

US operating review

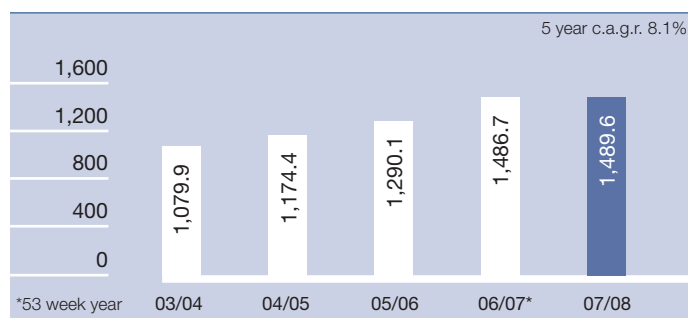
Brand reviews

Kay Jewelers

Introduction

Kay operated 894 stores in 50 states at 2 February 2008 (3 February 2007: 832 stores) and the expansion of Kay as a nationwide chain is an important element of the US division's growth strategy. Management believes that there is a long term potential for over 1,400 Kay stores in the US. Since 2004/05 Kay has been the largest speciality retail jewellery brand in the US, based on sales, and has subsequently increased its leadership position. Kay targets households with an income of between \$35,000 and \$100,000; such households account for about 40% of US jewellery expenditure.

Kay 5 year sales, \$m



2007/08

Kay sales were \$1,489.6 million (2006/07: \$1,486.7 million). The average retail price of merchandise sold in Kay in 2007/08 was \$327 (2006/07: \$317). During the year a further net 62 stores were opened, bringing the total to 894. The roll-out of Kay stores in open-air retail centres accelerated with 40 opened in 2007/08 (2006/07: 21 opened). The test of Kay stores in outlet centres entered its second year with five additional sites (2006/07: four additional sites) with encouraging initial results. In September 2006 an e-commerce facility was successfully launched on the Kay website and this was enhanced during 2007/08. E-commerce sales have increased significantly but remain small in the context of the division.

Customer service

Critical to Kay's success are well trained staff with the appropriate product knowledge and selling skills to communicate the competitive value of merchandise. During 2007/08 the roll-out of the US division's enhanced training programme and new store communications system was completed.

Merchandising

Each store has a core inventory package that includes those items promoted by Kay's marketing. This core inventory is supplemented on a store by store basis by items selected by the division's central merchandising function based on the sales pattern of each individual store.

Marketing

The romance-and-appreciation-based theme of Kay's television advertising programme continues to utilise the tag line "Every kiss begins with Kay", which has been used to improve name recognition of the chain since 2000. Management believes that use of national television advertising, which is considered to be the most efficient and cost-effective form of paid for marketing, enhances brand name recognition nationwide, provides increased marketing leverage and improves access to prime store real estate sites.

Television advertising is supplemented with national print advertising in USA Today and national network radio advertising. In 2007/08 the US division produced 11 Kay catalogues that featured a wide selection of merchandise and were prominently displayed in stores and mailed directly to targeted customers. Telephone marketing is also used. The Kay website is the third most visited speciality retail jewellery website (source: Hitwise).

Real estate

Kay stores have historically been located in covered regional malls and it is believed that in the longer term there is potential for some 850 stores in this format.

Since 2002/03 new formats have been developed for locations not in traditional malls because management believes these alternative locations present an opportunity to reach new customers who are aware of the brand but have no convenient access to a store, or for customers who prefer not to shop in a mall. Such stores further leverage the strong Kay brand, marketing support and the central overhead.

Mall stores

The average mall store contains approximately 1,270 square feet of selling space and 1,500 square feet of total space. The design and appearance of stores is standardised. The typical capital and working capital investment in the first year of trading is about \$1.1 million. To maximise customer footfall, these stores are normally only opened in centre court locations, corner locations by the main entrance to a mall or in corner locations by the food court; around 60% of the stores have centre court sites. In 2007/08 a net 17 new mall stores were opened, bringing the total to 789. A further net six mall stores are planned to be opened in 2008/09.

Off-mall locations

Kay stores in off-mall centres provide an expansion opportunity to take advantage of these fast growing retail venues. These include powerstrips and lifestyle centres. A 'power strip' centre is a suburban open air shopping complex but the retail mix is predominantly 'category killer' superstores with some smaller speciality units. 'Lifestyle' refers to suburban open air shopping centres where the retail mix is biased toward fashion stores and is also likely to have a large number of restaurants and other leisure facilities such as a movie theatre.

Kay stores in off-mall locations were successfully tested for three years from 2003/04 with 31 stores having been opened. The roll-out of Kay stores in these open air centres began in 2006/07 and at 2 February 2008 there were 92 trading; it is planned to open a net 19 in 2008/09. A long term potential for over 500 suitable locations has been identified in these centres, and will account for the majority of new Kay stores. Such stores are expected to have a lower capital expenditure, lower

US operating review (continued)

rents and lower sales per store at maturity than that of the Kay chain average, and are anticipated to satisfy the normal return on investment hurdle set by the Group.

Outlet locations

A test of Kay in outlet malls began in 2006/07 when four stores were opened. These stores provide penetration into the value conscious sector of the market and are located in two types of centres: "Factory outlets", in which 50% or more tenants are manufacturers' outlets; and 'Mixed use' centres, typically with one million square feet of manufacturers' outlet units, traditional mall stores and large space retailers. The core merchandise is the same as in all other Kay stores, as is the pricing structure, but the range of such outlet locations is supplemented by clearance merchandise rather than fashion product. At 2 February 2008 there were ten (3 February 2007: five) Kay stores in outlet locations and a further eight are planned to be opened in 2008/09. Management believes there is a long term potential for between 50 and 100 Kay stores in outlet malls. The capital expenditure to open an outlet store is similar to that of a traditional mall store.

Metropolitan locations

Kay metropolitan stores allow penetration into high population downtown areas under-served by the division's typical mall and off-mall stores. These metropolitan markets have a high density of retail, business, entertainment and government establishments with good public transit services and high pedestrian footfall. While the performance of the three stores opened in 2005/06 has been satisfactory, no additional metropolitan stores have been opened due to a lack of real estate that satisfies both operational and financial investment criteria. Management believes that there is a long term potential for about 30 metropolitan Kay stores.

These Kay stores have a higher capital expenditure, higher rents and higher sales per store at maturity than that of the Kay chain average. The development of these stores draws on the division's experience gained from both mall stores and Jared.

Recent openings, current composition, planned openings in 2008/09 and long term potential for each Kay format is shown below:

Test before we invest – new Kay formats

Stores	Net openings						Stores at 2 Feb 2008	Expected net openings 2008/09	Long term potential
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08			
Mall	9	31	15	25	26	17	789	6	850+
Off-mall	-	10	10	11	21	40	92	19	500+
Outlet	-	-	-	-	4	5	10	8	50-100
Metro	-	-	-	3	-	-	3	nil	c.30
Total	9	41	25	39	51	62	894	33	1,430+

Jared The Galleria Of Jewelry

Introduction

Jared is the leading off-mall destination speciality retail jewellery chain in its sector of the market with 154 stores as at 2 February 2008 (3 February 2007: 135), equivalent in space terms to over 600 mall stores. Management believes there is potential for about 300 Jared stores in the US. Since the first Jared store was opened in 1993, it has grown to be the fourth largest US speciality retail jewellery brand by sales. Each Jared is equivalent in size to about four of the division's mall stores. Its main competitors are independent operators, with the next largest chain operating some 25 stores.

Jared targets an under-served sector at the upper end of the middle market. This customer is more mature and has a higher income than that of Signet's US mall store customer. An important distinction of a destination store is that the potential customer visits the store with a greater intention of making a jewellery purchase, whereas in a mall there is a possibility that the potential shopper is undecided about the product category in which they will ultimately make a purchase.

The average retail price of merchandise sold in Jared stores during 2007/08 was \$747 (2006/07: \$719), which was more than double that of a Signet US mall store. Jared targets households with an income of between \$50,000 and \$150,000; these households account for about 50% of US jewellery expenditure.

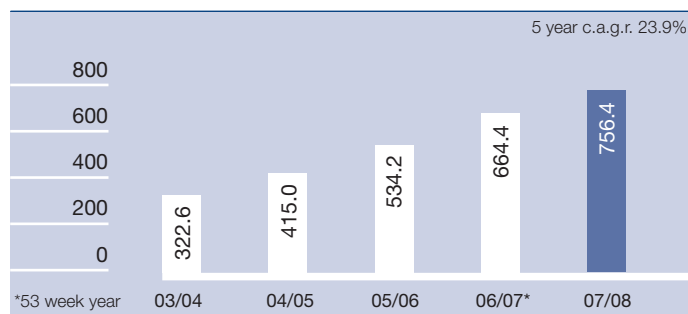
2007/08

Jared sales were up by 13.8% to \$756.4 million (2006/07: \$664.4 million); the portfolio of 154 stores increased by 19 during the year. In 2007/08 Jared entered the New York and Philadelphia markets and it is planned to expand further in both during 2008/09. For Christmas 2007 Jared utilised both national cable and network television advertising for the first time.

Customer service

A key point of differentiation, compared to a typical mall store, is Jared's superior customer service as due to its larger size, more specialist staff are available. For example there are dedicated

Jared 5 year sales, \$m



personnel for the diamond, timepieces, and gold and other jewellery departments, as well as for the design and repair workshop. In addition every sales associate in the diamond department is required to be a certified diamondologist. As a result, more in-depth selling methodologies may be used, such as the 'white glove' presentation of timepieces.

Every Jared has an on-site design and repair centre where most repairs are completed within one hour. The centre also mounts loose diamonds in settings and provides a custom design service when required. Each store also has at least one diamond viewing room, a children's play area and complimentary refreshments.

Investment model

In the first year of trading a typical Jared store requires an investment of about \$3.9 million, of which about 75% is working capital. First year sales are projected to be some \$3.25 million and to make a contribution on a 'four wall basis'. In the first five years of trading a Jared store is forecast to have a faster rate of like for like sales growth than that of a mall store over the same period. At the end of this period the planned sales level is \$5 million to \$6 million and the expected operating margin is comparable to that of a mall store at maturity, with a greater return on capital employed.

The chain is immature with only 44% of stores having traded for five or more years. In their fifth year of trading the average sales of a Jared store was some \$5.6 million which is above the target level set at the time of the original investment. The average sales per store for those Jared locations that have been open for six years or more was \$6.4 million in 2007/08 (2006/07: \$6.8 million). The average sales per Jared store open for the whole of 2007/08 was \$5.3 million (2006/07: \$5.7 million) reflecting an increased rate of new store openings in recent years and the impact of the 53rd week in 2006/07.

Since the concept was first tested in 1993 it has been continually evaluated, developed and refined. Management believes that compared to its competitors, Jared benefits from leveraging the division's established infrastructure, access to a pool of experienced store managers, and availability of capital required to develop and grow the brand.

Merchandising

Jared's merchandise range is about five times the value of one of the US division's mall stores and includes larger and better quality diamonds, such as the Leo Artisan, the Peerless Diamond and the Hearts Desire ranges. The diamond selection also includes an extensive choice of loose stones in sizes from 1/5 carat to three carats. There is a wide selection of settings into which the chosen stone can be set on-site. In addition each Jared has a virtual diamond vault, linked exclusively to a vendor's inventory, allowing an item selected by the customer to be delivered to a Jared store, usually within 24 hours.

In 2007/08 watches accounted for about double the merchandise mix in Jared to that of the division as a whole. The range, which continues to be expanded, includes Baume & Mercier, Cartier, Montblanc, Movado, Omega, Rado, Raymond Weil, Rolex, Tag Heuer and Tissot. Each store also has a comprehensive range of gold and coloured stone jewellery.

Marketing

Jared advertises on local radio for most of the year and complements this during key trading periods by advertising on television. The move by Jared to national rather than local television advertising, which began in

2006/07, gives the potential to improve advertising leverage in 2008/09 and beyond. Jared has a higher advertising to sales ratio than the division's mall stores because it is a destination store and is still at an early stage of development. In 2008/09 national radio advertising will be used for the first time. The advertising is designed to build name recognition and visit intent through an emphasis on selection and service and utilises the tag line "He went to Jared". A special catalogue featuring luxury watches was produced for Jared. There is also a marketing website for Jared.

Real estate

The typical Jared store has about 4,900 square feet of selling space and 6,100 square feet of total space. Jared locations are typically free-standing sites in shopping developments with high visibility and traffic flow, and positioned close to major roads. The retail centres in which Jared stores operate normally contain strong retail co-tenants, including other category killer destination stores such as Borders Books, Best Buy, Home Depot and Bed, Bath & Beyond, as well as some smaller speciality units. It is planned to open 17 Jared stores in 2008/09 and this format continues to account for the majority of the division's space growth.

Regional brands

Introduction

Signet also operates mall stores under a variety of established regional trade names (see Description of properties, page 30). The leading brands include JB Robinson Jewelers, Marks & Morgan Jewelers and Belden Jewelers. Nearly all of these stores are located in malls where there is also a Kay store. Management believes there is long term potential for about 700 stores in malls trading under the regional brand names. These stores target a similar customer to those that shop at Kay.

2007/08

At 2 February 2008, 351 regional brand stores operated in 37 states (3 February 2007: 341 stores in 33 states) and sales for 2007/08 were \$459.7 million (2006/07: \$501.0 million). The average retail price of merchandise sold in a regional store during 2007/08 was \$343 (2006/07: \$332).

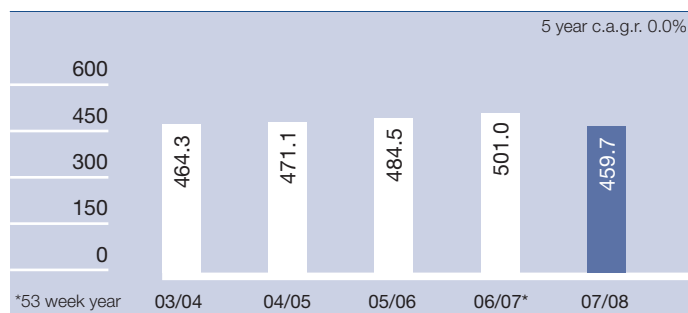
Real estate

The location of regional brand stores within a mall is similar to that of a Kay store. New regional chain stores are opened if real estate satisfying the division's investment criteria becomes available in their respective trading areas where marketing support can be cost effective. Consideration is given to changing the logo of a regional brand store to Kay where the overall return on capital employed, including any resulting impact on other stores operated by the division, may be increased. Management believes that it may be possible to develop a second mall-based brand of sufficient size to take advantage of national television advertising. This would require the acquisition of a number of small regional chains, or a large regional chain. Such acquisitions would have to meet the Group's strict operational and financial criteria before being considered and are not expected to occur imminently. It is planned to reduce the number of regional brand stores by about 14 in 2008/09.

Customer service and merchandising

The same field operations, training and merchandising teams are responsible for the regional brands as manage the Kay stores.

Regional brands 5 year sales, \$m



Marketing

The primary form of marketing for the regional brands is radio. Direct mail and telephone marketing are also used to encourage repeat purchases by current customers. A similar number of catalogue editions were produced for each regional brand as for Kay. There are also marketing websites for some of the brands. A test of local television advertising began during Christmas 2005 and this has now ended as a satisfactory uplift in sales was not being achieved. The appropriate level of marketing support for the regional brands is determined by the incremental sales productivity of such activities compared to the marginal cost of the promotional expenditure.

Functional reviews

Operating structure

While the US division operates under twelve different brands, many functions are integrated to gain economies of scale and have commonality of systems where a fully integrated approach is inappropriate. For example in store operations there is a separate dedicated field management team for the mall brands, Jared and the in-store repair function, while there is a combined diamond sourcing function.

Customer service and human resources

Introduction

Customer service and human resources are central to the division's success and are a key constraint on the rate of growth achieved. A major priority of the division is continually to improve the quality of customer experiences in its existing stores while providing sufficient staff that are well trained and with suitable experience to run the new stores being opened.

2007/08

During 2007/08 the implementation of an enhanced training system for store staff, to develop customer service skills and product knowledge further, was completed. Training to implement a new store communications system was also carried out; the system has increased productivity by improving in-store execution, compliance monitoring, store feedback and has enhanced the ability to identify store and divisional level opportunities to improve execution further. Training and systems enhancements to improve the repair service, an important driver of footfall and customer trust, were also implemented.

Customer satisfaction

A customer satisfaction index covering 12 criteria was introduced to all stores during 2006/07. Based on customer feedback, each store is benchmarked against others in its district, region and across the division. The scores are reported on a monthly basis, highlighting areas of good performance and those for improvement, and are one of the key performance indicators used to manage each store.

Training

Providing knowledgeable and responsive customer service is a priority, and is regarded by management as a key point of differentiation. It is believed that highly trained sales associates, with the necessary product knowledge to communicate the quality, attributes and competitive value of merchandise, are critical to the success of the business. Store staff also receive training on supply chain issues such as conflict diamonds and the environmental impact of gold mining.

Retail sales personnel are encouraged to become certified diamontologists by graduating from a comprehensive correspondence course provided by the Diamond Council of America. Over 50% of the division's full time sales staff who have completed their probationary period are certified diamontologists or are training to become certified. All store managers are required to be so qualified. The number of certified diamontologists employed by the US division increased by 16% in 2007/08 to some 5,300. Employees often continue their professional development through completion of further courses on gemstones and timepieces.

The US division's substantial training and incentive programmes, for all levels of store staff, are designed to play an important role in recruiting, educating and retaining qualified store staff. The preferred practice is to promote managers at all levels from within the business in order to maintain continuity and familiarity with the division's procedures.

Goals and incentives

All store employees are set daily performance standards and commit to goals. Sales commission based on individual and store performance is paid. Sales contests and incentive programmes also reward the achievement of specific targets with travel or additional cash awards. Apart from sales-based incentives, bonuses are paid to store managers depending on store contribution and to district managers for the achievement of key performance objectives. In 2007/08 approximately 19% (2006/07: 23%) of store personnel remuneration was commission and incentive-based.

US head office bonuses are based on the performance of the division against predetermined annual profit targets. Promotion and salary decisions for principally non-management head office personnel are based on performance against service level and productivity goals; for managers they are based on annual objectives and performance against individual job requirements.

Store managers

Each store is led by a store manager who is responsible for various store level operations including overall sales and branch level variable costs; certain personnel matters such as recruitment and training; and customer service. Administrative matters, including purchasing, merchandising, payroll, preparation of training materials, credit operations and divisional operating procedures are consolidated at divisional level. This allows the store manager to focus on those tasks that can be best executed at a store level, while enabling the business to benefit from economies of scale in administration and to help ensure consistency of execution across all the stores.

US operating review (continued)

Recruitment, retention and promotion

Although staff recruitment is primarily the responsibility of store and district managers, field recruiters are supplied by a central recruitment function. Methods such as internet recruitment are used to provide stores with a larger number of better-qualified candidates from which to select new staff.

Management believes that the recruitment and retention of highly-qualified and well-trained staff in the US head office is essential to supporting the stores. A comprehensive in-house curriculum, including leadership development, supplements specific job training and emphasises the importance of the working partnership between stores and the head office.

A key motivator for all staff, and in particular for store based employees, is the division's practice of internal promotion. It is a requirement that District Managers and Vice Presidents of Regional Operations have been a store manager within the division.

Merchandising and purchasing

Introduction

It is believed that selection, availability, and value for money of merchandise are factors that are critical to success as a speciality retail jeweller. In the US business, the range of merchandise offered and the high level of stock availability are supported centrally by extensive and continuous research and testing. Best-selling products are identified and their rapid replenishment ensured through analysis of sales by stock keeping unit. This approach enables the division to deliver a focused assortment of merchandise to maximise sales, minimise the need for discounting and accelerate inventory turn. The US division is better able to offer superior value and consistency of merchandise than its competitors, due to its supply chain advantages.

Signet does not hold any material patents, licenses, franchises or concessions, but has a range of trading agreements with suppliers, the most important being in regards to the Leo Diamond and luxury watches. The established trademarks and trade names of the division are essential to maintaining its competitive position in the retail jewellery sector.

Average retail price of merchandise sold (\$)

	2007/08	2006/07	2005/06	2004/05	2003/04
Kay	327	317	305	282	257
Regionals	343	332	324	304	281
Jared	747	719	697	644	586

2007/08

The average unit selling prices in mall stores and Jared increased by 3.4% and 3.8% respectively. The division continued to develop the sales of exclusive merchandise such as the Leo Diamond the Peerless Diamond, and the Hearts Desire range, as well as branded ranges such as Le Vian and Russell Simmons. In generic merchandise the Journey range again performed well, as did white gold jewellery. Sourcing via the rough diamond initiative entered the early stages of roll-out in 2007/08, after a successful two year trial.

Inventory management

Sophisticated inventory management systems for merchandise testing, assortment planning, allocation and replenishment have been developed and implemented. The majority of merchandise is common to all US division mall stores, with the remainder allocated to reflect demand in individual stores. It is believed that the merchandising and inventory management systems, as well as improvements in the productivity of the centralised distribution centre, have allowed the division to achieve inventory turns at least comparable to those of competitors, even though it has a significantly less mature store base and undertakes more direct sourcing of merchandise.

Merchandise mix

In 2007/08, the bridal category accounted for about 45% of merchandise sold and its participation in the sales mix has grown steadily over the past five years. The table below sets out Signet's US merchandise sales mix as a percentage of sales:

Merchandise mix (excluding repairs, warranty and other miscellaneous sales)

Percentage of sales	2007/08 %	2006/07 %	2005/06 %
Diamonds and diamond jewellery	75	75	74
Gold jewellery	7	7	7
Other jewellery	11	11	12
Watches	7	7	7

Programmes have been developed in conjunction with certain vendors for the provision of branded jewellery merchandise. For example, the Leo Diamond range is sold exclusively by Signet in the US and the UK; the Peerless Diamond, an Ideal Cut diamond with a superior, measured return of light, is only available in Jared; and Le Vian, a prestigious fashion jewellery brand with a 500 year history, is now sold in all mall and Jared stores. Management believes that the US division's merchandising process, market share and relationship with suppliers, position the business as an ideal partner to develop branded initiatives.

Other sales

While the design and repair service is less than 10% of sales, it accounts for approximately 30% of transactions and has been identified as an important opportunity to build trust in the division. All Jared stores have a highly visible jewellery workshop, which is open the same hours as the store. As well as meeting the repair requirements of the store in which they are located the workshops also carry out work for the division's mall brand stores. As a result nearly all customer repairs are carried out by the division's own staff rather than through sub-contractors, unlike most chain jewellers. The design and repair service has its own field management and training structure.

For over ten years the division has sold a lifetime repair warranty for jewellery. The warranty covers services such as ring sizing, refinishing and polishing, rhodium plating white gold, earring repair, chain soldering and the resetting of diamond and gemstones that arise due to the normal usage of the merchandise. This work is carried out by the division. Warranty sales account for less than 10% of turnover.

Direct sourcing of polished diamonds

It is believed that the US division has a competitive cost and quality advantage as about 45% of diamond merchandise sold is sourced through contract manufacturing; Signet purchases loose polished diamonds on the world markets and outsources the casting, assembly and finishing operations to third parties. By using this approach the cost of merchandise is reduced and the resulting advantage is largely used to provide superior value to the consumer which helps to increase market share. Contract manufacturing is generally utilised on basic items with proven non-volatile historical sales patterns that represent a lower risk of over or under-purchasing.

The contract manufacturing strategy also allows the buyers to gain a detailed understanding of the manufacturing cost structure and improves the prospects of negotiating better prices for the supply of finished products.

Rough diamond initiative

In 2005/06 a multi-year trial, involving the purchase and contract manufacture of rough diamonds, was commenced by the Group. It was successfully expanded in 2006/07. This initiative moved to the initial roll-out stage in late 2007/08. Once these rough stones have been cut and polished, they enter the US division's supply chain in a similar way to other polished loose diamonds. Stones not suited to the Group's merchandise selection are sold to third parties.

The objectives of this supply chain initiative are to:

- secure additional reliable and consistent supplies of diamonds to support the growth of Signet's business;
- offer customers superior value and consistency of merchandise quality;
- improve understanding of the polished diamond market; and
- reduce costs.

In 2008/09 it is planned to increase substantially the volume of rough diamonds purchased. The proportion of diamonds sold by the division that are purchased uncut is currently relatively small and the division continues to develop and expand its relationships with its current suppliers of polished diamonds and diamond jewellery.

Sourcing of complete merchandise

Certain merchandise is purchased complete as a finished product where the complexity of the product is great or the merchandise is considered likely to have a less predictable sales pattern. This strategy provides the opportunity to reserve stock held by vendors and to make supplier returns or exchanges, thereby reducing the risk of over or under-purchasing.

Merchandise held on consignment

Merchandise held on consignment is used to enhance product selection and test new designs. This minimises exposure to changes in fashion trends and obsolescence and provides the flexibility to return non-performing merchandise. At 2 February 2008 the US division held approximately \$221 million (3 February 2007: \$205 million) of merchandise on consignment (see note 13 on page 99).

Suppliers

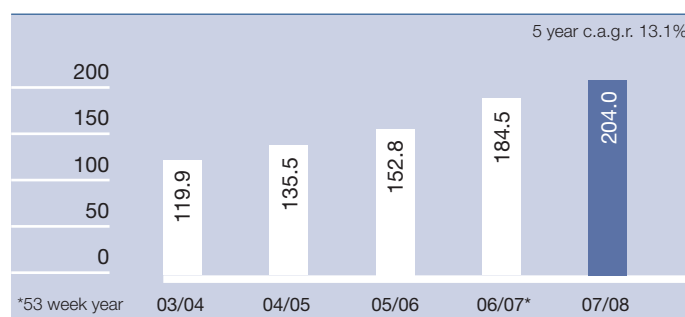
In 2007/08 the five largest suppliers collectively accounted for approximately 20% (2006/07: 20%) of the US division's total purchases, with the largest supplier accounting for approximately 7% (2006/07: 9%). The division's supply chain has become increasingly integrated on a worldwide basis, with diamond cutting and jewellery manufacturing being predominantly carried out in Asia, with little of the division's merchandise now manufactured in the US.

Marketing and advertising

Introduction

As the products sold by the division are predominantly unbranded, management believes that store brand name recognition by consumers is an important factor in jewellery retailing. Signet continues to strengthen and promote its US brands and build name recognition through integrated marketing campaigns. The marketing channels used include television, radio, print, catalogues, direct mail, telephone marketing, point of sale signage, in-store displays and the internet.

US division 5 year record of advertising spend, \$m



US operating review (continued)

Advertising activities are concentrated during periods when customers are expected to be most receptive to the marketing message. The proportion of television advertising expenditure to sales continues to grow, and the cost of national television advertising is leveraged as the number of stores increases.

Statistical and technology-based systems are employed to support a direct marketing programme that uses a proprietary database of over 25 million names to strengthen the relationship with customers. The programme targets current customers with special savings and merchandise offers during key trading periods. In addition, invitations to special in-store promotional events are extended throughout the year.

2007/08

Annual gross marketing spend amounted to 7.5% of sales (2006/07: 7.0%), which was higher than planned due to the disappointing sales performance in the fourth quarter. It is intended to realign spending as a percentage of sales to nearer historic levels in 2008/09. Dollar marketing expenditure increased by 10.5% to \$204.0 million over the 52 weeks to 2 February 2008 (53 weeks to 3 February 2007: \$184.5 million). This reflected the expected growth in total sales and the higher proportion of sales being generated by Jared. Over the last five years, advertising and marketing expenditure has increased by some 70%.

Real estate

Management believes that the US division's prime real estate portfolio is a competitive advantage that helps build store traffic. The quality of the portfolio is based on the consistent application over time of strict real estate criteria and demanding required projected investment returns for both new space and the renewal of leases. The division has a target for new space growth of 8% to 10% per annum, but growth may be outside this range depending on the availability of sites that satisfy the investment criteria and the general economic environment. In 2008/09 and 2009/10 it is anticipated that net new store space will increase by about 5%. When a new store is opened the majority of the investment is in working capital, that is inventory and receivables, as nearly all stores are leased. Stores are normally refurbished on a ten year cycle, which for mall brands coincides with the typical length of a lease. Increased like for like sales growth is normally achieved for a number of years following a refurbishment due to factors such as improved lighting and better presentation of merchandise. Opportunities to relocate stores to better locations within malls, such as a centre court corner site are continually sought. Nearly all of Signet's US stores are located in suburban areas, with about 58% of space being in traditional covered malls (2002/03: about 79%). In 2007/08 about 80% of net space growth was in off-mall locations.

Investment criteria

Both the operational and financial criteria for investment in real estate remain stringent and have been consistently applied for more than ten years. The financial criteria being a positive net present value over a five year period on a pre tax basis using a 20% discount rate and assuming working capital is released after five years.

Credit operations

Introduction

In the US jewellery market it is necessary for speciality retailers to offer credit facilities to the consumer. Management regards the provision of an in-house credit programme, rather than one provided by a third party, as a competitive advantage for a number of reasons:

- the credit policies are decided by the division's management taking into account the overall impact on the business rather than by a third party whose priorities may conflict with those of the division;
- authorisation and collection models are based on the behaviour of the division's consumers;
- it allows management to establish and implement customer service standards appropriate for the business;
- it provides a database of regular customers and their spending patterns;
- investment in systems and management of credit offerings appropriate for the business can be facilitated; and
- superior cost effectiveness by utilising in-house capability.

Furthermore the various credit programmes help to establish long term relationships with customers and complement the marketing strategy by enabling additional purchases, higher units per transaction and greater value sales.

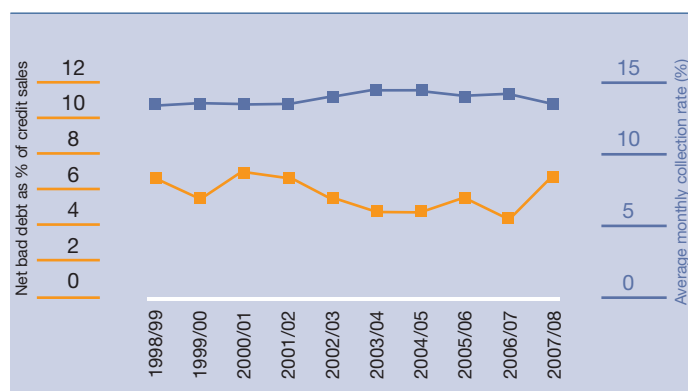
In addition to interest bearing accounts, a number of programmes offer interest-free financing for one year or less, subject to certain conditions, and these account for a significant proportion of credit sales. In most US states customers are offered optional third party credit insurance. The average outstanding balance at the year end was \$997 (2006/07: \$957).

Since credit authorisation and collection systems were centralised in 1994 the credit terms and performance have been relatively consistent over the economic cycle.

2007/08

In-house credit sales represented 52.6% of total US sales in 2007/08 (2006/07: 51.7%) and the monthly collection rate was 13.9% (2006/07: 14.6%), a credit portfolio turn of approximately seven months. While the credit participation was little changed, the approval rate for credit applications was lower. The bad debt charge for the year, at 6.5% (2006/07: 5.3%) of credit sales was at the high end of the tight range of the last ten years (see graph on page 21) reflecting the deterioration of the US economy. The increase in bad debts was largely offset by additional income on the portfolio as a result of the lower monthly collection rate. The 5.3% net bad debt charge in 2006/07 was at the low end of the range of the last ten years and reflected the impact of a revision in the US bankruptcy laws implemented in late 2005 which temporarily increased bankruptcy levels in late 2005/06 and reduced them in early 2006/07. The table over the page presents data related to the in-house credit business for the past three years.

Full year receivables performance



The division continued to apply its established credit standards in 2007/08, while monitoring the performance of the receivables very closely. During 2007/08, a number of metrics deteriorated a little reflecting the downturn in the wider economy, although performance has remained within the range of the last ten years. In response to the increased credit risk among US consumers, the staffing levels in relation to the outstanding balances within the credit collection function were increased. Consumers' financial position continues to deteriorate which may lead to a further increase in the bad debt charge, although this is expected to be somewhat offset by increased income from the credit portfolio. Consequently credit authorisation criteria continue to be reviewed and outstanding balances are very closely monitored with prompt action being taken in response to changes in performance. In addition, further investment in collection systems is taking place.

At the year end the gross US receivables stood at \$900.6 million (2006/07: \$828.8 million). There was an impairment provision of \$60.4 million (2006/07: \$50.0 million). The average level of gross receivables during 2007/08 was \$795.4 million (2006/07: \$698.4 million).

Credit administration

Authorisations and collections are solely performed centrally at the US head office, rather than by store staff. The majority of credit applications are processed and approved automatically after being initiated via in-store terminals, through a toll-free phone number or on-line through the division's websites. All applications are evaluated by the scoring of credit data and using data obtained through third party credit bureaux.

Investment in staff, training and systems to maintain or improve the quality of the credit portfolio continued in 2007/08. Collection strategies and efforts continued to include emphasis on risk-based calling and first call resolution.

In addition to in-house credit sales, the US stores accept major credit cards. Third party credit sales are treated as cash sales and accounted for approximately 39% (2006/07: 39%) of total US sales during the year.

Credit portfolio statistics

	2007/08	2006/07	2005/06
Credit sales (\$m)	1,422.4	1,372.1	1,191.2
Credit sales as % of total sales	52.6%	51.7%	51.6%
Number of active credit accounts at year end	940,069	896,289	883,873
Average outstanding account balance (\$)	997	957	841
Average monthly collection rates	13.9%	14.6%	14.5%
Bad debt as % of total sales	3.4%	2.8%	3.0%
Bad debt as % of credit sales	6.5%	5.3%	5.8%

Management tools and communications

The US division's highly integrated and comprehensive information systems provide detailed, timely information to monitor and evaluate virtually every aspect of the business. They are designed to decrease the time sales staff spend on administrative tasks and increase time spent on sales activities. They also support merchandise testing, loss prevention and inventory control.

All stores are supported by the internally developed Store Information System, which includes electronic point of sale ("EPOS") processing, in-house credit authorisation and support, a district manager information system and constant connectivity for all retail locations for data communications including e-mail. The EPOS system updates sales, in-house credit and perpetual inventory replenishment systems throughout the day for each store. The store communications system was upgraded to broadband during 2007/08. The implementation of broadband store communication will allow further improvements to the division's systems to be made.

Regulation

Signet US is required to comply with numerous US federal and state laws and regulations covering areas such as consumer protection, consumer privacy, consumer credit, consumer credit insurance, truth in advertising and employment legislation. Management endeavours to monitor changes in these laws to ensure that its practices comply with applicable requirements.