an impact on operating profit in the US than in the UK.

As a substantial proportion of the Group's US sales are made on credit, any significant deterioration in general economic conditions or consumer debt levels may inhibit consumers' use of credit and cause a material adverse effect on the Group's revenues and profitability. Furthermore, any downturn in general or local economic conditions in the markets in which the Group operates may adversely affect its collection of outstanding credit accounts receivable and hence the net bad debt charge. Currently there are all-time high levels of consumer debt in the US and the level of net bad debt charge as a percentage of credit sales in the Group's US division in 2007/08 was at the high end of the range of recent years. In 2008/09 the net bad debt charge may increase further, although this is expected to be somewhat offset by increased income from the credit portfolio.

Adverse general economic conditions may also constrain the Group's ability to make distributions to shareholders as the Board believes it is an important competitive advantage to maintain a strong balance sheet and financial flexibility so as to be able to take advantage of the long term growth opportunities such as those provided by Kay, Jared and the rough diamond initiative.

Staff

The Group's operating experience suggests that the top three factors in determining where consumers buy jewellery are the level of service provided to the customer, the quality, together with the selection of merchandise offered, and the reputation of the retailer.

In speciality jewellery retailing, the level and quality of customer service is a key competitive factor as nearly every in-store transaction involves the sales associate taking a piece of jewellery or a watch out of a display case and presenting it to the potential customer. Therefore the ability of the Group to recruit, train and retain suitably qualified sales staff is important in determining sales and profitability. The support and systems provided to the Group's store employees by staff at the divisional head offices and in the corporate functions will also influence the performance of the Group. Consequently the Group has in place comprehensive recruitment, training and incentive programmes and employee attitude surveys (see pages 17 and 27 for more details).

Short term variations in consumer preferences, merchandise selection, inventory and pricing

The Group's sales performance depends on consumer fashions, preferences for jewellery in general and the demand for particular products. The consumers' preference for jewellery over other product categories varies over time and influences the total size of the jewellery market. For example, in 2000 jewellery was very popular with consumers, while in recent years electronic products was a strong category and jewellery comparatively weaker. Design trends in jewellery normally only change over relatively long periods and there is little seasonality in the merchandise mix. The ability to predict accurately future changes in taste, respond to changes in consumer preferences, carry the inventory demanded by customers, deliver products of the appropriate quality and price correctly and implement effective purchasing procedures, all have an important influence in determining sales performance and achieved gross margin (see pages 18 and 28 for more details of the Group's merchandising and purchasing procedures).

The price of jewellery compared to other products influences the proportion of consumer's expenditure that is spent on jewellery. The comparative price, particularly of easily comparable pieces of jewellery, of the same quality, sold through similar stores impacts the Group's share of jewellery sales. However the Group believes price, so long as it is broadly comparable to other speciality jewellery retailers, is not a primary factor in determining the jewellery retailer chosen by consumers. Other factors, such as customer service, are relevant in consumers' decision and discounting may therefore increase sales, but not profit. If the factors influencing the consumers' decision changed it would require the Group to adapt its business model. Therefore market research of consumer attitudes is carried out, merchandising trends are closely monitored and different pricing strategies are tested.

If any significant price changes are implemented across a wide range of merchandise, as occurred in the US division in early 2008/09, the impact on sales will depend on, among other factors, the pricing by competitors of similar products and the response by the consumer to higher prices. Such a price increase may result in disruption to sales and may have to be amended.

Reputation and marketing

Primary factors in determining customer buying decisions in the jewellery sector include customer confidence in the retailer together with the level and quality of customer service. The Group carries out quality control and staff training procedures and provides customer service facilities to help protect its reputation. During 2005/06 a customer satisfaction index for each store, based on customer feedback, was introduced in the US division. A similar index was tested in the UK division in 2007/08 and is expected to be rolled out to all stores in 2008/09 (see page 27 for details of the processes by which the Group obtains an understanding of customer attitudes).

The ability to differentiate the Group's stores from competitors by its branding, marketing and advertising programmes is a factor in attracting consumers. These programmes are therefore carefully tested and their success monitored by methods such as market research (see pages 19 to 20 and 29 for more details).

The Diamond Trading Company ("DTC"), a subsidiary of De Beers Consolidated Mines Limited, promotes diamonds and diamond jewellery in the US. The level of support provided by the DTC and the success of the promotions influence the size of the total jewellery market in that country. As the DTC's market share has significantly reduced it may change its approach from generic marketing support of diamonds to one more closely associated with its own efforts to develop a brand such as the "Forevermark".

Long term changes in consumer attitudes to jewellery

Consumer attitudes to diamonds, gold and other precious metals and gemstones also influences the level of Group sales. Attitudes could be

Risk and other factors (continued)

affected by a variety of issues including concern over the source of raw materials; the impact of mining and refining of minerals on the environment, the local community and the political stability of the producing country; labour conditions in the supply chain; the availability and consumer attitudes to substitute products such as cubic zirconia, moisanite and of laboratory created diamonds. The Group, therefore, has a Supplier Code of Conduct which sets out the Group's expectations of its suppliers.

An example of an issue that could affect consumer confidence is conflict diamonds, which is the term used for diamonds sold by rebel movements to raise funds for military campaigns. There have been a number of United Nations resolutions regarding conflict diamonds and an international agreement, known as the Kimberley Process, was signed in November 2002. This was designed to exclude such diamonds from the legitimate diamond trade. During 2003 legislation was passed in the European Union and the US, implementing the Kimberley Process. The agreement now extends to more than 70 countries and its effectiveness is regularly reviewed and steps to improve its implementation continue to be taken. The impact of the Kimberley Process and its associated legislation has not resulted in any disruption to the supply of rough diamonds to date and has helped to improve the integrity of the supply chain.

The Group reviews its procedures and documentation for compliance with the Kimberley Process as well as the World Diamond Council System of Warranties and makes appropriate amendments. In addition, staff are briefed and suppliers reminded about the procedures. The Group's internal audit function and mystery shopper programmes enable detailed compliance monitoring throughout the business. Reviews by external third parties of the Group's compliance with the Kimberley Process Certification System and System of Warranties were successfully carried out in the US in 2006/07 and as required in the UK in 2007/08. Based on these reviews the Audit Committee was satisfied that the Group was in compliance.

See page 61 for further information on the Supplier Code of Conduct, the Kimberley Process, the World Diamond Council System of Warranties the Council for Responsible Jewellery Practices and the Group's policy on conflict diamonds.

In order to better address issues relating to social, ethical and environmental matters within the diamond and gold jewellery supply chain, the Group, together with other industry participants founded the Council for Responsible Jewellery Practices. This body was set up in May 2005 and Council Members are committed to promoting responsible business practices in a transparent and accountable manner throughout the industry from mine to retail.

Store portfolio

The Group's results are dependent on a number of factors relating to its stores. These include the availability of property, the demographic characteristics of the area around the store, the design and maintenance of the stores, the availability of attractive locations within the shopping centre, the terms of leases and the Group's relationship with major landlords. In the US the Group leases 15% of its store locations from Simon Property Group and 14% from General Growth Management. The Group has no other relationship with any lessor relating to 10% or more of its store locations.

Given the length of property leases that the Group enters into, the Group is dependent upon the continued popularity of particular retail locations. In the US, the Group has historically been dependent on the continued success of enclosed malls as a shopping destination and the ability of enclosed malls, their tenants and other mall features to attract customers. However the continued growth of Jared and the development of Kay in off-mall locations is reducing the Group's dependence on enclosed malls. Off-mall locations now account for about 40% of the Group's US store space and in 2008/09 will account for all of its net space growth. In the UK, the Group has a more diverse range of store locations, and as a result it has some exposure to smaller retail centres which are losing share to major regional centres. Consequently the Group is gradually closing stores in such locations as leases expire or satisfactory property transactions can be executed.

As well as operational real estate criteria, the Group has established capital expenditure procedures with investment criteria set by the Board. These criteria are applied to both new store investment and to the renewal of leases. When appraising store investment proposals the Group normally requires a 20% internal rate of return over five years, assuming the release of the working capital associated with the store at the end of five years. The Board regularly reviews actual performance against the investment projections. The projections used for investment decisions are reviewed and adjusted based on experience and economic conditions. Reflecting trading in 2007/08, sales projections have been reduced and a slower rate of net space growth is therefore anticipated in 2008/09 and in 2009/10 than in 2007/08. Future sales growth is partly dependent on the extent and results of the Group's net space expansion and refurbishment strategy. The majority of the investment in additional stores is in inventory and, in the US, the in-house credit receivables, rather than in capital expenditure related to fitting out the store, as the Group normally occupies leased space.

The rate of new store development is dependent on a number of factors including obtaining suitable real estate, the capital resources of the Group, the availability of appropriate staff and management and level of the financial return on investment required by the Group. In particular, the success of the Jared off-mall destination store concept, which accounts for the majority of the Group's net increase in new store space, will influence the future performance of the Group. This concept has been tested and developed over a number of years. In the UK, the Group has a 12.1% share of the jewellery market and is expecting a decrease in store space over time and is therefore focused on improving sales per store to increase sales and profitability.

Competition

Competitive factors in the jewellery sector are discussed in the US and UK operating reviews (see pages 10 to 29). If the Group falls behind competitors with respect to one or more of these factors, the Group's operating results or financial condition could be adversely affected.

In the US, the Group has an estimated 8.8% market share of the speciality jewellery sector with one major national competitor, that has a 6.4% share. While another major national brand could develop, the sector is highly fragmented. As a result of the growth of Jared and the development of Kay outside of its enclosed mall base, the Group is increasingly competing with independent speciality jewellery retailers rather than national or major regional chains. In the UK, only three other speciality jewellery chains have more than 100 stores and the Group's main competition is from independent retailers.

The channels through which consumers buy jewellery continually evolve and a major non-speciality retailer could enter the wider jewellery market. The Group monitors the competitive environment and the development of possible new channels of distribution. In the US, for example, sales by discount retailers have increased, while those of the department stores have been in relative decline and catalogue retailers have withdrawn from the market. In the UK a number of fashion and general retailers have introduced jewellery into their ranges. The Group regularly "shops the competition" to monitor their merchandising, pricing and service standards.

In both the US and the UK, internet retailers of jewellery have gained market share.

H.Samuel added an e-commerce capability to its website in 2005/06 and both the Ernest Jones and Kay websites introduced e-commerce capabilities during 2006/07. The future success of these websites is uncertain, but their performance to date has been encouraging although their sales are not significant to the Group. While internet sales now account for 7.4% (calender 2006: 6.4%) of US jewellery sales (source: US Department of Commerce), their primary impact has been on pricing visibility, particularly for certified diamonds, solitaire diamond rings and diamond stud earrings. This can have an adverse impact on gross margins.

Suppliers

Although the Group believes that alternative sources of supply are available, the abrupt loss or disruption of any significant supplier during the three month period (August to October) leading up to the Christmas season could result in a material adverse effect on the Group's business. The Group is therefore in regular dialogue with suppliers and uses its merchandising systems to monitor sales performance and predict its future inventory needs. The Group benefits from close commercial relationships with a number of suppliers (see pages 62 and 63) and landlords (see page 30). Damage to, or loss of, any of these relationships could have a detrimental effect on the Group's results. The Group holds regular reviews with major suppliers and landlords. The Group's most significant supplier accounts for 6% of merchandise.

The luxury and prestige watch manufacturers and distributors normally grant agencies to sell their ranges on a store by store basis. The watch brands that Ernest Jones and, to a lesser extent, Jared sell help attract customers and build sales in all categories. Therefore the ability to obtain watch agencies for a location can influence the performance of a particular store. In the case of Ernest Jones, it is an important factor in the opening of new stores.

Raw materials and the supply chain

The jewellery industry generally is affected by fluctuations in the price and supply of diamonds, gold and, to a lesser extent, other precious and semi-precious metals and stones.

The ability of the Group to increase retail prices to reflect higher commodity costs varies and an inability to increase retail prices could result in lower profitability. Historically jewellery retailers have been able, over time, to increase prices to reflect changes in commodity costs. However particularly sharp increases and volatility in commodity costs usually result in a lag before increased commodity costs are fully reflected in retail prices. The US dollar price of gold has increased significantly in recent years. In early 2008/09 the US division implemented a wide range of price increases to reflect higher commodity costs. There is no certainty that such price increases will be sustainable so further downward pressure on gross margins may occur. Further increases in commodity costs would also adversely affect gross margin. The Group also seeks to improve the efficiency of its supply chain to partly offset any increase in commodity costs.

The Group undertakes some hedging of its requirement for gold through the use of options, forward contracts and outright commodity purchasing. It does not hedge against fluctuations in the cost of diamonds. The Group does hedge the exposure of the UK division to the US dollar with regard to diamond and other costs of goods sold. The cost of raw materials is only part of the costs involved in determining the retail selling price of jewellery with labour costs also being a significant factor.

Diamonds are the largest product category sold by the Group. The supply and price of diamonds in the principal world markets are significantly influenced by a single entity. The DTC's share of the diamond supply chain has been decreasing over recent years and this may result in more volatility in rough diamond prices.

The availability of diamonds to the DTC and the Group's suppliers is to some extent dependent on the political situation in diamond producing countries. Until alternative sources can be developed, any sustained interruption in the supply of diamonds from the significant producing countries could adversely affect the Group and the retail jewellery industry as a whole.

It is forecast that the demand for diamonds will increase faster than the growth in supply; therefore the cost of diamonds is anticipated to rise over time, although short term fluctuations in price will occur. In addition, if the Group continues to increase its market share it will require additional sources of diamonds of consistent quality; the consistency of merchandise being an important element in the Group's selling system. Therefore the Group continually seeks to identify and implement improvements in its supply chain and its ability to obtain diamonds.

In 2005/06, the Group began an initiative to trial the development of a capability to source rough diamonds, and to then cut and polish the stones on a contract basis. This initiative is intended to improve the consistency of supply and quality of diamonds to the Group, as well as further improve the efficiency of the Group's supply chain. The size of the trial was expanded in 2006/07. In 2007/08 it was decided to move from the trial stage to implementation. As a result, investments in management, systems and infrastructure have been made. While this initiative has been carefully planned, it may not be successful. In particular the Group is investing in new staff, skills, procedures and systems to develop this capability. In addition, some of the rough stones purchased and the polished stones produced may be of a higher or lower quality than the Group requires. The number of such stones and the terms on which they are sold will impact the success of the trial. The development of this initiative will require additional investment in inventory. The required investment and the associated financing costs have been included in the Group's appraisal of this initiative.

Risk and other factors (continued)

Seasonality

The Group's business is highly seasonal, with a very significant proportion of its sales and operating profit generated during its fourth quarter, which includes the Christmas season. The Group expects to continue to experience a seasonal fluctuation in its sales and profit. Therefore the Group has limited ability to compensate for shortfalls in fourth quarter sales or earnings by changes in its operations and strategies in other quarters, or to recover from any extensive disruption, for example due to inclement weather conditions having an impact on a significant number of stores in the last few days immediately before Christmas Day or disruption to warehousing and store replenishment systems. A significant shortfall in results for the fourth quarter of any financial year would thus be expected to have a material adverse effect on the Group's annual results of operations. However, due to the limited seasonality in the product mix, the risk of having to discount inventory in order to be correctly stocked for the next selling season is more limited than for some other retail sectors. Disruption at more minor peaks in sales at Valentine's Day and Mother's Day would impact the results of the Group to a lesser extent.

Social, ethical and environmental risks

Social, ethical and environmental ("SEE") matters influence the Group's reputation, demand for merchandise by consumers, the ability to recruit staff, relations with suppliers and standing in the financial markets. Signet, therefore, is committed to managing the SEE risks and responsibilities facing the Group. This commitment stems from the understanding that Signet's success is dependent on the strength and effectiveness of its relationships with its various stakeholders: shareholders, customers, employees and suppliers.

In recent years stakeholder expectations of public companies have increased. Managing and responding as a business to these changing expectations, including with regard to SEE issues, is part of the normal responsibilities of corporate management.

The Group regularly carries out SEE risk reviews and benchmarking exercises with the assistance of an external adviser. Such reviews include an assessment of Group policies, procedures and controls in respect of SEE matters. Reports are regularly made to the Group's Risk Management Committee and to the Board. The greatest SEE risks are judged to relate to the integrity of the merchandise and to the SEE standards in the Group's supply chain (see page 62).

On 1 February 2007 the Association of British Insurers published updated guidelines on Socially Responsible Investment. In line with that guidance the Board confirms that it has identified and assessed the Group's SEE risks and that these are being managed.

SEE matters are dealt with in more detail on pages 61 to 66 and in the Responsibilities section on *www.signetgroupplc.com.*

Internal controls and systems

The Group is dependent on the suitability, reliability and durability of its systems and procedures, including its accounting, information technology, warehousing and distribution systems. As a company registered with the SEC in the US the Group is subject to Section 404 of the Sarbanes-Oxley Act, which requires management to perform appropriate due diligence to test the design and operating effectiveness of key internal controls over financial reporting and the safeguarding of assets.

The Group carries out evaluation, planning and implementation analysis before updating or introducing new systems that have an impact on a function critical to the Group. If support for a critical externally supplied software package ceased, the Group would have to implement an alternative software package or begin supporting the software internally. Disruption to parts of the business could result and increased costs could be incurred. The Group has emergency procedures, which are periodically tested, that are designed to help minimise the impact on the business of any disruption (see page 59).

Legal actions

In March 2008 a class lawsuit for an unspecified amount was filed against Sterling Jewelers Inc, a subsidiary of Signet Group plc, in the New York federal court. The lawsuit alleges that US store-level employment practices are discriminatory as to compensation and promotional activities. The Group denies these allegations and intends to defend them vigorously.

Regulatory requirements

Under the regulations, if 50% of the beneficial shareholders of the Group were US domiciled, Signet would become a domestic private issuer. At 2 February 2008 the level of US beneficial ownership was believed to be just under 50%, having risen significantly during the fourth quarter. If Signet became a domestic issuer for SEC purposes it would be subject to two primary regulatory authorities which would be likely to result in additional requirements to comply with relevant regulations. This would require the Group to invest in the necessary resources to meet such dual requirements.

Regulations govern various areas of business activity and changes in regulations can therefore influence the Group's performance. For example, in the US approximately 50% of sales utilise the Group's in-house credit programmes therefore any change in regulations or the application of regulations relating to the provision of credit and associated services could affect the Group's results.

US GAAP and IFRS

The presentation of the Group's accounts can also be affected by changes to generally accepted accounting policies, such as the adoption of International Accounting Standards in 2005/06. Both US GAAP and IFRS continue to be revised and subject to new interpretations. Such changes may influence the results reported and the valuation of the Group's shares. For guidance independent external professional advice is available to management and the Audit Committee. The results of the Group are influenced by the application of US GAAP and IFRS in areas involving significant subjectivity and judgment, such as tax and pensions.

If the Group became a domestic issuer for SEC purposes, it would be required in due course to produce results using US GAAP as well as IFRS. This may result in confusion in interpreting the Group's results.

Listing and domicile

Reflecting changes in the ownership of the Group's shares, the Board regularly reviews the appropriate primary listing and domicile of the Company. If these were to change, certain shareholders may no longer be able to hold shares in the Company due to their investment mandate, while other holders may choose not to hold a non-UK listed or domiciled company. In addition, the Board may also take into account the primary stock market listing of the Company when evaluating the dividend policy. As a result the share price may be affected by such a change or by the possibility of such a change. Any change to the listing or domicile would require a 75% majority of those voting on such a resolution.

Acquisitions
The Group may in the future make acquisitions or be involved in a business combination. Any difficulty integrating an acquisition or a business combination may result in expected returns and other projected benefits from such an exercise not being realised. A significant transaction could also disrupt the operation of the Group's current activities. The Group's growth strategy does not depend on an acquisition or business combination and a transaction would be intended to accelerate the implementation of that strategy.

Pensions
In the UK, the Group operates a defined benefit pension scheme, which ceased to admit new employees in 2004/05. The valuation of the Group Scheme's assets and liabilities partly depends on assumptions based on the financial markets as well as longevity and staff retention rates. This valuation is particularly sensitive to material changes in the value of equity investments held by the Group Scheme, changes in the UK AA rated corporate bond yields which are used in the measurement of the liabilities, changes in market expectations for long term price inflation and new evidence on projected longevity rates. Funding requirements and the profit and loss items relating to this closed Group Scheme are also influenced by these factors. At 2 February 2008 there was a net pension liability of $5.6 million compared with a net pension asset of $3.7 million, at the prior year end (see pages 104 to 107 for more details).

A triennial valuation of the Group Scheme occurred as at 5 April 2006. As there was a surplus no additional contributions were required as part of a recovery plan to eliminate a deficit.

Under the Pensions Act 2004 the Pensions Regulator has powers to vary and impose funding arrangements which could be more onerous than may be agreed with or proposed to the trustees. In addition, the provisions of the Pensions Act 2004 may restrict the freedom of the Group to undertake certain re-organisation steps or to effect returns on capital or unusual dividends without the prior agreement of the Group Scheme trustees, in consultation with the Pensions Regulator.

In 2004 the closed Group Scheme was replaced with a defined contribution plan for new UK employees. The US division also operates defined contribution plans in the form of a 401(k) Retirement Savings Plan and an unqualified deferred compensation plan.

Equity and debt financing
The Group is dependent upon the availability of equity and debt financing to fund its operations and growth. Therefore it prepares annual budgets, medium term plans and headroom models which help to identify the future capital requirements so that appropriate facilities can be put in place on a timely basis. If these models are inaccurate adequate facilities may not be available.

The Group's reputation in the financial markets and its corporate governance practices can influence the availability of capital, the cost of capital and its share price. The change in credit market conditions during the past year means that the Group's ability to raise debt has decreased and any borrowings are likely to involve a greater spread over LIBOR. This could constrain the Group's ability to make distributions to shareholders while taking advantage of the long term growth opportunities such as those provided by Kay, Jared and the rough diamond initiative. On the basis of current financial projections and facilities available, the directors have a reasonable expectation that the Group has adequate resources for the foreseeable future.

Financial market risks
The Company redenominated its share capital and its functional currency changed to US dollars with effect from 5 February 2007. The Group now publishes its consolidated annual accounts in US dollars. The Group held approximately 78% of its total assets in US dollars at 2 February 2008 and generated approximately 74% of its sales and 71% of its operating profit in US dollars for the financial year then ended. The remainder of the Group's assets, sales and profit are in the UK, therefore in translating the results of its UK operations, the Group's results are subject to fluctuations in the exchange rate between the pound sterling and the US dollar. With the change in reporting currency the impact of movements in the exchange rate on the reported results of the Group is opposite to that which it has been historically. Accordingly, any decrease in the weighted average value of the US dollar against the pound sterling could increase reported revenues and operating profit and any appreciation in the weighted average value of the US dollar against the pound sterling could decrease reported revenues and operating profit. The Board has chosen not to hedge the translation effect of exchange rate movements on the results of the Group given that there is little movement of cash between the Group's two divisions. As part of its long term strategy, the Group may seek, where appropriate, to finance its UK net assets with borrowings denominated in pounds sterling, as a hedge against the impact of exchange rate fluctuations on its UK operating profit.

In cases where pounds sterling are used to fund cash flow requirements of the UK division or at a Corporate level, fluctuations in the exchange rate between the pound sterling and the US dollar will affect the amount of the Group's consolidated borrowings.

In addition, the prices of materials and certain products bought on the international markets by the UK division are denominated in US dollars, and therefore the division has an exposure to exchange rates on the cost of goods sold. The Group does use hedging operations in respect of purchases of US dollars by its UK division, within treasury guidelines approved by the Group's Board.

Cash dividends in respect of the Company's ordinary shares are declared in US dollars. Fluctuations in the exchange rate between the pound sterling and the US dollar will affect the sterling amount received by shareholders who receive payment in pounds sterling.

Fluctuations in the exchange rate between the pound sterling and the US dollar will affect the US dollar equivalent of the pound sterling price of the shares on the London Stock Exchange and, as a result, are likely to affect the market price of the ADSs in the US.

The table on page 50 sets out, for the calendar years indicated, the average, high, low and period end exchange rates for the pound sterling expressed in US dollars per £1.

The Group's policy is to manage financial risk resulting from exposure to currency and interest rate fluctuations. Interest rate exposure is managed through the use of swaps, caps and floors.

A committee of the Board is responsible for the implementation of treasury policies and guidelines which are considered to be appropriate by the Board for the management of financial risk. The Group's funding, liquidity and exposure to interest rate and exchange rate risks are managed by the Group's treasury department. The Group uses derivative instruments for risk management purposes only, and these are transacted by specialist treasury personnel.

Risk and other factors (continued)

Exchange rates between the pound sterling and the US dollar[1]

	Average	High	Low	At period end
Calendar year				
2002	1.51	1.61	1.41	1.61
2003	1.62	1.79	1.55	1.77
2004	1.79	1.96	1.75	1.92
2005	1.90	1.93	1.85	1.88
2006	1.82	1.99	1.72	1.96
2007	1.97	2.12	1.92	1.99
2008 (cumulative to 8 April 2008)	1.99	2.04	1.93	1.97
Month				
September 2007	2.01	2.05	1.99	2.05
October 2007	2.04	2.08	2.02	2.08
November 2007	2.07	2.12	2.04	2.06
December 2007	2.03	2.07	1.97	1.98
January 2008	1.97	2.00	1.93	1.99
February 2008	1.97	2.00	1.94	1.99
March 2008	1.99	2.04	1.97	1.98

(1) Based on unweighted data points sourced from Reuters.

For financial instruments held, the Group has used a sensitivity analysis technique that measures the change in the fair value of the Group's financial instruments from hypothetical changes in market rates and this is shown in the table below.

The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain adverse market conditions occur. Actual results in the future may differ materially from those projected due to changes in the portfolio of financial instruments held and actual developments in the global financial markets. These may cause fluctuations in interest and exchange rates to exceed the hypothetical amounts disclosed in the table below.

The example shown for changes in the fair values of borrowings and associated derivative financial instruments at 2 February 2008 is set out in the table below. The fair values of borrowings and derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the period end.

The estimated changes in fair values for interest rate movements are based on an instantaneous decrease of 1% (100 basis points) in the specific rate of interest applicable to each class of financial instruments from the levels effective at 2 February 2008 with all other variables remaining constant.

The estimated changes in the fair value for foreign exchange rates are based on an instantaneous 10% weakening of the pound sterling against the US dollar from the levels applicable at 2 February 2008 with all other variables remaining constant.

Fair value changes arising from:

	Estimated fair value 2 February 2008 $m	**1% decrease in interest rates (unfavourable) $m**	10% strengthening in $ against £ (unfavourable)/ favourable $m	Estimated fair value at 3 February 2007 $m
Borrowings	**(416.3)**	**(11.5)**	–	(385.5)
Foreign currency receivable	**34.7**	**–**	(3.5)	40.3
Foreign exchange contracts	**0.3**	**–**	8.0	(0.6)
Commodity hedging contracts	**9.6**	**–**	–	8.1

The analysis above should not be considered a projection of likely future events.