

SIGNET GROUP PLC
Form 20-F
April 24, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

Registration statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934
Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended February 1, 2003
Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.

Commission file number 0-16945

SIGNET GROUP plc

(Exact name of Registrant as specified in its charter)

ENGLAND

(Jurisdiction of incorporation or organization)

**Zenith House
The Hyde
London NW9 6EW
England**

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

None

Securities registered or to be registered pursuant to Section 12(g) of the Act:

American Depositary Shares
Ordinary Shares of 0.5 pence each

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares of 0.5 pence each	1,713,768,396
Class A Dollar Deferred Shares of \$0.01 each	0
Class B Dollar Deferred Shares of \$1.00 each	0

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

2002/03 Group highlights

Sales	up	1.9%(1)	to	£1,608.0m
Operating profit	up	7.7%(1)	to	£216.2m
Profit before tax	up	9.2%(1)	to	£199.7m
Earnings per share(2)	up	5.6%(1)	to	7.5p
Dividend per share	up	17.9%	to	2.11p
Return on capital employed(2)	up from	23.3%	to	23.8%
Gearing	down from	29.7%	to	20.1%

(1) 2001/02 was a 53 week year. On a comparable 52 week basis at constant exchange rates, sales increased by 7.9%, operating profit by 14.8%, profit before tax by 16.2% and earnings per share by 11.9%.

(2) Earnings per share and return on capital employed are defined on pages 110 and 111.

Annual Report & Accounts and Form 20-F 2003

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Signet Group plc is an English public limited company, whose shares are listed on the London Stock Exchange (under the symbol "SIG") and whose American Depositary Shares are quoted on the Nasdaq National Market (under the symbol "SIGY").

This document comprises the Annual Report & Accounts of the Group in accordance with United Kingdom requirements and the Annual Report on Form 20-F to be filed with the United States Securities and Exchange Commission.

In this Annual Report, "1998/99", "1999/00", "2000/01", "2001/02", "2002/03" and "2003/04", refer to, as appropriate, the weeks ended 30 January 1999, 29 January 2000, 27 January 2001, the 53 weeks ended 2 February 2002, the 52 weeks ended 1 February 2003 and the 52 weeks ending 31 January 2004.

This Annual Report contains translations of certain pound sterling amounts into US dollars at a rate of \$1.64 = £1.00, which was the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") on 31 January 2003. These translations should not be construed as representations that the pound sterling amounts actually represent such

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US dollar amounts or could be converted into US dollars at the rate indicated. On 26 March 2003 the Noon Buying Rate was \$1.57 = £1.00.

Cautionary statement regarding forward-looking statements

The Company desires to take advantage of the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995 with respect to the forward-looking statements about its financial performance and objectives in this Annual Report. Readers are referred to "Risk and other factors" on pages 28 to 32.

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Chairman's statement

Results

In the 52 weeks to 1 February 2003 the Group built further on the growth trend of the last eight years.

Profit before tax rose to £199.7 million compared to £182.8 million in the 53 week period last year. This represented a 16.2% increase on a comparable 52 week basis at constant exchange rates. Earnings per share rose from 7.1p to 7.5p, the tax rate having increased as anticipated from 34.5% to 35.5%. Like for like sales rose by 5.3% and total sales grew to £1,608.0 million (2001/02 53 weeks: £1,578.1 million), a 7.9% increase on a comparable 52 week basis at constant exchange rates.

Net debt was reduced to £140.1 million at the year end (2 February 2002: £201.7 million), £27.9 million of the improvement being accounted for by exchange rate movement. Gearing fell to 20.1% (2 February 2002: 29.7%). Interest cover (operating profit divided by net interest cost) was a very comfortable 13.1 times.

Overall these were strong results given comparison with a 53 week period, a weaker US dollar and a softening in the trading environment on both sides of the Atlantic in the last quarter.

The US business did extremely well in a challenging retail market. The division continued to implement its proven strategy and again outperformed the speciality jewellery sector.

The UK division also had a very encouraging outcome. Like for like sales growth again exceeded that of the general retail market, with Ernest Jones achieving a particularly good result.

People

I would again like to thank all management and staff on both sides of the Atlantic for their hard work and professionalism which has contributed to the further progress of the Group during the year.

I am pleased to welcome Russell Walls to the Board. He joined the Group as a non-executive director in August 2002 and will chair the Audit Committee from 1 April 2003.

Ian Dahl resigned from the Board and from his position as Chief Executive of the UK jewellery division with effect from 30 September 2002. The Board thanks him for his contribution to the Group during his period of office.

Richard Miller, Chief Financial Officer of the US division, who has been with the Group for 21 years and has been an alternate director since 1994, will be retiring in April 2003. The Board expresses its appreciation for his contribution to the Group.

Dividend

The Board is pleased to recommend a 20% increase in the final dividend to 1.80p per share (2001/02: 1.50p), the total for the year being 2.110p per share (2001/02: 1.789p). The full year dividend cover was 3.6 times (2001/02: 3.9 times).

Future dividend policy will continue to take account of earnings, cash flow, gearing and the needs of the business.

Current trading

Overall the Group has had a generally satisfactory start to the year. Both the US and the UK businesses had strong Valentine's Day performances. Subsequent trading has been affected by inclement weather in the US, the timing of Easter and the geopolitical situation.

James McAdam

Chairman

26 March 2003

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Group Chief Executive's review

Introduction

Group like for like sales increased by 5.3%, with both the US and UK businesses exceeding the performance of the general retail sector in their respective markets. Group operating profit rose to £216.2 million from £200.7 million, an increase of 7.7% (14.8% on a comparable 52 week basis at constant exchange rates). The operating margin increased to 13.4% (2001/02: 12.7%) and the return on capital employed (ROCE) increased to 23.8% (2001/02: 23.3%). The year saw a further strengthening of the balance sheet after investment in fixed and working capital of £121.3 million.

The US business continued to build on its competitive strengths in a fluctuating and uncertain trading environment. Operating profit rose from £145.1 million to £155.2 million, an increase of 7.0% (15.6% increase on a 52 week basis at constant exchange rates). Consolidation within the US speciality jewellery sector continues and the US division's share of the speciality market is estimated to have risen over the last five years to circa 6.7% from circa 4.7%. Like for like sales have risen at a compound annual growth rate of 6.6% over the same period. During last year 6% was added to selling space, with the increase over the last five years being some 64%. A core objective of the US business is to increase selling space by 6% - 8% per annum, the majority of this being related to expansion of the Jared concept. In the longer term the potential is for over 200 Jared stores generating sales of over \$1 billion. Space growth and improved store productivity should contribute further to leveraging of both central overhead costs and marketing expenditure. Continued enhancement of customer service is another key aim. It is planned to achieve this through the implementation of leading edge operating systems and procedures, which should result in staff spending less time on administrative functions. New merchandising initiatives, including branding programmes, continue to be identified, tested and developed. A continued shift to broadcast advertising is increasing brand name awareness and driving footfall.

The UK business took a further significant step forward in its strategy to increase store productivity and make existing space work harder. Operating profit rose by 10.4% (13.2% on a comparable 52 week basis). Like for like sales in the year increased by 5.2%, the compound annual growth rate over the last five years being 5.3%. Average sales per store during the same period increased from £589,000 to £747,000. The drive to gain market share in diamonds, which is a core objective of the division's strategy, continues to show considerable success. The compound annual growth rate of the diamond category over the last five

years was 14.4% per annum, a performance which was considerably ahead of the 8.9% recorded by the overall diamond market. A range of initiatives being implemented in merchandising, store operations, marketing and real estate will continue to assist the business in achieving its strategic targets, as will the continuing transfer of best practise from the US division.

Signet is committed to managing the social, ethical and environmental risks and responsibilities facing the Group. In 2002/03 the focus was on developing an environmental policy, reviewing the environmental management systems and implementing the Kimberley Process, which regulates the trade in rough diamonds. See pages 97 to 99 for a report on these matters.

US (71% of Group sales)

Details of the US division's performance are set out below:

	2002/03	2001/02	Change	Like for like change
	£m	£m	%	%
Sales	1,134.4	1,126.0	+0.7(1)	+5.4
Operating profit	155.2	145.1	+7.0(2)	
Operating margin %	13.7%	12.9%		

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ROCE %

21.5%

20.4%

-
- (1) On a comparable 52 week basis and at constant exchange rates US total sales increased by 8.6% (2.2% at actual exchange rates).
- (2) On a comparable 52 week basis and at constant exchange rates US operating profit increased by 15.6% (8.8% at actual exchange rates).

Costs, gross margin and inventories remained under tight control. Significant benefits were obtained from a number of management initiatives, including the development of the Leo Diamond® and three-stone diamond jewellery ranges, increased levels of staff training, expansion of television advertising and continued investment in real estate.

The increase in operating margin and ROCE reflected leverage from like for like sales growth which more than offset the adverse impact of immature store space. The gross margin rate was slightly down on last year's level due to anticipated changes in sales mix. The increase in the price of gold bullion had limited effect on the year but could have greater impact in the current year. The proportion of sales through the in-house credit card decreased to 49.5% (2001/02: 50.4%). The bad debt charge was at the bottom of the range of the last six years at 3.0% of total sales (2001/02: 3.2%). This was before a \$2.2 million one-off benefit from the better than anticipated performance of the residue of the acquired Marks & Morgan receivables portfolio.

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Customers responded positively to the merchandise programmes, many of which have been developed and tested over a number of years. An example was the Leo Diamond range where the Group has exclusive rights. Leo Diamonds have more brilliance than normally cut stones of similar size and quality. The range was first tested in Jared stores during Christmas 2000, rolled out to 300 mall stores in 2001, and by Christmas 2002 it was in all the division's stores. Three-stone diamond merchandise is another example of a range that has been successfully developed over a number of years.

Staff training was undertaken at a record level in 2002/03, with emphasis on improving product knowledge and selling skills. A longer term programme has also been introduced to reduce and simplify administrative functions carried out in the stores, thereby allowing sales staff more time to serve customers. This programme has already contributed some improvement in stock losses.

Marketing events and promotional activity proved to be particularly successful during critical selling periods such as Valentine's Day, Mother's Day and Christmas. Broadcast advertising was further extended and Kay television advertising impressions were increased by 16% over the Christmas period. The romance and appreciation based advertising theme, 'Every kiss begins with Kay', once more proved successful in heightening name recognition. The Leo Diamond was featured strongly in this advertising. The annual gross marketing spend amounted to 6.4% of sales (2001/02: 6.3%), the increase reflecting growth in the number of Jared stores where the advertising spend is higher than for mall stores.

Jared now has sales of over \$250 million and its like for like sales performance was significantly ahead of that of the rest of the division. The Jared concept is the primary vehicle for US space growth and in the period a further 12 stores were opened, bringing the total up to 67 such stores at the end of the period. Jared television advertising was expanded from three markets in 2001 to ten markets over Christmas 2002 and will be developed further in 2003. An initiative to increase sales of luxury watches in Jared stores was also launched.

In 2002/03 total fixed capital investment in the US business was £33.1 million (2001/02: £41.0 million, £38.6 million at constant exchange rates). The enhancement and expansion of the real estate portfolio continued, although at the lower end of the planned range. This reflected the tightened investment criteria in place to take account of the uncertain trading environment.

The change in store numbers by chain is shown in the following table:

	Total	Kay	Regional	Jared
2 February 2002	1,025	667	303	55
Openings	48	22	14	12
Closures	(23)	(13)	(10)	
1 February 2003	1,050	676	307	67

In 2003/04 it is planned to refurbish or relocate approximately 90 stores and to increase selling space by circa 7%. A further 12 new Jared stores should account for some 65% of the increase, the remainder comprising up to 30 net mall store openings and a trial of up to 10 Kay stores in outdoor centres.

UK (29% of Group sales)

Details of the UK division's performance are set out below:

	2002/03	2001/02	Change	Like for like change
	£m	£m	%	%
Sales				

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H.Samuel	279.1	277.3	+0.6	+2.6
Ernest Jones	188.0	168.5	+11.6	+9.4
Other	6.5	6.3		
Total	473.6	452.1	+4.8(1)	+5.2
Operating profit	67.0	60.7	+10.4(2)	
Operating margin %	14.1%	13.4%		
ROCE %	38.0%	39.4%		

(1) On a comparable 52 week basis UK total sales increased by 6.2%.

(2) On a comparable 52 week basis UK operating profit increased by 13.2%.

The strategy to improve store productivity by increasing the average transaction value again proved successful, despite an increasingly challenging trading environment. Benefit was gained from a range of management initiatives. The initial phase of a trial of new store designs was expanded.

The gross margin rate was slightly ahead of last year. Increased store productivity contributed to the improved operating margin while the decrease in ROCE reflected the benefit of the 53rd week in 2001/02 and higher investment in diamond inventory.

H.Samuel average sales per store rose by 1.5% to £677,000 (2001/02: £667,000) and Ernest Jones (including Leslie Davis) by 12.1% to £1,030,000 (2001/02: £919,000).

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The average retail price of items sold increased by 6.5% to £33 (2001/02: £31) in H.Samuel and by 9.2% to £130 (2001/02: £119) in Ernest Jones. Diamond assortments were further enhanced, with the Leo Diamond range being rolled out in Ernest Jones and the Forever Diamonds range being tested in H.Samuel. Diamond sales again achieved an above average increase and outpaced the growth in the UK diamond market; they now account for 25% of the sales mix (18% in H.Samuel and 35% in Ernest Jones). This represents a significant increase on five years ago when diamonds accounted for 16% of the mix (14% in H.Samuel and 28% in Ernest Jones).

Staff training remains a priority, with focus on improving product knowledge, particularly in respect of diamonds. During the year increased training support was given to store managers and a more structured training programme introduced. Progress in improving customer service was monitored through a mystery shopper programme.

In 2002/03 new store formats were tested in 17 locations (15 H.Samuel and 2 Ernest Jones). The new designs enable improved interaction with the customer and better presentation of the diamond range by replacing the former

window displays with staffed display counters. In 2003/04 the trial will be extended, with the planned new and refurbished stores utilising the new formats.

Fixed capital investment, principally in the store portfolio, amounted to £16.4 million (2001/02: £18.8 million). Four new H.Samuel stores were opened and eight closed. Ernest Jones saw eight openings and no closures. At the year end there were 610 stores (418 H.Samuel and 192 Ernest Jones). In total 42 stores were refurbished in the period compared with 93 in 2001/02. Capital expenditure was at a similar level to last year as more large key stores were refurbished, including 13 under the new format. Some 32 further stores are scheduled for refurbishment in 2003/04.

Terry Burman

Group Chief Executive
26 March 2003

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Five year financial summary

	2002/03	2002/03(1)	2001/02(2)	2000/01	1999/00	1998/99
	£m	\$m	£m	£m	£m	£m
Sales	1,608.0	2,637.1	1,578.1	1,387.3	1,136.5	991.2
Operating profit	216.2	354.6	200.7	178.7	139.1	102.3
Net interest payable	(16.5)	(27.1)	(17.9)	(15.9)	(11.4)	(13.1)
Profit before tax	199.7	327.5	182.8	162.8	127.7	89.2
Taxation	(70.8)	(116.1)	(63.1)	(52.1)	(38.3)	(24.0)
Profit for the period	128.9	211.4	119.7	110.7	89.4	65.2
Earnings per share(3)	7.5p	\$0.12	7.1p	6.6p	5.3p	3.9p
Dividend per share	2.110p	\$0.0346	1.789p	1.625p	1.450p	1.000p
Capital expenditure	49.5	81.2	59.8	56.2	39.3	30.9
Investment in fixed and working capital	121.3	198.9	108.1	132.0	83.2	56.9
Depreciation and amortisation	37.8	62.0	34.7	30.6	27.8	27.6
Net debt	140.1	229.8	201.7	229.1	91.6	111.5
Shareholders funds (as restated)(4)	696.5	1,142.3	679.7	565.4	448.3	379.6
Gearing(3)	20.1%		29.7%	40.5%	20.4%	29.4%
Return on capital employed(3)	23.8%		23.3%	25.2%	24.1%	19.5%
Store numbers (at end of period):						
US	1,050		1,025	999	827	788
UK	610		606	605	606	606
Percentage increase/(decrease) in like for like sales:						
US	5%		1%	6%	11%	10%
UK	5%		9%	9%	5%	(1)%
Average sales per store (000 s):(5)						
US	1,088	1,665	1,125	1,117	939	823
UK	747	1,143	735	665	613	580
Number of employees (full-time equivalents)	14,160		13,525	12,520	11,450	10,919

(1)

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Amounts in pounds sterling are translated into US dollars solely for the convenience of the reader, at a rate of £1.00 to \$1.64, the Noon Buying Rate on 31 January 2003.

- (2) 53 week year. The impact of the additional week on sales was £22.4 million, operating profit £4.0 million, net interest payable £0.4 million and profit before tax £3.6 million.
- (3) Earnings per share, gearing and return on capital employed are defined on pages 110 and 111.
- (4) During 2001/02 the Group adopted FRS19 Deferred Tax. The adoption of the standard resulted in a prior year adjustment affecting shareholders funds for 1998/99, 1999/00, 2000/01 (see note 17 on page 70).
- (5) Including only stores operated for the full financial period.

The financial data included in the Five year financial summary above has been derived, in part, from the consolidated accounts for such periods included elsewhere in this Annual Report. The financial data should be read in conjunction with the accounts, including the notes thereto, and the Financial review included on pages 22 to 27.

Further selected financial data is shown on pages 107 and 108. The accounts of the Group have been prepared in accordance with UK GAAP, which differ in certain respects from US GAAP. See pages 88 to 96 for information on the material differences between UK GAAP and US GAAP that affect the Group's profit and shareholders funds.

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US Operating review

Overview

Signet is the second largest US speciality retail jeweller with an approximate market share of 6.7%, operating 1,050 stores in 45 states at 1 February 2003. In 2002/03 total US sales were \$1,736 million (2001/02: \$1,621 million). At the year end the Group operated 983 mall jewellery stores and 67 destination superstores in off-mall shopping centres. Its mall stores trade nationwide as Kay Jewelers (Kay), and regionally under a number of well established and recognised names. The destination superstores trade as Jared The Galleria Of Jewelry (Jared), the nation's largest and fastest growing chain of destination jewellery stores. In the medium term it is planned to increase US space by about 6% to 8% per annum and to grow like for like sales, with Jared accounting for a majority of the planned space growth.

Competitive advantages

Management attributes its consistent success in the US speciality jewellery retail market to a range of competitive advantages in merchandising, store operations, marketing and real estate. These are reflected in the US division's average sales per store and operating margin, which are substantially higher than that of other quoted mid-market mall speciality retail jewellers operating stores of similar size. The principal competitive advantages are summarised below, and all are explained in greater detail on pages 8 to 13.

Merchandising

The division's sophisticated merchandising systems track, forecast and respond to consumer preferences and provide competitive advantage by ensuring high in-stock positions of key merchandise assortments and fast-moving items. It is

believed that in comparison to its competitors Signet has greater capacity and expertise to direct-source loose diamonds, which management believes provides superior value and quality to the consumer. Diamonds account for approximately 69% of total annual sales.

Store operations

The salesperson's ability to communicate and explain the value and quality of the merchandise plays a significant part in a diamond sale. Therefore, the US division has developed specialised training for its sales associates, and its size allows it to leverage training resources and systems.

Marketing

Kay is one of only two US speciality jewellery retail brands with a nationwide presence large enough to justify national network television advertising, the most cost effective way to attract customers and increase brand recognition.

Real estate

Strict criteria are followed when evaluating real estate investment and management believes that the quality of its store portfolio is superior to that of its competitors.

Market place

Total US jewellery sales, including watches and fashion jewellery, are estimated by the US Department of Commerce to have been \$53 billion in 2002 (2001: \$51 billion).

In the US total jewellery market sales have risen at a compound annual growth rate of 6% over the last 20 years. In 2002 the market grew by about 4%. Management believes that the primary driver of the relatively steady growth in the market has been the bridal, fashion accessory and gift giving nature of the majority of US jewellery sales. Signet has an approximate 3.3% share of the

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total US jewellery market (including watches and fashion jewellery).

The US speciality market in which the division competes is approximately \$26 billion (2001: \$25 billion). Speciality jewellery sales have risen at a compound annual growth rate of 5.6% from 1997 to 2002 (US Department of Commerce). Over a similar period total Signet US sales rose at a compound annual growth rate of 12.8%. Signet has some 6.7% of the US speciality retail jewellery market.

Management believes that the longer term outlook is encouraging due to growth in disposable income, the increasing numbers of women in the work place and favourable demographics; the fastest growing segment of the US population is the 45 to 64 year olds, who have

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spent more per capita on jewellery than any other segment over the years 1998 to 2002 (US Department of Commerce).

The US retail jewellery industry is very competitive and highly fragmented. Management believes that the five largest speciality jewellery retailers account for some 22.5% of speciality jewellery sales, and these have gained market share over the past five years. This trend provides significant opportunity for the more competitive businesses in the sector, and it is believed that Signet is well positioned to gain market share. In the broader total US jewellery market Signet competes against other formats such as department stores, discount outlets, television home shopping and Internet shopping. Management believes that the business also competes with non-jewellery retailers for consumers' discretionary dollar spend.

The US division's largest speciality jewellery competitor is Zale Corporation, which has a speciality market share of about 7.9%. Competition is also encountered from a limited number of large regional retail jewellery chains, smaller regional chains (those operating fewer than 100 stores) and independent retail jewellery stores, which account for over 70% of the speciality market.

Store operations

Signet's US stores offer a selection of jewellery lines at key price points with an emphasis on fine diamonds, which account for some 69% of sales. In 2002/03 the average retail price of all merchandise sold was approximately \$267 (2001/02: \$257).

Signet conducts its US retail operations through three marketing divisions: Kay, regional chains and Jared. Kay and the regional chains are primarily located in regional and super-regional enclosed malls, with approximately 47% of the stores being in prime centre court locations. The average mall store contains approximately 1,155 square feet of selling space and 1,444 square feet of total space. The design and appearance of stores is standardised within each chain.

Details of recent investment in the store portfolio are set out below:

	Number of stores		
	2002/03	2001/02	2000/01
Store refurbishments and relocations	71	91	99
New mall stores	36	41	40
New Jared stores	12	12	15
Fixed capital expenditure	£28m	£37m	£40m
Total investment(1)	£63m	£68m	£72m

(1) Fixed and working capital investment in new space and refurbishments/relocations.

Management believes that the US division's prime real estate together with its investment in mall store refurbishments and relocations are competitive advantages that help build store traffic. Superior like for like sales growth is normally achieved for a number of years following such investment in a store. The typical benefits from refurbishments, which normally occur on a ten year cycle, include an increase in linear footage of display cases positioned on the store frontage, improved lighting and better access to the store.

Criteria for investment in real estate remains stringent, reflecting the more difficult trading environment. For mall sites, corner locations with high footfall in superior malls are targeted.

Jared locations are typically free-standing sites in power strip shopping complexes with high visibility and traffic flow, positioned close to the street and often near a major mall. In addition, the retail centres in which Jared stores operate normally contain strong retail co-tenancies, including other destination stores such as Borders Books, Best Buy, Home Depot, Toys 'R Us and Bed, Bath

& Beyond.

In 2002/03 there was a net increase in store space of approximately 6%, a similar level to the previous year.

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In 2003/04 it is planned to open up to 12 Jared stores and up to 45 mall stores, the majority of which will be Kay. In addition a trial of up to 10 Kay stores in outdoor centres is planned. Approximately 20 mall stores are planned for closure. Planned net openings should increase retail space by up to a further 7% by the end of 2003/04. Signet may consider selective purchases of mall stores that meet its acquisition criteria regarding location, quality of real estate, customer base and price.

Kay

The expansion of Kay as a nationwide chain is an important element of the US growth strategy. Kay, with 676 primarily mall stores in 45 states at 1 February 2003 (2 February 2002: 667 stores), is targeted at the middle income consumer. It is believed that in the longer term there is potential to expand the Kay chain by around 200 mall stores (net of closures). The average retail price of merchandise sold in the Kay chain during 2002/03 was \$242 (2001/02: \$236). The average sales per Kay store were \$1,490,000 (2001/02: \$1,430,000).

Regional chains

In order to increase market share in selected geographic areas Signet also operates US mall stores under a variety of established regional trade names: JB Robinson Jewelers, Marks & Morgan Jewelers, Belden Jewelers, Friedlander's Jewelers, Goodman Jewelers, LeRoy's Jewelers, Osterman Jewelers, Roger's Jewelers, Shaw's Jewelers and Weisfield Jewelers. At 1 February 2003 307 regional stores operated in 30 states (2 February 2002: 303 stores). The opening of new regional chain stores is considered if real estate satisfying the investment criteria becomes available in their respective trading areas. The average retail price of merchandise sold in the regional chains during 2002/03 was \$265 (2001/02: \$263). The average sales per store in the regional chains were \$1,558,000 (2001/02: \$1,575,000).

Jared

Jared is the leading destination speciality retail jewellery chain in its sector of the market. Its main competitors are independent operators, with the next largest chain having approximately one-third as many stores. If Jared was a

The following table sets out information concerning the US stores operated by Signet during the periods indicated:

	2002/03	2001/02	2000/01
Number of stores:			
Acquired during the year(1)	nil	nil	137
Total opened during the year(2)	48	53	55
Kay	22	29	32
Regional chains	14	12	8
Jared	12	12	15
Total closed, or sold during the year(2)	(23)	(27)	(20)
Kay	(13)	(12)	(5)
Regional chains	(10)	(15)	(15)
Jared	nil	nil	nil
Total open at the end of the year	1,050	1,025	999
Kay	676	667	650
Regional chains	307	303	306
Jared	67	55	43
Increase in space	6%	6%	26%
Percentage increase in like for like sales	5.4%	0.6%	5.9%
Average sales per store in thousands (total)(3)	\$1,665	\$1,597	\$1,631
Average sales per store in thousands (excluding Jared)(3)	\$1,511	\$1,475	\$1,526

(1) Acquisition of Marks & Morgan on 31 July 2000.

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- (2) Figures for stores opened and closed during the year exclude conversions of format between Kay and regional chains.
- (3) Based upon stores operated for the full financial year.

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US Operating review (continued)

stand-alone operation it would be the eighth largest US speciality jewellery company by sales.

Jared targets an underserved sector at the upper end of the middle market. The customer profile is of a more mature, higher income customer than that of Signet's US mall stores. An important advantage of a destination store is that the potential customer visits the store with the intention of making a jewellery purchase, whereas in the mall there is a greater possibility of the intended spend being diverted.

Each Jared is about five times the size, with five times the inventory of a Signet US mall store. The typical Jared store is about 5,800 square feet. Its size permits significantly expanded product ranges and enhanced customer services, including in-store repair and custom design facilities. A private viewing room is available for customers when required. There are also complimentary refreshments and a children's play area.

There were 67 Jared stores at 1 February 2003 (2 February 2002: 55 stores). The average retail price of merchandise sold in Jared stores during 2002/03 was \$558 (2001/02: \$522), which was more than double that of a Signet US mall store. The average sales per Jared store were \$4,310,000 (2001/02: \$4,284,000).

In the first five years of trading a Jared store is projected to have a faster rate of like for like sales growth than that of a mature mall store. At the end of this period the projected operating margin is expected to have risen to around that of the mature mall stores, with a greater return on capital employed. At 1 February 2003 about one quarter of the Jared stores had been open for less than 18 months and only seven had been open for more than five years.

Since the first Jared store opened in 1993, the concept has been continually evaluated, developed and refined. Management believes that the chain enjoys a number of competitive advantages, including benefit from the US division's economies of scale such as leveraging the home office infrastructure, access to a pool of experienced store management, and availability of capital required to develop and grow the brand.

Management believes that the Jared concept has considerable growth potential and over 100 suitable markets have been identified for future expansion, with many of these markets able to support multiple locations. Accordingly, in the longer term, the chain has the potential to expand to over 200 stores nationwide, generating annual sales of over \$1 billion.

The following map shows the number and locations of Kay, regional stores and Jared stores at 1 February 2003:

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Management, personnel, training and incentives

A retail jewellery sale normally requires face-to-face interaction between the customer and the salesperson, during which the items being considered are removed from the display cases and presented one at a time with their qualities being described. It is believed that the quality of store sales staff with the necessary product knowledge to communicate the competitive value of the merchandise is critical to the success of the business. Furthermore, consumer surveys indicate that a key factor in the retail purchase of jewellery is the customer's confidence in the salesperson.

The US division's training and incentive programmes are designed to play an important role in recruiting and retaining qualified store staff. The preferred practice is to promote store managers, district managers and regional vice-presidents from within the organisation, thereby helping to maintain continuity and familiarity with store operations, sales training, selling methods and corporate culture.

Store personnel must complete basic training within 90 days of being employed. There are also in-house sales training seminars for all sales staff and classes for store managers. Supplementing the seminars are in-store computer based training and testing programmes, as well as role-playing workshops conducted to strengthen and reinforce selling skills.

Retail sales personnel are encouraged to achieve Certified Diamontologist status by graduating from a comprehensive diamond correspondence course provided by the Diamond Council of America. Approximately 50% of full time sales staff who have completed their probationary period are Certified Diamontologists or are training to become certified. Employees often continue their professional development through completion of correspondence courses on gemstones.

The US division also devotes substantial resources to training its store managers, and conducts a number of management and career development programmes at its corporate headquarters. These programmes are tailored to address specialised areas such as the managing of high volume mall stores and Jared stores. Additional training is provided at the annual managers' meeting.

All store personnel are required to meet daily performance standards and establish and commit to goals. The store information system provides a comparison of actual performance with the previous day's targets. Individual goals and performance are factored into promotion decisions.

Store employees who have completed basic training are paid a commission based on individual sales performance through monthly incentive programmes designed to promote customer service and operating efficiencies. The commission can increase significantly if the store as a whole achieves certain sales goals for the month.

In addition to sales-based incentives, bonuses based on the profitability of stores are paid to store managers. Bonuses paid to district managers are based on the achievement of certain objectives for the stores under their control, including sales and margin goals, operating cost control, profitability, training and compliance with loss prevention matters. Contests and incentive programmes are frequently run which reward achievement of specific goals with travel or additional cash awards. In 2002/03 approximately 22% (2001/02: 21%) of store personnel remuneration was incentive based.

Management believes that the retention and recruitment of highly qualified and well trained staff in the US divisional headquarters in Akron, Ohio are key factors in supporting the stores and sales staff. Training of home office personnel includes emphasis on the importance of the working partnership between stores and headquarters. A comprehensive in-house curriculum supplements specific job training and includes product knowledge, time management, performance management, diversity in the workplace and basic and advanced computer training.

Head office management receives in-house training in motivation, coaching and feedback, creative problem solving, communication, presentation skills and leadership. They may also participate in outside seminars provided by technical organisations or development specialists.

Part of all head office performance-based bonuses is based on the profitability of the US division. All non-management head office personnel must meet service level and production requirements, and performance against these goals is a significant factor in promotion decisions. Bonuses paid to home office managers are also based on profit targets and performance against individual job requirements.

Merchandising and purchasing

It is believed that the selection, availability and value for money of Signet's merchandise are central to its success. The range of merchandise offered and the high level of stock availability are supported in the US business by extensive and continuous research

and testing. Best-selling

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products are identified and their rapid replenishment ensured with thorough analysis of product trials. This approach, along with the direct sourcing of diamonds, enables the division to deliver a focused assortment of merchandise to maximise sales, minimise discounting and accelerate inventory turn.

Sophisticated inventory management systems enabling merchandise testing, assortment planning, allocation and replenishment have been developed and implemented. A model inventory plan is in place for each store and is periodically reviewed and updated. Approximately 70% of the merchandise is available for sale in all the US mall stores, with the remainder allocated to reflect demand in particular markets.

The inventory management team works closely with the marketing team to determine merchandise quantities for promotional events. 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 superior to those of most of its quoted competitors. In 2002/03 the average cost of inventory as a percentage of annual sales increased to 36.8% (2001/02: 36.0%), reflecting the immaturity of recently added space.

Programmes have been developed in conjunction with certain vendors for the provision of branded jewellery merchandise. For example, the Leo Diamond is sold exclusively by Signet in the US and the UK. This diamond has a patented cut resulting in greater brilliance than a conventional diamond of equal colour, clarity and weight, and comes with its own independent certification known as the Return Of Light. The Leo Diamond range became available in all US stores during the year, and was also expanded to include a broader selection of cuts and styles. Management believes that the US division's merchandising process, market share and relationship with suppliers position the business as an ideal partner to launch new branding initiatives.

Other merchandising initiatives offer a distinctive product selection. For example, in Jared, an opportunity to increase watch sales and also attract additional customer traffic was identified. Therefore a major initiative has been taken to increase the number of Jared stores that stock premium watch brands, with particular emphasis on Rolex, Tag Heuer and Omega.

In 2002/03 the bridal category accounted for approximately 43% of merchandise sold. This has been a category of steady growth in sales over the past four years.

The table below sets out Signet's US merchandise sales mix as a percentage of sales:

Merchandise mix

	Percentage of sales		
	2002/03	2001/02	2000/01
	%	%	%
Diamonds	69	67	66
Gold jewellery	8	10	11
Gemstones	10	10	11
Watches	6	6	7
Repairs	7	7	5
	100	100	100

Approximately 55% of diamond merchandise sold is acquired through contract manufacturing. Under this approach, Signet purchases loose polished diamonds on the world market and outsources the casting, assembly and finishing operations to third parties. It is believed that this approach results in a competitive cost and quality advantage. Contract casting and the setting of loose diamonds are generally utilised on basic items or programmes with proven non-volatile historical sales patterns that represent a lower risk of over or under purchasing. This purchasing strategy also allows the buyers to gain a detailed understanding of the manufacturing cost structure and improves the prospects of obtaining better pricing for the supply of finished

products.

Merchandise considered likely to have less predictable sales patterns is purchased complete as finished product. This strategy provides the opportunity to hold shelf stock with vendors and to make supplier returns or exchanges, thereby reducing the risk of over or under purchasing.

Merchandise held on consignment is used to enhance product selection and test new designs. This minimises exposure to changes in fashion trends and obsolescence whilst giving the flexibility to return non-performing merchandise. At 1 February 2003 the US division held approximately \$116 million (2 February 2002: \$133 million) of merchandise on consignment (see note 12 on page 67).

In 2002/03 the five largest suppliers collectively accounted for approximately 29% (2001/02: 25%) of total US purchases, with the largest supplier accounting for approximately 13% (2001/02: 9%).

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Marketing and advertising

Store brand name recognition by consumers is believed to be an important factor in jewellery retailing, as the products themselves are predominantly unbranded. Signet continues to strengthen and promote its US brands and build store brand name recognition through a range of media advertising including television, radio, print, catalogues, direct mail, point-of-sale signage, in-store displays and the Internet. Established strategic marketing and advertising research programmes provide a strong understanding of jewellery customers and their purchasing profiles.

Gross advertising and marketing expenditure increased by 9.0% to \$110.4 million in 2002/03 (2001/02: \$101.3 million), primarily as a result of the continued expansion of the Jared concept and total mall sales growth. Gross expenditure as a percentage of sales was 6.4% (2001/02: 6.3%).

Advertising activities are concentrated during periods when customers are expected to be most receptive to the marketing message. During the 2002 Christmas trading period the number of Kay television impressions increased by 16% and radio advertising weights by 8% against the previous Christmas trading period. Over the last four years TV advertising for Kay has increased by two and a half times, and the cost of network television advertising is leveraged as the number of stores increases. The romance and appreciation based theme of its advertising programme continues to be *Every kiss begins with Kay* which has improved name recognition of this chain.

Promotional campaigns for Jared and regional chains use regional radio advertising supplemented by direct mail as a cost effective medium to support and enhance name recognition. A television advertising test for Jared was expanded to ten selected markets in 2002/03 from three in 2001/02 in order to gain a better understanding of the dynamics of advertising Jared on television. When the Jared chain reaches the critical mass to justify national network television advertising, the most efficient and cost effective form of marketing, such a programme would enhance brand name recognition nationwide and give improved access to prime store real estate sites in large, high-cost advertising markets.

Each year the US division produces 11 catalogues that feature a wide selection of merchandise and are prominently displayed in stores. Catalogues are also mailed direct to targeted customers. Statistical and technology-based systems are employed to support a direct marketing programme that uses a proprietary database of over 18 million names to

strengthen the relationship with customers. The programme targets current customers with special savings and merchandise offers during the key trading periods. In addition, invitations to special promotional in-store events hosted in stores are extended throughout the year.

During 2002/03 marketing web sites for Jared (www.jared.com), J.B. Robinson (www.jbrobinson.com) and Marks & Morgan (www.marksandmorgan.com) were developed and launched, and the web site for Kay (www.kay.com) was upgraded. The web sites display a selection of the stores merchandise assortments, include store locators, and allow for customer registration and the ability to compile a gift wish list .

Credit operations

Various Signet US credit programmes help to establish long-term relationships with customers and complement the marketing strategy by encouraging additional purchases and higher unit sales. Management regards the provision of an in-house credit programme as a competitive advantage for a number of reasons. It provides opportunities for greater contact with customers. It also allows management to establish and implement customer service standards in the context of the business. It is believed that investment in systems and management of credit offerings appropriate for the business is also facilitated in a more cost-efficient manner than by a third party provider.

The table on page 14 presents data related to the in-house credit business for the past three financial years. The credit performance has been consistent, and the credit terms have remained largely unchanged in seven years. The average outstanding balance was \$688 (2001/02: \$660). With a stable monthly collection rate of approximately 14.5%, the portfolio turns approximately every seven months. Bad debt expense in 2002/03 was 6.0% of credit sales before a \$2.2 million one-off benefit from the better than anticipated performance of the residue of the acquired Marks & Morgan receivables portfolio. It has ranged between 6.0% to 6.8% of credit sales over the seven year period 1996/97 to 2002/03. In-house credit sales represented 49.5% of total US sales in 2002/03 (50.4% in 2001/02). Certain programmes offer interest-free financing. In most states customers are offered optional third party credit insurance.

Centralised credit authorisation and collection processes are based at the US headquarters in Akron, Ohio. Credit applications are evaluated by the scoring of credit application data and data obtained through on-line access to third party credit bureaux. The

centralised system is capable of

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US Operating review (continued)

In-house credit operations

	2002/03	2001/02	2000/01
Credit sales (\$m)	859.6	817.2	724.0
Credit sales as % of total sales	49.5%	50.4%	49.7%
Number of active credit accounts at year end	798,761	799,043	793,792
Average outstanding account balance (\$)	688	660	652
Average monthly collection rates	14.5%	13.9%	13.9%
Bad debt as % of total sales	3.0%(1)	3.2%	3.4%
Bad debt as % of credit sales	6.0%(1)	6.3%	6.8%

(1) Before a \$2.2 million one-off benefit from the better than anticipated performance of the residue of the acquired Marks & Morgan receivables portfolio.

processing and approving the majority of applications in less than two minutes after data input via in-store terminals. Improved scoring models that use statistical methods and support collection systems and strategies have been implemented. During 2002/03 collection strategies and efforts continued to include increased emphasis on contacting accounts at early stages of delinquency.

In addition to the in-house credit card, the US stores accept major credit cards. Credit card sales are treated as cash sales and accounted for approximately 34% of total US sales during 2002/03.

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, and are designed to decrease the time sales staff spend on administrative tasks and increase their time spent selling.

The US information systems provide daily, weekly and monthly operating and statistical reports on inventories, sales, gross profit margins, payroll, receivables and operating costs. They also allow for comparison of actual, budgeted and prior year performance for every individual store, and tracking and analysis of product and regional sales trends.

All stores are supported by the internally developed Store Information System (SIS). The SIS includes electronic point of sale (EPOS) processing, in-house credit authorisation and support, a district manager information system and a satellite-based communications system, which supports data transmissions and company-wide e-mail in real time. At the end of each day, data captured by the EPOS system is automatically transmitted to headquarters and is used to update sales, in-house credit and perpetual inventory systems and to determine inventory replenishment for stores. The merchandise processing system enables management to track automatically each individual item of merchandise from receipt to ultimate sale and to monitor sales, gross margins and inventory levels by store, merchandise category and individual item. The division's automated paperless merchandise picking system can replenish over 200,000 pieces in a single day. In addition, an automated daily piece counting system is in place in all US stores as an effective loss prevention measure.

Regulation

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

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UK Operating review

Overview

Signet is the largest speciality retailer of fine jewellery in the UK, with 610 stores and a total market share of approximately 17%. It trades as H.Samuel (17.4% of Group sales), targeting the middle market, and Ernest Jones (11.7% of Group sales), positioned at the upper end of the middle market. Total sales during 2002/03 were £473.6 million (2001/02: £452.1 million).

At 1 February 2003 there were 418 H.Samuel stores and 192 Ernest Jones stores (including 16 Leslie Davis stores). Approximately 48% of these are found in prime High Street locations (main shopping streets with high pedestrian traffic) and 52% are located in covered or enclosed shopping malls. The High Street stores accounted for 42% of total UK sales and shopping mall stores for 58%. H.Samuel is the largest chain of speciality retail jewellers in the UK and its stores are located in virtually every medium and large retail centre. Ernest Jones, the second largest speciality retail jewellery chain, is represented in most large retail centres.

The strategy of the UK division is to raise the average transaction value thereby increasing store productivity. A key feature of the strategy is to make existing space work harder with particular focus on growing the diamond business and increasing sales in fashion and luxury watches.

Competitive advantages

Signet believes that the UK division's competitive advantages include its strong, well established brand names; the national coverage of the chains and their complementary socio-demographic coverage; the prime locations of stores; economies of scale in buying, marketing and central administration; and the capacity to contract with jewellery manufacturers to assemble products utilising directly sourced gold and loose polished diamonds, thereby delivering better value to the customer.

The UK business also enjoys a unique competitive advantage due to its close relationship with Signet's US operations. Synergies are gained by sharing merchandising knowledge, trend information, best practice procedures and systems.

Market place

Although reliable figures on the size of the UK jewellery market are difficult to obtain, management believes that in calendar year 2002 the size of the total UK market for fine jewellery, costume jewellery and watches was approximately £3.3 billion (\$5.2 billion) (including VAT of 17.5%). The market includes speciality retail jewellers and non-speciality jewellery retailers such as catalogue showrooms, jewellery departments in department stores and mail order catalogues.

The UK retail jewellery industry is very fragmented and competitive, with a substantial number of independent speciality jewellery retailers. Management believes there are in total approximately 7,000 speciality retail jewellery stores in the UK.

In the middle market H.Samuel competes with F Hinds (108 stores), and a large number of independent jewellers. Competition at the lower end of the H.Samuel product range also comes from catalogue showroom outlets such as Argos and discount jewellery retailers such as Warren James.

In the upper middle market Ernest Jones' competition is from independent speciality retailers and a limited number of other upper market jewellery groups such as Goldsmiths Group (164 stores); Beaverbrooks (48 stores); and MW Group (30 stores).

Management believes that customers are attracted to H.Samuel and Ernest Jones stores because they are perceived to be friendly, unintimidating and relaxed whilst

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delivering expert service, integrity and a wide product selection. The performance in the UK over the past five years is illustrated in the following chart:

Store operations

A dedicated store operations management team for each of the H.Samuel and Ernest Jones chains supports and manages their development.

Management believes that the location, quality of real estate and interior fitting of its UK stores are central to its success. Traditionally both chains have employed extensive window displays. This is in contrast to the US where display cabinets of many jewellery stores are situated on the frontage with the mall concourses.

The UK division continues to test and review new store designs and layouts. During the year 17 stores of different types were trialed using a design format intended to be more conducive to the sale of diamonds and fine jewellery. The new designs feature open frontages intended to make the store more accessible and inviting to the customer, together with improved lighting of the merchandise. The trial formats draw on the Group's mall store experience in the US and include display cases on the frontage with the mall concourse rather than the traditional window presentation. These low-level display units serve as both

counter and display case, allowing the sales associate to present a selection of merchandise to the customer without having to break away from the sale to get additional merchandise from the window display. Details of recent investment in the store portfolio are set out below:

	Number of stores		
	2002/03	2001/02	2000/01
Store refurbishments and relocations	42	93	24
New H.Samuel stores	4	10	9
New Ernest Jones stores	8	9	3
Fixed capital expenditure	£14m	£15m	£6m

H.Samuel

H.Samuel, accounting for 17.4% of Group sales in 2002/03 (2001/02: 17.6%), offers a wide range of jewellery, gold, watches and gifts (see page 18 for merchandise mix). In contrast to Ernest Jones, H.Samuel is a high volume business with relatively low transaction values reflecting a lower proportion of diamond jewellery and a higher proportion of gifts in its sales mix. At 1 February 2003 the chain had average selling space of 1,124 square feet per store. The average retail price of items sold in 2002/03 was £33, and has increased at an annual compound growth rate of 5.7% over the last five years. The average sales per store in 2002/03 were £677,000 having increased at an annual compound growth rate of 3.6% over the last five years. Whilst H.Samuel continues to open new stores, there is limited opportunity to increase the total number, given the chain's current nationwide coverage.

H.Samuel store data

	2002/03	2001/02	2000/01
Number of stores			
Opened during year	4	10	9
Closed during year	(8)	(16)	(8)
Open at end of year	418	422	428
Percentage increase in			

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like for like sales	2.6%	6.4%	6.0%
Average retail price of items sold ⁽¹⁾	£33	£31	£28
Average sales per store in thousands (exc.VAT) ⁽²⁾	£677	£667	£609

(1) Excluding accessories, repairs and warranties.

(2) Including only stores operated for the full financial year.

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Ernest Jones sales accounted for 11.7% of Group sales in 2002/03 (2001/02: 10.7%). The principal product categories are diamonds, branded watches and gold jewellery, all of which are merchandised and marketed to appeal to the more affluent upper middle market customer (see page 18 for merchandise mix). Ernest Jones retails prestige watches such as Rolex, Cartier, Gucci, Raymond Weil, Tag Heuer, Omega, Rado and Corum; contemporary fashion watches such as Emporio Armani, Hugo Boss, DKNY and Calvin Klein; and a traditional range of watches including Rotary, Seiko and Tissot.

At 1 February 2003 the chain had an average selling space of 851 square feet per store. The average retail price of items sold in 2002/03 was £130, and has increased at an annual compound growth rate of 4.2% over the last five years. Over the same period average sales per store increased at an annual compound growth rate of 10.6% and reached £1,030,000 at 1 February 2003. Management considers that there is potential to increase the number of Ernest Jones stores to approximately 230.

Ernest Jones store data(1)

	2002/03	2001/02	2000/01
Number of stores			
Opened during year	8	9	3
Closed during year		(2)	(5)
Open at end of year	192	184	177
Percentage increase in like for like sales	9.4%	14.6%	13.5%
Average retail price of items sold(2)	£130	£119	£109
Average sales per store in thousands (exc.VAT)(3)	£1,030	£919	£805

(1) Including Leslie Davis stores.

(2) Excluding accessories, repairs and warranties.

(3) Including only stores operated for the full financial year.

Where market size permits the Ernest Jones chain follows a two-site strategy, using the trade names Ernest Jones and Leslie Davis.

Management, personnel, training and incentives

Management believes that customer service is one of the essential elements in the success of its business. Training programmes and enhanced incentive schemes have contributed to the improvement of the quality and performance of the UK staff, which has helped to increase sales. During 2002/03 the programme to raise store standards and customer service continued.

New store personnel must complete a selling skills learning programme during their probationary period and thereafter undertake additional training in selling, product knowledge and customer care. Personnel are also encouraged to pursue further education through courses such as the National Association of Goldsmiths Jewellers Training Programme, a two year course leading to certification by examination.

Store managers undergo sales and store management training. Field and human resources management personnel play an active role in the recruitment, performance review, training and development of sales staff, thereby ensuring consistency in operating standards and procedures throughout the business.

The preferred policy is to promote store managers from within Signet UK. At any given time each chain has a number of sales staff who are qualified to advance to store manager level, thus assuring the availability of newly trained managers familiar with operating standards and procedures. Various incentive schemes are operated to motivate and reward performance in the stores, and sales-based bonuses are paid to sales associates. The bonus system for store managers and area managers is clearly focused on key controllable performance targets. It is intended that the proportion of performance related payments should increase over time.

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In order to increase staff selling time and to improve efficiency, store operating procedures are routinely reviewed to identify opportunities to improve customer service and reduce in-store administrative tasks. Sales floor and back office administrative functions were further simplified, standardised and made available on line through EPOS (electronic point of sale) terminals in 2002/03. Model stores are used as benchmarks for monitoring, reviewing and testing operating procedures to increase staff productivity in all stores.

Management believes that the recruitment, training and retention of head office staff are essential to support the stores and enhance sales performance. Comprehensive recruitment, training and incentive programmes for staff members are in place in the offices in Colindale and Birmingham. Programmes to provide employees with structured development plans, training and career paths have been implemented. Career advancement is encouraged through the advertisement of all internal vacancies and is supported by a succession planning process.

Teamwork and service to the stores are encouraged through a performance bonus plan for head office staff which is based on the UK division's results. In addition, recognition schemes award those who provide outstanding customer service to internal and external customers.

Merchandising and purchasing

The division retails an extensive range of merchandise including gold and silver jewellery, watches, diamond and gemstone set jewellery and gifts. Consistent with other UK speciality retail jewellers most gold jewellery carried is 9 carat. However, sales of 18 carat gold jewellery have been increasing in line with a rising demand for aspirational products.

The merchandising mix of H.Samuel and Ernest Jones, and the UK division as a whole, is given above. In the UK there is a trend toward diamond purchases and Signet's UK brands are well positioned across the middle market to benefit from this trend. In 2002/03 diamond jewellery sales accounted for 25% of total Signet UK sales versus 18% five years ago. The compound annual growth rate of Signet UK diamond sales was 14.6% over the period, while the compound annual growth rate of all UK diamond sales was 8.9% over the same period (De Beers).

Merchandise mix

	Percentage of sales		
	2002/03	2001/02	2000/01
	%	%	%
Gold and silver jewellery			
H.Samuel	36	36	35
Ernest Jones	26	27	28
Signet UK	32	33	32
Watches			
H.Samuel	24	24	24
Ernest Jones	32	34	33
Signet UK	27	28	27
Diamond jewellery			
H.Samuel	18	17	17
Ernest Jones	35	33	30

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Signet UK	25	23	22
Gifts			
H.Samuel	14	15	16
Ernest Jones	3	3	5
Signet UK	10	10	12
Repairs and accessories			
H.Samuel	8	8	8
Ernest Jones	4	3	4
Signet UK	6	6	7
	100	100	100

Each store periodically receives and displays a range of merchandise that reflects local buying patterns. Display equipment and layouts are constantly reviewed and updated and new display formats, which draw upon the US division's experience, are being implemented.

Merchandise is purchased from a range of suppliers and manufacturers. In 2002/03 the five largest of these (all watch suppliers) together accounted for approximately 19% of total UK division purchases, with the largest accounting for approximately 4%. Only a small percentage of merchandise is purchased on consignment (see note 12 on page 67).

Economies of scale are achieved by combining the volume of purchases for H.Samuel and Ernest Jones. Some 28% of the UK business' gold jewellery is manufactured on a contract basis in Italy through a buying office in Vicenza, thereby eliminating the costs associated with intermediaries.

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Signet UK also employs contract casting for approximately 34% of the diamond merchandise sold, providing cost savings to the division. Both H.Samuel and Ernest Jones employ experienced buyers who concentrate on product development, sourcing and supplier management appropriate to their particular needs.

Merchandising teams work in conjunction with the buyers and focus on assortment planning, branch grading, repeat orders, inventory levels and margin management. Product category reviews are regularly carried out with a focus on potential gross margin return. Rigorous test marketing procedures are used to trial products, and their subsequent distribution is made strictly against rates of sale.

Steps have been taken to strengthen the merchandising and purchasing functions, especially for diamonds. The diamond ranges have been rationalised with greater focus on key items, and offer a wider choice in the most popular categories whilst reducing peripheral merchandising. Branded diamonds exclusive to Signet have been introduced this year. The Leo Diamond is now available in all Ernest Jones stores, and the Forever Diamonds range is being tested in H.Samuel.

Marketing and advertising

Gross expenditure on marketing and advertising amounted to 2.2% of sales in 2002/03 (2001/02: 2.1% and 2000/01: 1.9%). Marketing campaigns have been tailored to reinforce and develop further the distinct brand identities of H.Samuel as a middle market jewellery chain and Ernest Jones as a more upmarket diamond and watch specialist. Both campaigns aim to expand the overall customer base and improve customer loyalty.

The primary marketing and advertising medium employed in 2002/03 was a series of catalogues for each brand, distributed as inserts in newspapers and magazines and also available in all stores. During 2002/03 the Ernest Jones catalogues had a strong focus on diamonds and branded watches. The quantity of both chains' catalogues was increased and their distribution better targeted. Radio advertising for H.Samuel was developed and expanded. Concepts to test television advertising for H.Samuel are under development.

Public relations support was increased for both brands, resulting in greater coverage in national and consumer lifestyle media titles. Targeted marketing was increased to support key special promotional events such as design days at Ernest Jones and collectors events at H.Samuel.

During 2002/03 the content and interactivity of the UK marketing web sites (www.hsamuel.co.uk, www.ernestjones.co.uk and www.lesliedavis.co.uk) continued to be developed. The sites have seen a substantial increase in visitor numbers and visitor time on line.

Insurance loss replacement business

Management believes that it is the leading UK jewellery retailer in the insurance loss replacement business, which involves the settlement of insurance claims by product replacement through jewellery stores rather than by cash settlements from the insurance company. Given its nationwide store portfolio, breadth of product range and ability to invest in systems to support the business, the division is well positioned to benefit from insurance companies increasingly settling claims in this manner. H.Samuel and Ernest Jones also benefit from the resulting higher customer traffic in stores and the opportunity to create and build relationships with new customers. In 2002/03 further investment was made to improve efficiency and customer service in the in-house telephone call centre.

Credit operations

Whilst the division does not have an in-house credit operation, it does accept major credit cards. Credit card sales are treated as cash transactions and accounted for approximately 33% of sales during 2002/03 (2001/02: 31%). During the period approximately 2% (2001/02: 2%) of sales in the UK were made pursuant to interest-free programmes available for purchases over a particular price. The receivables for the interest-free programmes are sold at a discount on a limited recourse basis and administered by an unaffiliated company.

Management tools and communications

The administration centre at Colindale in North London is the head office for UK store operations. It also houses the division's core finance, human resources, information technology, payroll, and buying and merchandising functions. The distribution facility, insurance replacement business, call centre, customer services facility and some finance and information technology operations are located in Birmingham.

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Retail management systems are in place to support inventory planning and control, purchase order management, merchandising, replenishment and distribution. These package-based systems allow for tracking of performance against budget and forecasting of sales, gross margin and inventory by merchandise category and at individual store level.

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UK Operating review (continued)

A personal computer-based EPOS system enables continual improvements in such areas as store e-mail, access to store operations and display manuals, automation and simplification of back office functions and labour scheduling in key stores. Management expects that these improvements, which will take a number of years to implement fully, will increase the time available to sales staff to concentrate on selling and improve customer service.

Systems to collect data overnight from the EPOS terminals are also in place, enabling replacement within 24 hours of any merchandise sold in the UK stores. A perpetual inventory process enables store managers to check stock by product category. This also allows for additional focus to be placed on loss prevention in higher risk product categories, earlier identification of stock control issues and enhancement of stock file accuracy. The process is supported by store visits carried out by the internal audit function.

An intranet-based system to support improved communications across the business is currently under development and is scheduled to be put in place in stores during 2003. Its benefits will include better daily contact

between the head office and store staff, increased standardisation of store operational procedures, and enhanced in-store training programmes.

The merchandise planning and buying system was again improved during the year to enhance the quality, level of detail and accuracy of the merchandise planning process. It now allows for better analysis of data and identification of merchandise trends.

Each store receives monthly operating statements detailing its financial performance against budget. The statements monitor sales, store payroll expenditure and other operating expenses, allowing store and area management to concentrate on issues that directly affect the profitability of each store.

Regulation

Various laws and regulations affect Signet's UK operations. These cover areas such as consumer protection, consumer credit, data protection requirements, health and safety issues, waste disposal, employment legislation and planning and development standards. Management monitors changes in these laws to ensure that its practices comply with legal requirements.

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Group employees and Description of property

Group employees

In 2002/03 the average number of full-time equivalent persons employed (including directors) was 14,160 (UK: 4,746; US: 9,414). The Company usually employs a limited number of temporary employees during each Christmas season.

None of Signet's employees in the UK and less than 1% of Signet's employees in the US are covered by collective bargaining agreements. Signet considers its relationship with its employees to be excellent.

Description of property

Signet attributes great importance to the location and appearance of its stores. Accordingly, in both Signet's US and UK operations, investment decisions on selecting sites and refurbishing stores are made centrally, and strict real estate criteria are applied.

US

Substantially all of Signet's US stores are leased. In addition to a minimum annual rental, a significant number of stores will pay additional rent based on sales above a specified base level. Under the terms of the typical lease, the US business is required to conform and maintain its usage to agreed standards, including meeting required advertising expenditures as a percentage of sales, and is responsible for its proportionate share of expenses associated with common area maintenance, utilities and taxes of the mall. The initial term of a mall store lease is generally ten years. At 1 February 2003 the average unexpired lease term of US leased premises was six years and some 44% of leases had terms expiring within five years. The Jared stores are normally on 20 year leases and rents are not turnover related.

During the past five financial years the US business has been generally successful in renewing its store leases as they expire and has not experienced difficulty in securing suitable locations for its stores. It is not believed that any of the store leases are individually material to the Group's US operations.

A 337,000 square foot head office facility is leased in Akron, Ohio.

UK

At 1 February 2003 Signet UK held seven freehold premises, 18 premises where the lease had a remaining term in excess of 25 years and 675 other leasehold premises. As is typically the case in retailing in the UK, the division's stores are leased for terms of up to 25 years, generally under full repairing and insuring leases (equivalent to triple net leases in the US). Rents are usually subject to upward review every five years if market conditions so warrant. An increasing proportion of rents are related to sales of the store, subject to a minimum annual value. At the end of the lease period, subject to certain limited exceptions, leaseholders generally have statutory rights to enter into a new lease of the premises on negotiated terms. At 1 February 2003 the average unexpired lease term of Signet's leased premises in the UK was 14 years. As current leases expire, Signet believes that it will be able to renew leases, if desired, for present store locations or to obtain leases in equivalent or improved locations in the same general areas. Signet has not experienced difficulty in securing leases for suitable locations for its UK stores. Wherever possible Signet is shortening the length of new leases that it enters into in order to improve the flexibility of its lease commitments.

Signet owns a 255,000 square foot warehouse and distribution centre in Birmingham and a 120,000 square foot administration centre at Colindale in North London.

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Financial review

	2002/03		2001/02		2000/01	
	£m	%	£m	%	£m	%
Sales:						
US	1,134.4	70.5	1,126.0	71.4	978.1	70.5
UK	473.6	29.5	452.1	28.6	409.2	29.5
Total	1,608.0	100.0	1,578.1	100.0	1,387.3	100.0
Operating profit:						
US	155.2	71.8	145.1	72.3	132.2	74.0
UK	67.0	31.0	60.7	30.2	50.0	28.0
Group central costs	(6.0)	(2.8)	(5.1)	(2.5)	(3.5)	(2.0)
Total	216.2	100.0	200.7	100.0	178.7	100.0

52 weeks ended 1 February 2003

Total Group sales for 2002/03 rose by 1.9% to £1,608.0 million compared with £1,578.1 million in 2001/02 (7.9% on a comparable 52 week basis at constant exchange rates).

Group profit before tax for the year was £199.7 million (2001/02: £182.8 million), a 16.2% increase on a comparable 52 week basis at constant exchange rates. After a tax charge of 35.5% (2001/02: 34.5%) earnings per share were 7.5p (2001/02: 7.1p), an increase of 5.6%. Operating profit increased by 7.7% to £216.2 million (2001/02: £200.7 million), a 14.8% increase on a comparable 52 week basis.

Sales

US

Like for like sales grew by 5.4%. Significant benefit was obtained from a number of management initiatives in merchandising, staff training, marketing and real estate. During the Christmas season consumer spending was more restrained and like for like sales increased by 4.3% in the fourth quarter, significantly ahead of the main competition. Jared continued to perform particularly well. Total sales for the year grew by 0.7% to £1,134.4 million (8.6% on a comparable 52 week basis at constant exchange rates).

UK

The UK division had a good year. Particular advantage was derived from the focus on increasing diamond sales. Like for like sales were up by 5.2% and total sales rose to £473.6 million (2001/02: £452.1 million), a 6.1% increase on a comparable 52 week basis. Sales in H.Samuel were £279.1 million (2001/02: £277.3 million), with a like for like increase of 2.6%. Ernest Jones sales rose to £188.0 million (2001/02: £168.5 million) the like for like sales increase being 9.4%. This was a particularly good result given the strong comparatives. Against a background of a slowing in the growth in consumer expenditure, like for like sales

increased by 3.1% in the fourth quarter (H.Samuel up by 1.0% and Ernest Jones up by 6.7%).

Operating profit

US

The trading environment in 2002/03 was very challenging. Tight control of costs, margins and inventory was maintained. Operating profit rose by 7.0% to £155.2 million (2001/02: £145.1 million). On a comparable 52 week basis at constant exchange rates the increase was 15.6%. Goodwill amortisation of £1.2 million was charged (2001/02: £1.3 million). Operating profit as a percentage of sales increased to 13.7% (2001/02: 12.9%), reflecting leverage from like for like sales growth which more than offset the adverse

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impact of immature store space. The gross margin rate was slightly down on last year's level, due to anticipated changes in the sales mix. The increase in the price of gold bullion had limited adverse impact on the year but could have a greater impact in 2003/04. The ratio of bad debts to total sales decreased to 3.0% (2001/02: 3.2%) before a \$2.2 million one-off benefit from the better than anticipated performance of the residue of the acquired Marks & Morgan receivables portfolio.

UK

In the UK the strong like for like sales growth underpinned an improvement in operating profit, which increased to 14.1% of sales (2001/02: 13.4%). Operating profit grew to £67.0 million (2001/02: £60.7 million), an increase of 10.4%, equivalent to 13.2% on a comparable 52 week basis. This resulted from further leverage of the divisional cost base, with gross margin slightly ahead of last year.

Net income

Net income for the year increased by 7.7% to £128.9 million (2001/02: £119.7 million), 14.5% on a comparable 52 week basis at constant exchange rates.

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Return on capital employed (ROCE)

The Group's ROCE increased to 23.8% (2001/02: 23.3%). In the US the ROCE rose to 21.5% (2001/02: 20.4%) and in the UK there was a slight fall to 38.0% (2001/02: 39.4%). US capital employed included US in-house credit card debtors amounting to £299.2 million at 1 February 2003 (2 February 2002: £327.0 million).

Depreciation and capital expenditure

Depreciation charges were £36.6 million (2001/02: £33.4 million): £24.1 million in the US (2001/02: £23.0 million) and £12.5 million in the UK (2001/02: £10.4 million). Capital expenditure in the US was £33.1 million (2001/02: £41.0 million) and in the UK was £16.4 million (2001/02: £18.8 million).

Group costs

Group central costs amounted to £6.0 million (2001/02: £5.1 million) including a charge of £0.5 million relating to an increase in the provision against an onerous lease of a dormant Group property (2001/02: £nil).

Net interest payable

Net interest payable and similar charges amounted to £16.5 million (2001/02: £17.9 million, at constant exchange rates the equivalent figure was £16.8 million).

Taxation

The tax charge of £70.8 million (2001/02: £63.1 million) represents an effective tax rate of 35.5% (2001/02: 34.5%). It is anticipated that the effective tax rate for the Group in 2003/04 will remain at approximately the same level as in 2002/03.

Dividends

In November 2002 an interim dividend of 0.310p per share was paid (2001/02: 0.289p). The Board is recommending to shareholders a final dividend of 1.80p (2001/02: 1.50p) per share for 2002/03, which, subject to shareholder approval, is to be paid on 14 July 2003 to those shareholders on the register of members at close of business on 6 June 2003. Future dividend policy will continue to take account of earnings, cash flow, gearing and the needs of the business.

Impact of 53rd week

2001/02 was a 53 week financial year. The extra week increased total sales by 1.7% (1.8% in the US and 1.6% in the UK) and contributed £4.0 million to operating profit (£2.5 million in the US and £1.5 million in the UK). Net of additional interest costs of £0.4 million, profit before tax benefited by £3.6 million in 2001/02.

Liquidity and capital resources

The Group requires significant working capital to support its inventory requirements. The Group's working capital requirements fluctuate during the year as a result of the seasonal nature of its business and normally reach their highest levels in the late Autumn in preparation for the Christmas season.

Cash generated from operating activities amounted to £182.2 million (2001/02: £188.0 million). This reflected an increase in operating profit, offset by working capital requirements for stores opened in the period. It is anticipated that in 2003/04 there will be a further increase in working capital due to planned store openings. Net financing costs of £16.5 million (2001/02: £17.9 million) and tax of £57.3 million (2001/02: £57.9 million) were paid. Cash flow before investing activities was £108.5 million (2001/02: £112.2 million).

Group capital expenditure was £49.5 million (2001/02: £60.7 million). Disposal proceeds were £1.3 million (2001/02: £nil). Capital expenditure in 2003/04 is expected to be approximately £65 million, the vast majority relating to store openings, refurbishments and relocations.

Equity dividends of £30.8 million (2001/02: £27.7 million) were paid.

The Group considers its currently available capital resources to be sufficient for its present requirements.

Net debt

Net debt at 1 February 2003 was £140.1 million (2 February 2002: £201.7 million, £175.6 million restated at constant exchange rates). Group gearing (that is the ratio of net debt to shareholders' funds) at the year end was 20.1% (2 February 2002: 29.7%). Under UK GAAP, bank loans and overdrafts at 1 February 2003 include a \$251.0 million borrowing secured against the Group's US customer receivables (2 February 2002: \$251.0 million). Excluding this \$251.0 million facility net cash was £12.9 million (2 February 2002: net debt £24.9 million).

The Company funds part of its private label credit card receivables programme through a privately placed receivables securitisation. Under this securitisation, interests in the US receivables portfolio held by a trust were sold principally to institutional investors in the form of fixed-rate Class A, Class B and Class C investor certificates. The aggregate outstanding principal amount of the certificates totalled \$251.0 million at 1 February 2003 and 26 March 2003. The certificates have a weighted average interest rate

[Back to Contents](#)**Financial review (continued)**

of 5.42% and interest is paid monthly in arrears from the finance charges collections generated by the receivables portfolio. The revolving period of the securitisation ends in December 2005, with a Final Expected Principal Payment Date in November 2006. This securitisation replaced a previous securitisation facility of \$191.5 million, which commenced repayment in December 2000 and was fully repaid in September 2001.

In January 2002 the Group entered into a \$70 million Conduit securitisation facility (the Conduit). Under this securitisation, interests in the US receivables portfolio held by a trust could be sold to Sheffield Receivables Corporation (a US subsidiary of Barclays Capital Inc.) in the form of an unsecured revolving variable rate certificate. The Conduit bears interest at a margin of 0.375% above the cost of funds paid by Sheffield Receivables Corporation. At 1 February 2003 and 26 March 2003 the amount outstanding under the Conduit was \$nil.

In August 2001 the Group and certain of its subsidiaries entered into a \$410 million unsecured multi-currency five year revolving credit facility agreement (the Facility Agreement) under which a syndicate of banks made facilities available to the Group in the form of multi-currency cash advances and sterling acceptance credits on, *inter alia*, the following terms:

the Facility Agreement bears a maximum margin of 0.85% above LIBOR, though the margin may be lower dependent upon the performance of the Group. Since the commencement of the facility the margin has been 0.65% above LIBOR; and

the Facility Agreement is guaranteed by the Group's principal holding and operating subsidiaries. The continued availability of the Facility Agreement is conditional upon the Group achieving certain financial performance criteria (see note 16 on page 69). It also has certain provisions which are customary for this type of agreement, including standard negative pledge and *pari passu* clauses. At 1 February 2003 the amount outstanding under the Facility Agreement was \$nil and at 26 March 2003 it was \$nil.

In July 1998 the Group entered into a \$60 million unsecured seven year senior note issue (Loan Note), bearing a 7.25% fixed coupon. The Loan Note is also guaranteed by the Group's principal holding and operating subsidiaries. The continued availability of the Loan Note is

conditional upon the Group achieving certain financial performance criteria (see note 16 on page 69). The Loan Note also has certain provisions which are customary to this type of agreement, including standard negative pledge and *pari passu* clauses. At 1 February 2003 and 26 March 2003 the amount outstanding under the Loan Note was \$45 million (2 February 2002: \$60 million).

The principal financial covenants on each of these facilities are set out in note 16 on page 69.

It is the policy of the Group to enter into interest rate protection agreements in respect of at least 75% of its forecast US dollar borrowings. At 1 February 2003 the interest rate (before margin) on 75% of forecast US dollar borrowings for 2003/04 was capped effectively at 5.79%. Further details of the interest rate protection agreements are given in note 26 on page 78.

Pensions

In 2002/03 the Group has continued to account for its UK defined benefit scheme under SSAP 24. Consistent with prior years, the Group has used the most recent actuarial investigation (for 2002/03 as at 5 April 2002) as the basis for the SSAP 24 calculations.

Under this accounting treatment the net pension charge in respect of the UK scheme is £nil (2001/02: £nil). The balance sheet continues to reflect a deferred asset, before deferred tax, of £19.1 million (2001/02: £19.1 million).

Under the transitional arrangements for FRS17 the additional required disclosures are set out in note 22 on page 74. In summary, compliance would have resulted in a net pension credit of £0.2 million in respect of the UK Scheme for 2002/03. As a result of the fall in the value of the UK Scheme's assets, under FRS17 the market value of those assets compared to the present value of the UK Scheme's liabilities at 1 February 2003 showed a deficit of £6.7 million before deferred tax, compared to a surplus of £24.9 million at 2 February 2002.

Contingent property liabilities

Approximately 164 UK property leases had been assigned by the Group up to 1 February 2003 (and remained unexpired and occupied by assignees at that date) and approximately 45 additional stores were sub-let at that date. Should the assignees or sub-tenants fail to fulfil any obligations in respect of those leases or any other leases which have at any other time been assigned or sub-let, the Group or one of its UK subsidiaries may

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be liable for those defaults. The number of such claims arising to date has been small, and the liability, which is charged to the profit and loss account as it arises, has not been material.

Critical accounting policies

Critical accounting policies for Signet include revenue recognition, particularly with regard to special customer programmes such as warranties; stock valuation; accounting for operating leases commitments; fixed asset depreciation and the bad debt provisioning policy relating to the in-house credit operation in the US. There are no material off-balance sheet structures under UK generally accepted accounting principles. The principal accounting policies are set out in note 1 on pages 58 to 60 and are summarised below.

Sales represent sales to customers outside the Group, exclusive of VAT and sales tax. Repair revenues are recognised when the service is complete and the merchandise is delivered to the customer. The revenue from the sale of warranties in the US, such as extended service plans on products, is recognised at the date of sale with provision being made for the estimated cost of future claims arising.

Stock is valued on a first-in, first-out basis and includes appropriate overheads. Where necessary provision is made for obsolete, slow-moving and damaged stock. This provision represents the difference between the cost of the stock and its estimated market value, based upon stock turn rates, market conditions and trends in consumer demand. Stock losses are estimated for the period from the last stock count date to the end of the financial year on a store by store basis. These estimates are based on the overall division stock loss experience since the last stock count.

Depreciation is provided on freehold and long leasehold premises over a useful life not exceeding 50 years. Freehold land is not depreciated. Depreciation is provided on other fixed assets at rates between 10% and $33\frac{1}{3}\%$. Where appropriate, provision is made on assets that have a lower economic value than net book value. Additionally, provision is made against tangible fixed assets relating to stores planned for closure where the stores' return on capital is below the level required.

Operating lease costs are charged on a straight line basis over the term of the lease and amounts payable in respect of turnover leases are recognised in the period to which the turnover relates.

Premiums paid to acquire short leasehold properties are amortised over their lease period and incentives received relating to leased properties are amortised over the period to the next rent review. Provision is made for future net lease obligations in respect of onerous leases of vacant, partially vacant or sublet properties. This provision is calculated on the basis of discounted forecast cash flows arising from future net obligations on each of those properties.

Full provision is made for debts that are 90 days past their due date on a recency basis and there is a general provision based on the historic performance of the receivables portfolio.

Advertising costs are expensed as incurred.

The results of overseas subsidiary undertakings are translated into pounds sterling at the weighted average rates of exchange during the period and their balance sheets and attributable goodwill at the rates at the balance sheet date. Exchange differences arising from the translation of the net assets and attributable goodwill of overseas subsidiary undertakings and matched foreign currency borrowings less deposits are charged or credited to reserves. Other exchange differences arising from foreign currency transactions are included in profit before taxation.

Purchased goodwill arising on consolidation in respect of acquisitions since 1 February 1998 is capitalised and amortised to nil by equal annual instalments over 20 years. Impairment reviews are carried out annually to ensure goodwill and intangible assets are not carried at above their recoverable amounts.

Depreciation and capital expenditure

Depreciation charges were £33.4 million (2000/01: £30.0 million): £23.0 million in the US (2000/01: £19.2 million) and £10.4 million in the UK (2000/01: £10.8 million).

Capital expenditure in the US was £41.0 million (2000/01: £46.5 million) and in the UK was £18.7 million (2000/01: £9.7 million).

Group costs

Group central costs amounted to £5.1 million (2000/01: £4.9 million before crediting property gains of £1.4 million).

Net interest payable

Net interest payable and similar charges amounted to £17.9 million (2000/01: £15.9 million, at constant exchange rates £16.5 million). The increase was principally due to the full year funding of the Marks & Morgan acquisition which

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took place in July 2000, the impact of which was partially offset by the benefit of lower interest rates.

Taxation

The tax charge of £63.1 million (2000/01: £52.1 million) represents an effective tax rate of 34.5% (2000/01: 32.0%).

Impact of 53rd week

2001/02 was a 53 week financial year. The extra week increased total sales by 1.7% (1.8% in the US and 1.6% in the UK) and contributed £4.0 million to operating profit (£2.5 million in the US and £1.5 million in the UK). Net of additional interest costs of £0.4 million, profit before tax benefited by £3.6 million.

Dividends

In November 2001 an interim dividend of 0.289p per share was paid (2000/01: 0.275p). Additionally, a final dividend of 1.50p (2000/01: 1.35p) per share for 2001/02, was paid on 5 July 2002 to those shareholders on the register of members at close of business on 7 June 2002.

Prior year adjustment

In 2001/02 the Group adopted FRS 19 Deferred Tax, which requires that deferred tax be provided in respect of all timing differences regardless of the likelihood of the reversal of such timing differences. As a result an additional provision for deferred tax of £6.2 million was accounted for by way of a prior year adjustment charged directly to shareholders' funds. There is no material effect on the profit and loss account for the year ended 2 February 2002 or the preceding years.

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Risk and other factors

Forward-looking statements

All statements, 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. 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 Group's ability to anticipate consumer preferences and the merchandising, pricing and inventory policies it follows;
- the reputation of the Group and its trading names, together with the success of the Group's marketing and promotional programmes;
- the ability to recruit, train and retain staff;
- 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;
- 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 as well as the consumer attitude to those products;
- the suitability and reliability of the Group's systems and procedures, including its information technology, warehousing and distribution systems;
- 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;
- the cost and availability of borrowings and equity capital; and
- financial market risk, 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.

Impact of general economic conditions

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

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, business conditions, interest rates, consumer debt levels, 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.

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. The Group's level of net bad debt charge as a percentage of credit sales in 2002/03 was below that of the last five years.

Merchandise selection, pricing, inventory and purchasing

The Group depends on consumer fashions, preferences for jewellery in general and the demand for particular products. 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 the appropriate quality, price products correctly and implement effective purchasing procedures, all have an important influence on determining sales performance and achieved gross margin (see pages 11 and 18 for more details).

stores.

The channels through which consumers buy jewellery continually evolve and a major non-speciality retailer could

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

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2001	1.44	1.50	1.38	1.45
2002	1.51	1.61	1.41	1.61
2003 (up to 26 March)	1.59	1.65	1.56	1.57

(1) The average of the exchange rates on the last day of each full month during the period.

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The Articles also specify that every director is required to retire at the annual general meeting in the third calendar year after he was last elected or re-elected, except for directors over the age of 70 who are required to retire at every annual general meeting, but such directors may, in either circumstance, seek re-election.

Messrs. Abraham, Land, McAdam and Walls retire from the Board at the forthcoming annual general meeting. Following consideration by the Board of the recommendations of the Nomination Committee, they offer themselves for re-election.

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Directors, officers and advisers (continued)

Officers

Stephen Card, 43, Group Treasurer, appointed in 1999. Previously he was Treasury Manager of Nycomed Amersham plc and prior to that Group Treasurer of Scapa plc. He has resigned with effect from 28 March 2003.

Timothy Jackson, 44, Company Secretary and Investor Relations Director, appointed in 1998. He is a Fellow of the Association of Chartered Certified Accountants. Prior to joining the Group he was Company Secretary and Director of Investor Relations of Cordiant Communications Group plc.

No director or officer has any family relationship with any other director or officer.

Advisers

Auditors KPMG Audit Plc, 8 Salisbury Square, London EC4Y 8BB.

Financial advisers Lazard Brothers & Co. Limited, 21 Moorfields, London EC2P 2HT.

Stockbrokers Deutsche Bank AG, Winchester House, 1 Great Winchester Street, London EC2N 2DB.

Cazenove & Co. Ltd, 12 Tokenhouse Yard, London EC2R 7AN.

UK lawyers Theodore Goddard, 150 Aldersgate Street, London EC1A 4EJ.

US lawyers Weil, Gotshal & Manges, One South Place, London EC2M 2WG.

Principal bankers Barclays Bank PLC, 5 The North Colonnade, Canary Wharf, London E14 4BB.

HSBC Bank plc, 8 Canada Square, Canary Wharf, London E14 5HQ.

Royal Bank of Scotland plc, 135 Bishopsgate, London EC2M 3UR.

Registrars Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Auditors

The auditors, KPMG Audit Plc, are willing to continue in office and a resolution for their re-appointment as auditors of the Company will be submitted to the annual general meeting.

Annual general meeting

The annual general meeting is to be held at 2.00 pm on 8 July 2003 at The Café Royal, 68 Regent Street, London W1B 5EL. A description of the business to be transacted at the annual general meeting is included with the notice of the meeting.

By order of the Board

T J Jackson

Secretary
26 March 2003

Board committees

The Group operates a number of committees to which specific tasks are delegated. The principal committees are:

The Audit Committee, which in 2002/03 consisted of all the non-executive directors, was chaired by Brook Land and met five times. From 1 April 2003 the Committee will consist of Lee Abraham, Brook Land and Russell Walls

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Corporate governance (continued)

Compliance statement

In June 1998 the London Stock Exchange published the Principles of Good Corporate Governance and the Code of Best Practice (the Combined Code). The Board of Directors considers that it has complied throughout the year with the provisions of the Combined Code required to be observed by companies.

Internal control

The Combined Code requires that the directors review the effectiveness of the Group s system of internal control including the following areas:

- Financial
- Operational
- Compliance
- Risk management

Guidance for directors *Internal Control: Guidance for Directors on the Combined Code* (the Turnbull guidance) was published in September 1999. The Board of Directors considers that it has complied with the Turnbull guidance throughout the year, and up to the date of approval of this Annual Report. In addition, during 2002/03 the Board reviewed the implications of the Sarbanes-Oxley Act and took steps to ensure compliance. The Group Chief Executive and the Group Finance Director intend to sign certifications as required by the Sarbanes-Oxley Act.

The Board exercises ultimate responsibility for the Group s system of internal controls and for monitoring its effectiveness. The internal control system is designed to safeguard shareholders investment and the Group s assets, both tangible and intangible, including the reputation of the Group with its various stakeholders. Procedures are in place to ensure the maintenance of proper accounting records, the reliability of the financial information used within the business or for publication and the determination of disclosure obligations and of materiality. These procedures also cover disclosure on a timely basis of information to the investment markets. However, such procedures are designed to manage rather than wholly eliminate the risk of failure to achieve business objectives and can provide only reasonable, not absolute, assurance against material misstatement or loss.

Following the passing of the Sarbanes-Oxley Act a review of the disclosure control procedures was undertaken and a Disclosure Control Committee was formed as part of the internal control system. The Group s disclosure control

procedures are designed to help ensure that processes and procedures for information management are in place at all levels of the Group so that appropriate information is publicly disclosed in a timely manner. The disclosure control procedures are also designed to ensure that any information disclosed by the Group is recorded, processed, summarised and reported and that the information is accumulated and communicated to management to allow timely decisions regarding required disclosure. The Group s Disclosure Control Committee consists of the Group Finance Director, the Company Secretary and Investor Relations Director and the Group Financial Controller who consult with the Group s external advisers and auditors as necessary.

Key procedures that have been established and are designed to provide effective internal control are:

Control environment control is exercised through an organisational structure with clearly defined levels of responsibility and authority together with appropriate reporting procedures, particularly with respect to financial information, capital expenditure, investment, granting of guarantees and the use of treasury products (see pages 31 and 32 for more detail) as well as health, safety, environmental and customer service issues.

Reporting and information systems the Group has a comprehensive budgeting and five year strategic planning system with an annual budget and strategic plan approved by the Board. Monthly trading results and balance sheets are reported against the corresponding figures for the budget and the previous year. Any significant variances are examined by divisional operating management and discussed with Group management, with action being taken as appropriate. A forecast of the full year s results is updated regularly, based on performance to date and any changes in outlook. The executive directors regularly report to the Board on the development of the business, the competitive environment and any material breaches of procedure. Through these mechanisms, the Group s performance is continually monitored, risks identified in a timely manner and their implications assessed, control procedures re-evaluated and corrective actions agreed and implemented. The Group issues both sales and financial results on a quarterly basis. The external auditors review the quarterly and half year statements and

present a report to the Audit Committee for consideration.

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Risk management the identification of major business risks is carried out in conjunction with operating management and appropriate steps are taken to monitor and mitigate risks. The Risk Management Committee, whose members include the Group Finance Director, the Chairman of the Audit Committee and senior divisional executives, meets on a regular basis, at least four times a year. The matters considered by the Risk Management Committee include the review of the Group's risk register, emerging issues, new regulations and the activity of the internal audit function. The external auditors receive copies of the papers submitted to the committee. A report from each Risk Management Committee meeting, and any material non-compliance or emerging issue, is considered by the Board in a timely manner.

Control procedures each operating division maintains documented financial and operating controls as well as procedures appropriate to its own business environment and in conformity with Group guidelines. Each of the operating divisions has an internal audit function which primarily reviews the processes in the store operations but also reviews central service functions. The work of the internal audit function is monitored by senior divisional executives, Group management, the Risk Management Committee and the Audit Committee.

Reviews of effectiveness - The Board, in addition to receiving the Risk Management Committee reports, annually reviews the effectiveness of the internal control system on the basis of a report submitted to the Risk Management Committee. This report is based on annual written self-certification statements prepared by the operating divisions and head office departments which confirm the extent of their compliance with all material internal financial operating and disclosure controls. These statements are prepared by the divisional finance directors on behalf of each operating division and are reviewed by senior divisional executives, Group management and the Board. As of the time of this Annual Report, the Board is not aware of any significant changes in the Group's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. The Disclosure Control Committee reports to the Audit Committee on a quarterly basis as to the effectiveness of the disclosure control procedures.

Conclusions of Group Chief Executive and Group Finance Director based on their review of the Group's disclosure controls and procedures, the Group Chief Executive and Group Finance Director have concluded that the Group's current disclosure controls and procedures are effective in achieving their objective of ensuring that information regarding the Company is recorded, processed, summarised and reported and that the information is accumulated and communicated to management to allow timely decisions regarding required disclosure.

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- (v) Total remuneration for executive directors and other senior executives should be highly geared towards performance with the proportion of at risk pay increasing disproportionately according to: a) the level of performance achieved, and b) the seniority of the executive and their ability to influence results. Excluding pensions there should be only one element of guaranteed remuneration; base salary, which in itself should be competitive. The performance related portion of total remuneration should reward short term and long term performance separately, with the potential level of payment being heavily weighted in favour of the latter. Short term achievement should be recognised through the annual bonus plan with long term achievement being rewarded through executive share option awards and participation in long term incentive plans.

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Scheme (the FURBS) is used to supplement pension benefits.

The main features of the Group Scheme are:

- (i) a normal pension age of 60;
- (ii) pension at normal pension age of two-thirds of final pensionable salary, subject to completion of 20 years service;

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(b) Share option and long term incentive plans

Share options granted to directors are set out on page 47. See page 41 for the factors influencing the choice of performance criteria and for the basis of measurement.

(i) Executive share option plans

The conditions set by the Remuneration Committee for exercise of options granted in October 1997, April 1998, April 1999, May 2000, May 2001 and April 2002 under the Executive Share Option Scheme 1993 were that for vesting to take place a post inflation minimum growth in earnings per share of 10% over any consecutive three year period had to be achieved. This performance condition was chosen as the Remuneration Committee believed it to be in line with market practice.

These conditions have been met in respect of the options

specified level the amount of

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Profit Growth performance measure						
Profit Growth rate inflection point	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Profit Growth rate required for maximum vesting	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
ROCE performance measure						
Specified ROCE required	21.5%	37.0%	22.5%	34.0%	22.5%	27.0%

(1) For Group Chief Executive and Group Finance Director.

(2) For the former Chief Executive of the UK division, the 2001/02 and 2002/03 awards were forfeited following his resignation.

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- (3) On 30 September 2002 the former Chief Executive of the UK division, Ian Dahl resigned giving 12 months notice. The Group opted to make his resignation effective immediately in accordance with the terms of his contract and made a payment in February 2003 of £280,000 in lieu of notice. Signet also agreed to continue providing certain benefits that would have been payable had Ian Dahl remained in employment during his notice period, which are estimated to amount to £24,000 in total. No payments were made in respect to pensions. In accordance with the rules of the schemes the Remuneration Committee exercised its discretion to allow 434,211 executive share options, with an exercise price of 57.0p, to become exercisable in May 2003 and the 2000 LTIP grant to vest in 2003. Under the LTIP grant a payment of £62,222 will be paid and an option over 112,619 shares at an exercise price of £1 in total will be granted. All other executive options and LTIP awards held by Ian Dahl were forfeited.
- (4) Terry Burman's emoluments are specified in US dollars and an average exchange rate of US\$1.53 was used (2001/02: US\$1.44).
- (5) Until his resignation on 30 September 2002.
- (6) From his appointment on 1 August 2002.
- (7) Until his retirement on 13 June 2002.

The figures above represent emoluments earned as directors during the relevant financial year. Such emoluments are paid in the same financial year with the exception of bonus payments, which are paid in the year following that in which they are earned.

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Present value of Group Scheme liabilities		(88.9)		(83.2)
(Deficit)/surplus in the Group Scheme		(6.7)		24.9
Related deferred tax asset/(liability)		2.0		(7.5)
Net pension (liability)/asset		(4.7)		17.4

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At 1 February 2003	2.2	117.0	119.2
At 2 February 2002	2.3	120.9	123.2

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losses is minimised. Concentrations of credit risk exist due to the Group operating customer receivables programmes in the US as part of its trading strategy. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined precisely. Changes in assumptions could significantly affect the estimates. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

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\$ 74m	Cap	5.00%	Aug 2002 to Sep 2002
\$ 84m	Cap	5.00%	Sep 2002 to Oct 2002
\$ 111m	Cap	5.00%	Oct 2002 to Nov 2002
\$ 135m	Cap	5.00%	Nov 2002 to Dec 2002
\$ 10m	Cap	5.00%	Dec 2002 to Jan 2003
\$ 41m	Cap	5.00%	Jan 2003 to Feb 2003

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achievement of specified performance conditions. On vesting, 50% of an award is to be made in cash and the other 50% by the grant of an option to acquire shares for a nominal amount. In the event of an award vesting the number of shares to be placed under option would be calculated by dividing 50% of the value of the vested award by the middle market share price on the London Stock Exchange on the dealing day prior to the grant of the award. As the final value of an award cannot be calculated until it vests, the number of shares over which options might eventually be granted is at present not known and therefore not shown in the above table.

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	million	years	pence
1p to 45p	1.5	1.6	41
46p to 70p	6.9	2.6	59
1p to 70p	8.4	2.4	56

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	2003	2002
	£m	£m
Bank deposits	45.0	9.2

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	2003	2002
	£m	£m
Contracted	1.5	2.8

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[Back to Contents](#)**(i) Contingent liabilities**

The Company is not party to any legal proceedings considered to be material to its profit, financial position or cash flow, including any bankruptcy, receivership or similar proceedings involving the Company or any of its significant subsidiaries. No director, officer or affiliate of the Company, or any associate of any such director, officer or affiliate has been a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries.

The Company has assigned or sub-let UK property leases in the normal course of business. Should the assignees or sub-tenants fail to fulfil any obligations in respect of these leases, the Company may be liable for those defaults. The number of such claims arising to date has been small, and the liability, which is charged to the profit and loss account as it arises, has not been material.

(j) Investments

	Shares in subsidiary undertakings
	£m
Cost at 2 February 2002	809.1
Translation difference	(5.7)
Cost at 1 February 2003	803.4

Principal subsidiaries are shown in note 28 on page 84.

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Summary of differences between UK and US generally accepted accounting principles

The Group's consolidated accounts are prepared in accordance with generally accepted accounting principles in the United Kingdom (UK GAAP), which differ in certain respects from generally accepted accounting principles in the United States (US GAAP). Differences which have a significant effect on the consolidated net profit and shareholders' funds of the Group are set out below. While this is not a comprehensive summary of all differences between UK and US GAAP, other differences would not have a significant effect on the consolidated net profit or shareholders' funds of the Group.

In accordance with best practice the differences have been shown as gross of tax with the related taxation shown separately.

Cost of sales

Under UK GAAP, selling costs have been included in cost of sales. Under US GAAP, gross profit is determined before deducting selling costs, as they are not included in cost of sales. Selling costs which have been included under UK GAAP for the 52 weeks ended 27 January 2001 were £323.9 million, for the 53 weeks ended 2 February 2002 were £371.8 million and for the 52 weeks ended 1 February 2003 were £361.5 million.

Goodwill

Under UK GAAP the Group has implemented FRS 10 in respect of acquisitions since 1 February 1998, amortising goodwill by equal annual instalments over its estimated useful life. Pre FRS 10, in the Group's consolidated accounts prepared under UK GAAP, goodwill arising on the acquisition of a subsidiary was written off against reserves in the consolidated balance sheet in the year in which the acquisition was made.

Under US GAAP, prior to the issue of Statement of Financial Accounting Standards (SFAS) 142, such goodwill was capitalised and amortised through the consolidated profit and loss account over its estimated useful life (not to exceed 40 years). SFAS 142, effective for the Group from 3 February 2002, requires that goodwill be tested annually for impairment in lieu of amortisation.

Additionally, UK GAAP requires that on subsequent disposal or closure of a previously acquired subsidiary, any goodwill previously taken directly to shareholders' funds is then charged to the profit and loss account as part of profit or

loss on disposal or closure. Under US GAAP the appropriate balance to be written off on the disposal of the business is the remaining unamortised balance for goodwill.

For the purposes of calculating the effect of capitalising the goodwill on the consolidated balance sheet and its amortisation through the consolidated profit and loss account, a life of 20 years has been assumed. However, the value of the goodwill is reviewed periodically by comparing the undiscounted cash flows from operating activities with the carrying value of goodwill. An additional charge to the consolidated profit and loss account is made where a permanent diminution in net book value is identified.

In the Group's consolidated balance sheet, goodwill written off on the acquisition of Sterling Jewelers has been calculated based upon consideration valued at \$17.00 per share of the US convertible preference shares issued to the shareholders of Sterling Jewelers. Under US GAAP, as the fair value of the consideration received by the shareholders is more clearly evident than the fair value of the consideration given, the former is used for determining fair value. The fair value of the US convertible preference shares for the purposes of US GAAP has been taken as the initial trading price of the convertible shares upon issuance of \$11.125.

In the years ended 1 February 2003, 2 February 2002 and

27 January 2001, the goodwill arising on the acquisition of Marks & Morgan has been capitalised in line with UK GAAP and is amortised through the consolidated profit and loss account over a life of 20 years.

At 1 February 2003 the Group had goodwill on its balance sheet of £19.8 million under UK GAAP and £345.1 million under US GAAP. Net income for the year ended 1 February 2003 includes a charge for goodwill amortisation of £1.2 million under UK GAAP and £nil under US GAAP.

Sale and leaseback transactions

In the Group's consolidated accounts prepared under UK GAAP, sale and leaseback transactions of freehold and long leasehold properties are accounted for by including in profit before taxation the full gain arising in the financial year in which the transaction took place. Under US GAAP the gain arising is credited to the consolidated profit and loss account in equal instalments over the life of the lease. Adjustments to the amortisation are reflected in periods when the leases are disposed of.

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Extended service plans

Under UK GAAP revenue from the sales of extended service plans is recognised at the date of sale and provision is made for the estimated costs of future claims. Under US GAAP, revenues from such sales are deferred and recognised in profit over the expected claim period.

Pensions

Under UK GAAP, a prepayment representing the surplus of pension fund assets over projected accrued benefit obligations, has been recognised in shareholders' funds. Under US GAAP the benefit of such prepayment is spread evenly over the remaining service lives of relevant employees.

Under UK and US GAAP, pension costs are determined on a systematic basis over the length of service of employees. US GAAP is more prescriptive in the application of the actuarial method and assumptions to be applied in the calculation of pension costs. As a result, the calculations under US GAAP are more liable to amendment from year to year, giving rise to adjustments by comparison with UK GAAP.

FRS 17 "Retirement Benefits", which has to be fully adopted by the Group by 2005/06, will require pension scheme surpluses and deficits to be reflected throughout the Group's profit and loss account, bringing UK GAAP broadly in line with US GAAP, although averaging of market values allowed under FAS 87 is not allowed under FRS 17.

Under US GAAP, the estimated Accumulated Benefit Obligation (ABO) of the UK defined benefit pension scheme is higher than the fair value of the assets at

1 February 2003. The difference between the two, plus the balance sheet prepayment as defined under US GAAP, is disclosed as an accrued benefit liability and written off to Other Comprehensive Income. An intangible asset is recognised on the balance sheet under US GAAP, reflecting the unrecognised prior service cost element of the prepaid pension cost. Pension accounting adjustments are made net of tax. The unfunded accumulated benefit obligation was primarily attributable to lower asset values arising from declining stock market prices and to a reduction in the assumed discount rate.

Stock compensation

Under UK GAAP, options granted to employees by the Group to subscribe in the Group's shares where the exercise price of the option is linked to performance, do not result in any compensation costs being recorded by the Group if the

stated exercise price is equal to, or in excess of, the fair value of the underlying shares at the date of grant.

Under US GAAP a Group can account for employee stock options in accordance with Accounting Principles Bulletin 25 ("APB 25") "Accounting for Stock Issued to Employees" or SFAS 123, "Accounting for Stock-Based Compensation" as amended by SFAS 148 "Accounting for Stock-Based Compensation - Transition and Disclosure". Under APB 25 there are two types of stock option schemes, fixed plans or variable plans. Fixed plans have terms which fix and provide means for determining, at the date of grant or award, both the number of shares of stock that may be acquired by or awarded to an employee and the cash, if any, to be paid by the employee. Variable plans have characteristics which prevent the determination of either the number of shares or stock that may be acquired by or awarded to an employee and the cash, if any, to be paid by the employee, or both. For fixed plans, compensation cost must be recognised at the grant date to the extent that the fair value is greater than the exercise price. Compensation expense, the amount by which the fair value exceeds the exercise price for variable plan awards, shall be measured using terms the employee is most likely to receive based upon the facts available each period over the vesting period.

The Company's share option plans are described in note 27 on page 80. The Group recognises compensation cost for US GAAP purposes in accordance with the requirements of APB 25.

Revaluation of properties

Under UK GAAP properties may be restated on the basis of appraised values in consolidated accounts prepared in all other respects in accordance with the historical cost convention. Increases in value are credited directly to the revaluation reserve. When revalued properties are sold the gain or loss on sale is calculated based on revalued carrying amounts. Under US GAAP properties are only revalued if a permanent impairment is deemed to have occurred.

Upward revaluations are not permitted.

Depreciation of properties

Following the adoption of FRS 15 in the year ended 29 January 2000, under UK GAAP depreciation is charged on freehold buildings and long leasehold properties based on the revalued amounts. Under US GAAP depreciation is calculated based on the historic cost of the assets.

[Back to Contents](#)**Summary of differences between UK and US generally accepted accounting principles (continued)**

Securitized customer receivables Under UK GAAP securitized US customer receivables of £153.1 million (2002: £176.8 million; 2001: £105.3 million) are included within trade debtors and bank loans, as the related financing is of a revolving nature and does not represent an outright sale of such accounts receivable. Under US GAAP these amounts would qualify for off balance sheet treatment.

Deferred taxes

FRS 19 "Deferred Tax" requires that a deferred tax liability should be provided or an asset recognised in respect of all timing differences, regardless of whether it is considered that there is a reasonable probability that such timing differences will reverse. UK and US GAAP now both require full provision for deferred tax. There can still be valuation allowance differences.

Dividends

Under UK GAAP, dividends are provided for in the year in respect of which they are declared or proposed. Under US GAAP dividends are given effect only in the period in which they are formally declared.

Cash flows

Under UK GAAP the Group complies with "Financial Reporting Standard (Revised 1996) Cash Flow Statements" (FRS 1 (Revised)). Its objective and principles are similar to those set out in SFAS 95 "Statement of Cash Flows". The

principal difference between the standards is in respect of classification. Under FRS 1 (Revised), the Group presents its cash flows for (a) operating activities; (b) returns on investments and servicing of finance; (c) taxation; (d) capital expenditure and financial investment; (e) management of liquid resources; and (f) financing activities. SFAS 95 requires only three categories of cash flow activity (a) operating; (b) investing; and (c) financing.

Cash flows arising from taxation and returns on investments and servicing of finance under FRS 1 (Revised) would be included as operating activities and cash flows arising from management of liquid resources would be included as cash and cash equivalents under SFAS 95. In addition, under FRS 1 (Revised) cash includes only cash in hand plus deposits repayable on demand, less overdrafts repayable on demand. Under SFAS 95 cash and cash equivalents include all highly liquid short term investments with original maturities of three months or less.

Earnings per share/ADS ("EPS")

Following the adoption of FRS 14 in the UK and SFAS 128 in the US, the computation of the weighted average number of shares and adjusted weighted average number of shares outstanding is generally consistent. The calculation of fully diluted EPS for the year ended 1 February 2003 excludes 6,293,903 shares (2002: none excluded; 2001: 9,257,223 excluded) under share options on the basis that their effect on basic EPS was anti-dilutive.

[Back to Contents](#)**Estimated effect on profit for the financial period of differences between UK and US GAAP**

	52 weeks ended 1 February 2003	53 weeks ended 2 February 2002	52 weeks ended 27 January 2001
	£m	£m	£m
Profit for the financial period in accordance with UK GAAP	128.9	119.7	110.7
US GAAP adjustments:			
Goodwill amortisation and write-offs	1.2	(13.4)	(12.0)
Sale and leaseback transactions	0.8	0.7	0.6
Extended service plan revenues	(3.5)	(2.0)	(5.0)
Pensions	(0.3)	(0.3)	4.0
Depreciation of properties	0.2	0.2	0.1
Stock compensation	1.3	(2.2)	(1.7)
US GAAP adjustments before taxation	(0.3)	(17.0)	(14.0)
Taxation	(0.3)	(1.0)	0.4
US GAAP adjustments after taxation	(0.6)	(18.0)	(13.6)
Retained profit attributable to shareholders in accordance with US GAAP	128.3	101.7	97.1
Earnings per ADS in accordance with US GAAP			
basic	225.0p	180.5p	173.7p
diluted	222.9p	179.2p	172.2p
Weighted average number of ADSs outstanding (million)			
basic	57.0	56.3	55.9
diluted	57.6	56.8	56.4

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Estimated effect on shareholders' funds of differences between UK and US GAAP

	1 February 2003	2 February 2002	27 January 2001
	£m	£m	£m
Shareholders' funds in accordance with UK GAAP	696.5	679.7	565.4
US GAAP adjustments:			
Goodwill in respect of acquisitions (gross)	531.2	594.7	581.7
Adjustment to goodwill	(64.5)	(74.7)	(72.6)
Accumulated goodwill amortisation	(162.6)	(181.8)	(164.8)
Sale and leaseback transactions	(9.7)	(10.5)	(11.3)
Extended service plan revenues	(16.6)	(15.3)	(12.9)
Pensions	(13.8)	9.1	9.4
Depreciation of properties	(2.5)	(2.7)	(2.9)
Revaluation of properties	(3.1)	(3.0)	(0.9)
Dividends	30.8	25.6	22.8
US GAAP adjustments before taxation	289.2	341.4	348.5
Taxation	12.3	5.8	5.1
US GAAP adjustments after taxation	301.5	347.2	353.6
Shareholders' funds in accordance with US GAAP	998.0	1,026.9	919.0
Shareholders' funds in accordance with US GAAP at beginning of period	1,026.9	919.0	785.0
Net income in accordance with US GAAP	128.3	101.7	97.1
Issue of shares	3.8	7.8	2.0
(Decrease)/increase in additional paid in capital	(0.8)	3.9	1.7
Dividends paid	(30.8)	(27.7)	(24.8)
Other comprehensive income	(15.7)		
Translation differences	(113.7)	22.2	58.0
Shareholders' funds in accordance with US GAAP at end of period	998.0	1,026.9	919.0

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Employee share schemes

A description of the terms of the Company's employee share schemes is set out in note 27 on page 80.

For the year ended 1 February 2003, in compliance with the disclosure requirements of SFAS 123, Accounting for Stock-Based Compensation as amended by SFAS 148, Accounting for Stock Based Compensation-Transition and Disclosure, the fair value of options granted during the year has been computed. SFAS 123 as amended by SFAS 148 sets out an alternative methodology for recognising the compensation expense based on the fair value at grant date. Had the Company adopted this methodology, earnings per ADS and earnings per share under US GAAP would have been increased to the pro forma amounts indicated below for the financial periods ended 1 February 2003, 2 February 2002 and 27 January 2001:

	2003	2002	2001
	£m	£m	£m
Net income in accordance with US GAAP:			
As reported	128.3	101.7	97.1
(Deduct)/add: Stock-based employee compensation (expense)/income included in reported net income	(1.3)	2.2	1.8
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards	(1.8)	(1.7)	(2.2)
Pro forma	125.2	102.2	96.7
	2003	2002	2001
	pence	pence	pence
Earnings per ADS in accordance with US GAAP:			
As reported basic	225.0	180.5	173.7
As reported diluted	222.9	179.2	172.3
Pro forma basic	219.6	181.4	173.0
Pro forma diluted	217.5	180.1	171.6

These pro forma amounts may not be representative of future results as they are subjective in nature and involve uncertainties and matters of judgement, and therefore cannot be determined precisely. Changes in assumptions could affect the estimates.

The fair value of options granted which, in determining the pro forma impact, is assumed to be amortised in the profit and loss account over the option vesting period, is estimated on the date of grant using the Black-Scholes option-pricing model using the following weighted average assumptions for the financial periods ended 1 February 2003, 2 February 2002 and 27 January 2001.

	2003	2002	2001
Weighted average price of options whose exercise price equals the market price on the grant date	120p	75p	57p
Weighted average assumptions:			
Risk free interest rate	3.75%	4.0%	6.0%
Expected life of options	4 years	4 years	4 years
Expected volatility	31%	32%	27%
Dividend yield	2.8%	1.7%	2.4%
Weighted average grant date fair value of option over one share	37p	22p	18p

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Summary of differences between UK and US generally accepted accounting principles (continued)

	2003	2002	2001
Weighted average price of options whose exercise price is less than the market price on the grant date	67p	51p	43p
Weighted average assumptions:			
Risk free interest rate	3.75%	4.0%	6.0%
Expected life of options	3 years	3 years	3 years
Expected volatility	31%	32%	27%
Dividend yield	2.8%	1.7%	2.4%
Weighted average grant date fair value of option over one share	29p	21p	18p

Post employment benefits

The following table shows a reconciliation of the opening and closing balances of the projected benefit obligation under the Signet Group Pension Scheme:

	2003	2002
	£m	£m
At beginning of period	83.2	81.5
Service cost	2.3	2.3
Interest cost	4.5	4.8
Members contributions	0.5	0.5
Actuarial loss/(gain)	2.9	(1.0)
Benefits paid	(4.5)	(4.9)
At end of period	88.9	83.2

The following table shows a reconciliation of the opening and closing balances of the fair value of the assets of the Signet Group Pension Scheme:

	2003	2002
	£m	£m
At beginning of period	108.1	124.1
Actual return on assets	(21.9)	(11.6)
Employer contributions		
Members contributions	0.5	0.5
Benefits paid	(4.5)	(4.9)
At end of period	82.2	108.1

The components of pension expense which arise under SFAS 87 for the Group's pension plans are estimated to be as follows:

52 weeks ended 1 February 2003	53 weeks ended 2 February 2002	52 weeks ended 27 January 2001
---------------------------------------------------	-----------------------------------------	-----------------------------------------

	£m	£m	£m
Service cost	2.3	2.3	2.1
Interest cost	4.5	4.8	4.5
Expected return on plan assets	(7.1)	(9.2)	(7.3)
Amortisation of transition assets		(1.8)	(1.8)
Amortisation of prior service cost	0.6	0.6	0.6
Recognised actuarial gain		(0.7)	(1.1)
Net periodic pension cost	0.3	(4.0)	(3.0)

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The following table presents the estimated funded status of the Group's pension plans under SFAS 87:

	2003	2002
	£m	£m
Accumulated benefit obligation, comprising vested benefits	84.0	78.6
Projected benefit obligation	88.9	83.2
Plan assets at fair value, primarily UK equities	82.2	108.1
Plan assets in (deficit)/excess of projected benefit obligation	(6.7)	24.9
Unrecognised net loss/(gain)	27.5	(1.6)
Unrecognised prior service loss	7.1	7.7
Prepaid pension cost	27.9	31.0

	2003	2002
	£m	£m
Required minimum liability (unfunded accumulated benefits)	1.8	
Adjustments required to reflect minimum liability		
Additional liability	(29.7)	
Intangible asset	7.1	
Charge to equity	22.6	
Balance of additional liability	(29.7)	
Balance of intangible asset	7.1	
Balance of equity account	22.6	

The weighted average discount rate and the rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 5.4% (2002: 5.6%) and 3.9% (2002: 3.9%) respectively. The expected long term rate of return on plan assets was 6.9% (2002: 6.7%). The excess of plan assets over the projected benefit obligation at the transition date is recognised as a reduction of pension expense on a prospective basis over 13 years. See note 22 for further information on the Group's pension plans. For US GAAP purposes, the pension fund liability included in the Group's consolidated balance sheet would be classified as a non-current liability.

New US accounting standards not yet adopted

SFAS 143, Accounting for Asset Retirement Obligations, will become effective for the Group from 2 February 2003. This Statement addresses the accounting and reporting obligations associated with the retirement of long-lived assets and the associated asset retirement costs. The impact of the Statement is considered unlikely to be significant.

SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, is effective for exit or disposal activities that are initiated after 31 December 2002. This Statement requires that a liability or cost associated with a disposal activity be recognised when the liability is incurred. EITF 94-3 previously required that a liability was recognised at the date of commitment to an exit plan. No such activities have been initiated by the Group since 31 December 2002.

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In December 2002, the FASB issued SFAS 148, Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement 123. This provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements. Certain disclosure modifications are required for financial years ending after 15 December 2002 and are included on page 93. The voluntary change to the fair value method of accounting for stock-based employee compensation has not been adopted for 2002/03.

Summary of differences between UK and US generally accepted accounting principles
(continued)

Interpretation 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others", elaborates on the disclosures to be made by a guarantor in its interim and annual consolidated financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognise, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions are applicable to guarantees issued or modified after 31 December 2002 and are not expected to have a material effect on the Company's consolidated financial statements. No additional disclosures are required as a result of the application of this Interpretation for 2002/03.

Interpretation 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB 51", addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. This applies immediately to variable interests in variable interest entities created after 31 January 2003 and to variable interests in variable interest entities obtained after 31 January 2003. The application of this Interpretation is not expected to have a material effect on the Company's consolidated financial statements.

Social, ethical and environmental matters

Introduction

Signet is committed to managing the social, ethical and environmental ("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 various stakeholders: shareholders, customers, employees and suppliers.

In recent years stakeholder expectations of public companies have increased. Monitoring, 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.

Governance of SEE matters

On 21 October 2001 the Association of British Insurers published guidelines on Socially Responsible Investment. In line with that guidance the Board confirms that they have identified and assessed the Group's SEE risks and that these are being managed.

The Group has a formal SEE governance framework with SEE matters being included in the schedule of matters reserved for the Board. The Group Chief Executive has been designated as the director responsible for SEE matters. A SEE Committee is in place consisting of a team of senior managers from the UK and US with key responsibilities for the implementation of the various aspects of the SEE principles and policies. It meets at least four times a year. The procedures for SEE risk management are embedded within the management structure of the Group.

Matters for which the SEE Committee has responsibility include:

- identification of significant risks to the Company's short and long term value arising from SEE matters,
- ensuring that the Board has adequate information to take account of material SEE matters,
- development of relevant SEE principles and policies for consideration and approval by the Board,
- reviewing systems for managing significant SEE risks,
- preparation, for review and approval by the Board, of public SEE disclosures and reporting.

Significant risk factors, including SEE matters relating to customer, employee and supply chain issues are discussed on pages 28 to 32 "Risk and other factors".

Principles and policies framework

In 2001/02 the Board adopted a "Statement of SEE Principles" ("Principles") outlining the Group's policy to operate as a profitable and reputable speciality jewellery retailer, the Group's responsibilities to various stakeholders and the SEE principles by which it would operate. While this was the first time these responsibilities and principles had been formally adopted, Signet had adhered to them for some time. The Principles cover the following areas:

- accountability to stakeholders
- business integrity
- human rights
- labour standards
- health and safety
- the environment
- community

In 2001/02 the Group also adopted a Supplier Code of Conduct ("Supplier Code") and policies on business integrity, health and safety, and labour standards. The Principles, Supplier Code and other policies are now incorporated into the Group's staff induction process, training and operational procedures as appropriate within the business and detailed information is available on the Group's web site (www.signetgroupplc.com).

Signet's principles and policies are intended to provide a framework with which the divisional policies and procedures conform. They do not replace existing detailed divisional policies and procedures.

During 2002/03 the Group reviewed its environmental impact and environmental management system, formally adopted an environmental policy and set itself qualitative environmental targets. The Group also reviewed its community involvement.

Our stakeholders

Signet's commitments to various stakeholders are articulated in the Principles. These are summarised below:

Shareholders

Signet's aim is to deliver an acceptable growth in value to shareholders which is sustainable, thereby protecting shareholders' short and longer term interests. The Group's responsibilities to shareholders are set out in more detail in the Corporate governance statement on page 36. The Group is committed to maintaining open dialogue with its shareholders on SEE and other matters. Signet has been a member of FTSE4Good UK Index since its launch and endeavours to meet the changing criteria of the Index.

Social, ethical and environmental matters (continued)

Customers

Signet's mission is to meet, and where possible exceed, customer expectations through a high standard of customer service, high store standards, and real choice and value. In doing so the Group endeavours to maintain product integrity by ensuring the quality of Signet's products and by offering merchandise that is responsibly sourced.

The Group's policy is that all customers should be treated with respect and warmth. The Group has customer service departments, complaint resolution processes, tracking methods and customer comment cards in the UK and the US. Sales training programmes include modules on treating all customers with respect.

Employees

Employees are key to Signet's ability to achieve its objectives and mission. Therefore teamwork, integrity, communication, and fair treatment of employees all play an important part in the way the Group operates. Furthermore, Signet's ability to operate in accordance with its Principles is dependent on its employees' understanding of them and the way in which the Principles impact on their respective roles and responsibilities.

Signet considers its relationship with its employees to be excellent and values honest, open and constructive "two way" communication throughout the organisation. This is achieved through store, area and regional management meetings. These meetings facilitate consultation during which the views of employees can be expressed and taken into account in decisions likely to affect their interests. Staff are kept informed of the Group's performance and objectives through management contact supplemented by staff publications in both the UK and US. The involvement of employees in the Group's performance is encouraged through participation in performance-related incentive payment schemes which cover all Group employees subject to minimum employment requirements. The Group does not restrict or discriminate against employees who wish to be covered by collective bargaining agreements.

The Group's policy is not to tolerate any form of unlawful discrimination on any grounds or at any level. In respect of people with disabilities, full and fair consideration is given to employment, opportunities for training, career development and promotion according to their skills and capacity. The services of any existing employees who become disabled are, where possible, retained and appropriate training is arranged for them wherever possible.

The Group assigns responsibility for human resource matters, including health and safety, to the divisional executive management committees. Both the UK and US operations have established systems which include the provision of training and development opportunities at all levels of the organisation. See pages 11 and 17 for further details.

Suppliers

The Group recognises that stakeholders expect companies to take responsibility for, and where possible exert influence over, suppliers to ensure that SEE standards are upheld throughout the supply chain. The Supplier Code outlines Signet's commitment to its suppliers, and the expectations it has of them. The Supplier Code applies to suppliers and agents with whom Signet deals directly. Those suppliers and agents are encouraged to ensure that this Supplier Code is communicated throughout the supply chain.

Most of the raw and processed materials for the merchandise sold by Signet are traded on commodity exchanges or through multiple brokers and traders making the original source difficult to trace. Signet believes that SEE risks at the mining, trading and secondary processing phases of the supply chain are more effectively managed through collaboration with the industry. Signet therefore actively participates in Jewelers of America (the US speciality jewellery retail trade association) in considering what action Jewelers of America can take on behalf of its members to set SEE standards and influence matters throughout the supply chain. In 2002 Jewelers of America adopted a Statement of Principles relating to SEE matters and adopted a programme to communicate those principles to its members. Signet is also working, where appropriate, with other trade bodies such as the Jewelers Vigilance Committee.

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One of the specific issues facing the Group and the diamond sector is [conflict diamonds], which are diamonds being sold by rebel movements to fund military campaigns. The Group is a non-voting member of the World Diamond Council which, together with Jewelers of America, has worked with the United Nations, government bodies, commercial interests and civil society to introduce a workable system for the certification of the source of uncut diamonds. This system, known as the Kimberley Process, was formally adopted in November 2002 and was due to come into operation on 1 January 2003. The European Union regulations enforcing the Kimberley Process came fully into force on 13 February 2003.

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Following the adoption of the Kimberley Process Signet has sent a letter to all its trade diamond and diamond jewellery suppliers. The text, based on the Jewelers of America guidance, requires them to supply the Group with merchandise that complies with the Kimberley Process. Signet has amended its systems, procedures and documentation to take account of the Kimberley Process. The Group has also trained its buying staff with regard to requirements and briefed its sales associates on the operation of the Kimberley Process.

In respect of supplier payment, Group policy is that the operating businesses are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted, rather than following any particular code or standard on payment practice (see note 30(e) on page 86 regarding the number of days purchases outstanding). Accordingly suppliers are aware of the terms of payment and it is Group policy to ensure that payments to suppliers are made in accordance with these agreed terms.

Environment

The full text of the environmental policy adopted during 2002/03 is available on the Group's web site (www.signetgroupplc.com). The policy has been communicated to employees and it satisfies the FTSE4Good requirements implemented in March 2003.

Whilst the direct environmental impact of its operations is judged to be relatively low compared to many business sectors and to other retailers, Signet recognises that there may be opportunities to improve its performance.

The environmental impact review confirmed that:

- (a) Jewellery has a very long life and very high recyclability. Recycling takes place in respect of trade-ins, obsolete inventory, used watch batteries and certain packaging.
- (b) Jewellery and watches have an extremely high value to weight ratio and value to volume ratio making transportation through the supply chain relatively low impact. The Group makes use of third party distributors and reusable containers for merchandise distribution.
- (c) The Group's ratio of sales to square feet of occupied space in stores or warehouse accommodation is high compared to other retailers and is above the jewellery sector average, and therefore given the Group's size it has less of a physical impact.
- (d) Signet's supply chain originates with the producers of the raw materials with whom the Group does not have a direct relationship but it is recognised that the extraction of minerals has an environmental impact that requires careful management by mining companies.

Community

Signet's prime contribution to society is through the contribution it makes to the success and efficiency of the economies in which it operates, through the employment it generates both within the business and throughout its supply chain, the taxes it pays and the value it creates for shareholders.

The Group is committed to the support of charitable organisations. Signet believes it is best to give support to a small number of specific charities rather than fragment its charitable giving. In the US support is primarily given to The United Way, St. Jude Children's Research Hospital and The Jeweler's Charity Fund. In the UK the Group primarily supports the Princess Royal Trust for Carers. During the period the Group made provision for total charitable givings of £1,032,000 (2001/02: £912,000). This included direct charitable contributions of £243,000 (2001/02: £319,000); of which £152,000 (2001/02: £139,000) was in the UK and £91,000 (2001/02: £180,000) was in the US and marketing initiatives on both sides of the Atlantic which resulted in additional charitable contributions of £789,000 (2001/02: £593,000). Support is also given to the management of Carer Centres operated by the Princess Royal Trust for Carers and to organisations that aim to assist the disadvantaged into employment in Northeast Ohio, such as United Disability Services, Senior Workers and the Urban League.

No political donations were made in the US or the UK by the Group in the period (2001/02: £nil).

Human rights

Signet supports the Fundamental Conventions of the International Labour Organisation and the UN Declaration of Human Rights. The Group encourages the support and respect for the protection of human rights within its sphere of influence. The Supplier Code sets out the Group's expectation that suppliers should respect the Fundamental Conventions of the International Labour Organisation and the UN Declaration of Human Rights. Signet is working at a senior executive level through Jewelers of America to address human rights in the jewellery supply chain at an

industry level.

Shareholder information

History

Signet Group plc, an English public limited company, has operations in the US and the UK. The Company was incorporated in England and Wales on 27 January 1950 under the name Ratners (Jewellers) Limited. The name of the Company was changed on 10 December 1981 to Ratners (Jewellers) Public Limited Company, on 9 February 1987 to Ratners Group plc and on 10 September 1993 to

Signet Group plc. A summary of the Company's Memorandum and Articles of Association, which were adopted on 13 June 2002, was filed with the SEC on a form 6-K on 30 July 2002. The Company's registered number is 477692. The Company's registered office is Zenith House, The Hyde, London NW9 6EW.

Significant events that have occurred in the last five years are detailed below:

- 11 Jun 1998 The Signet Group plc Sharesave Scheme and US Stock Savings Plan were approved by shareholders
- 22 Jul 1998 Announcement of new unsecured financing which replaced the Group's existing three year secured banking agreement of \$360 million which was due to expire in February 2000. The new arrangements comprised a five year \$250 million multi-currency revolving credit facility with a syndicate of banks led by Barclays Capital, HSBC Investment Bank PLC and The Royal Bank of Scotland PLC, and a 7.25% seven year \$60 million note issue placed privately with European institutional investors through De Nationale Investeringsbank NV.
- 30 Mar 1999 Announcement of resumption of dividends with a final dividend of 1.0p being recommended in respect of the year 1998/99 for payment on 1 July 1999.
- 15 Apr 1999 Laurence Cooklin resigned from the Board and as Chief Executive Officer of the UK jewellery division.
- 1 Oct 1999 Ian Dahl was appointed to the Board and as Chief Executive Officer of the UK jewellery division.
- 28 Mar 2000 Terry Burman was appointed Group Chief Executive. He retained his existing role of Chief Executive Officer of the Group's US division. James McAdam was asked by the Board to remain as Executive Chairman.
- 31 Jul 2000 Acquisition of Marks & Morgan completed.

Marks & Morgan, a privately owned company, was the ninth largest speciality retail jeweller in the US. The business consisted of 137 stores predominantly positioned in prime mall locations in the southeast region of the US.

Signet paid \$161.3 million (£107.5 million) in cash to acquire all the outstanding share capital and to repay outstanding debt.

The acquisition substantially increased Signet's presence in a key geographic area of the US where it had been under-represented. Approximately 72 stores have been converted to the Kay Jewelers brand. The remaining stores continue to trade as Marks & Morgan and have been integrated into Signet's division of regional mall stores.

James McAdam continued as Chairman but ceased to be a full-time executive.

31 Mar
2001

30 Aug 2001 The Group entered into a \$410 million unsecured multi-currency five year revolving credit facility agreement. This replaced the \$250 million and the \$100 million facilities that were due to expire in July 2003. The terms of this agreement were broadly similar to those of the facilities being replaced (see note 16 on page 69).

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2 Nov 2001 The Group put in place a five year facility of \$251 million secured on its US credit card receivables at a fixed rate of 5.42%. The terms were similar to the previous facility of \$191.5 million which amortised during the year and had a fixed rate of 7.26% (see note 16 on page 69).

13 Jun 2002 David Wellings retired as a non-executive director.

1 Aug 2002 Russell Walls was appointed to the Board as a non-executive director.

30 Sep 2002 Ian Dahl resigned from the Board and as Chief Executive Officer of the UK jewellery division.

9 Jan 2003 Rob Anderson was appointed as Chief Executive Officer of the UK jewellery division.

Nature of trading market

The shares of the Company are traded on the London Stock Exchange (symbol: SIG) and the American Depositary Shares (ADSs) representing the shares quoted on the Nasdaq National Market (symbol: SIGY). The ADSs are evidenced by American Depositary Receipts (ADRs) issued pursuant to an Amended and Restated Deposit Agreement, dated 4 September 1997, and made between the Company, The Bank of New York, as depositary (the Depository) and the holders from time to time of the ADRs. Each ADS represents 30 shares. Prior to 4 September 1997 the ratio of shares per ADS had been three to one.

The table below sets out, for the calendar years and quarters indicated, (i) the reported high and low middlemarket quotations for the shares of the Company based on the Daily Official List of the London Stock Exchange and (ii) the reported high and low closing sales prices of the ADSs on the Nasdaq National Market as reported by Bloomberg.

At 26 March 2003, 68,144 shares and 1,755,993 ADSs (representing 52,679,790 shares) were held of record in the US. These shares and ADSs were held by 26 record holders and 578 record holders, respectively and collectively represented approximately 3.1% of the total numbers of shares outstanding. Since certain of the shares and ADSs are

	London Stock Exchange pence per share		Nasdaq US dollars per ADS	
	High	Low	High	Low
Calendar 1998	51 ¹ / ₄	24 ¹ / ₄	24 ⁷ / ₈	12 ³ / ₈
Calendar 1999	70 ¹ / ₄	38 ³ / ₄	31 ³ / ₄	15 ⁵ / ₈
Calendar 2000	60 ³ / ₄	43	34 ¹ / ₈	21
Calendar 2001				
First quarter	79	51	34 ¹ / ₂	22
Second quarter	88 ¹ / ₂	64 ¹ / ₂	38	27 ¹ / ₄
Third quarter	87	53	36 ³ / ₄	23 ¹ / ₂
Fourth quarter	95 ¹ / ₂	56	40 ¹ / ₂	24 ³ / ₄
Calendar 2002				
First quarter	120	97	51	41 ¹ / ₈

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Second quarter		$132\frac{1}{4}$	$94\frac{3}{4}$	$57\frac{3}{8}$	$44\frac{1}{8}$
Third quarter	□ July	99	77	46	$35\frac{3}{4}$
	Aug	90	77	42	35
	Sept	$92\frac{1}{2}$	$78\frac{3}{4}$	$43\frac{1}{4}$	$37\frac{3}{4}$
Fourth quarter	□ Oct	$94\frac{3}{4}$	$74\frac{3}{4}$	44	36
	Nov	$87\frac{1}{2}$	$75\frac{1}{2}$	42	$36\frac{3}{4}$
	Dec	$90\frac{1}{2}$	65	$42\frac{3}{8}$	$30\frac{7}{8}$
<hr/>					
Calendar 2003					
First quarter	□ Jan	$82\frac{1}{2}$	$66\frac{1}{2}$	$39\frac{1}{4}$	$32\frac{1}{8}$
	Feb	$76\frac{3}{4}$	$70\frac{1}{2}$	$36\frac{1}{4}$	$34\frac{1}{8}$
	Mar (up to 26 March)	$75\frac{1}{2}$	66	$36\frac{1}{8}$	32
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Shareholder information (continued)

held by brokers or other nominees, the number of record holders in the US is not representative of the number of beneficial holders or of where the beneficial holders are resident.

Dividends

Under English law, dividends can only be paid out of profits available for distribution (generally defined as accumulated realised profits less accumulated realised losses less net unrealised losses) and not out of share capital or share premiums (generally equivalent in US terms to paid-in surplus). At 1 February 2003, after taking into account the subsequently recommended final dividend of 1.80p per share, the holding company had a distributable reserves balance of £30.9 million (2 February 2002: £29.7 million).

In order to make further distributions in excess of this figure, the holding company would first need to receive dividends from its subsidiaries. In addition to restrictions imposed at the time of the 1997 capital reduction on the distribution of dividends received from subsidiaries, the payments of dividends from other tax jurisdictions, such as the US, may not be tax efficient. Furthermore, there may be other reasons why dividends may not be paid by subsidiaries to the holding company.

If declared by the Board (and, in the case of a final dividend, if approved by shareholders in general meeting) dividends are paid to holders of shares as at record dates that are decided by the Board.

Substantial shareholdings and control of the Company

So far as the Company is aware, it is neither directly nor indirectly owned by or controlled by one or more corporations or by any government.

As at 26 March 2003 the interests in the issued shares set out in the table below had been notified to the Company in accordance with sections 198 to 208 of the Companies

Act 1985 (including interests represented by the ADSs). Shareholders are obliged to notify the Company of their interests in such shares if they hold 3.0% or more beneficially or 10.0% or more in the case of certain shareholders, such as investment managers.

The Company's major shareholders as listed in the table below do not have different voting rights per share than other holders of the Company's shares.

The following shareholders had significant changes in their percentage ownership of the Company's issued share capital since 29 January 2000. This is based on disclosure made in the accounts for each of the three years since

29 January 2000, and notifications received by the Company.

- Deutsche Bank AG had a non-beneficial holding of 11.8% at 29 January 2000 and fell below 10.0% on 1 March 2001.
- Standard Life Group had a beneficial holding of 4.1% at 28 March 2000, 4.1% at 28 March 2001, 3.7% on 10 April 2002, and fell below 3.0% on 8 November 2002.
- The Capital Group Companies, Inc. had a beneficial holding of 4.0% at 28 March 2000, 10.1% at 28 March 2001, 13.3% on 10 April 2002 and, as stated in the table below, 14.0% on 26 March 2003.
- FMR Corp had a beneficial holding of 3.3% at 14 November 2000, 3.3% at 28 March 2001 and fell below 3.0% on 24 August 2001.

□

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AMVESCAP PLC had a non-beneficial holding of 10.0% at 29 January 2001, 10.0% at 28 March 2001, 11.0% on 10 April 2002 and, as stated in the table below, 12.0% on 26 March 2003.

Substantial shareholdings

	Number of shares	Percentage of issued shares
The Capital Group Companies, Inc(1)	240,183,795	14.0
AMVESCAP PLC(2)	205,621,415	12.0
Government of Singapore Investment Corporation Pte Ltd	69,677,460	4.1
Legal & General Investment Management Limited	53,017,838	3.1

(1) Includes interest of Capital International Limited in 207,918,259 of such shares, notified on their behalf by The Capital Group Companies, Inc.

(2) Includes interest of INVESCO Perpetual High Income Fund in 99,375,354 of such shares, notified on their behalf by AMVESCAP PLC.

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At 26 March 2003, the total amount of the Company's voting securities owned by directors of the Company as a group was 1,108,209, all of which securities were shares.

The Company does not know of any arrangements the operation of which might result in a change of control of the Company.

Exchange controls and other limitations affecting security holders

There are currently no UK laws, decrees or regulations restricting the import or export of capital or affecting the remittance of dividends or other payments to holders of shares or ADSs who are non residents of the UK, subject to a few limited exceptions. The exceptions apply in respect of Iraq and in respect of various organisations (such as Al-Qa'ida and the Taliban), certain individuals (such as Usama Bin Laden and Slobodan Milosevic) and their associates that are the subject of relevant sanction orders issued by the United Nations or the European Union.

Subject to those exceptions, under English law and the Company's Memorandum and Articles of Association, persons who are neither residents nor nationals of the UK may freely hold, vote and transfer shares (including shares represented by ADSs) in the same manner as UK residents or nationals. However, under the Articles of Association, a shareholder with a registered address outside the UK is not entitled to receive notice of any general meeting of the Company unless the shareholder has provided the Company with a UK address, or (in the case of any notice issued electronically) an appropriate electronic address, at which notices may be delivered.

Taxation

Taxation for US residents

The following summary sets out the principal US federal and UK tax consequences of the purchase, ownership and disposition of the Company's shares or ADSs in respect of such shares by residents of the US and is not intended to be a complete analysis or listing of all the possible tax consequences of such purchase, ownership or disposition.

As used herein a "US holder" means: a citizen or resident of the US; a corporation (or other entity taxable as a corporation for US federal income tax purposes) created or organised in or under the laws of the US, or any state thereof; an estate whose income is includible in gross income for US federal income tax purposes regardless of its source; or a trust, if a court within the US is able to

exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust. This summary deals only with shares and ADSs held as capital assets and does not address any special tax consequences that may be applicable to US holders who are subject to special treatment under the current income tax convention between the US and the UK (the "Convention") or the US Internal Revenue Code of 1986, as amended, such as dealers in securities or foreign currency, traders who elect mark-to-market accounting, financial institutions or financial services entities, insurance companies, persons subject to the alternative minimum tax, tax-exempt entities, persons that hold the shares or ADSs as part of a straddle, hedge or conversion transaction, persons whose functional currency is other than the US dollar, certain expatriates or former long-term residents of the US, persons who alone, or together with one or more associated persons, control or controlled (directly, indirectly or constructively) 10% or more of the voting shares of the Company or persons who acquire shares or ADSs as compensation.

Prospective investors are advised to consult their tax advisers with respect to the tax consequences of the purchase, ownership and disposition of shares or ADSs, including specifically the consequences under state and local tax laws. The statements regarding US and UK tax laws set out below are based on US federal and UK tax laws and UK Inland Revenue practice in force on the date of this Annual Report and are subject to change after that date. This summary does not address the tax consequences to partnerships, other pass-through entities or persons who hold shares or ADSs through a partnership or other pass-through entity.

US holders of ADSs will be treated as the owners of the underlying shares for purposes of the double taxation conventions relating to income and estate and gift taxes between the US and the UK and for the purposes of the US Internal Revenue Code of 1986, as amended.

Taxation of dividends

Under the provisions of the Convention and current UK law, a US holder of shares or ADSs who is an individual or a corporate portfolio holder (which is broadly defined as a shareholder who holds less than 10% of the voting shares of the Company) and who qualifies for the benefits of the Convention is entitled to receive from the UK Inland Revenue a payment (the "Tax Treaty Payment") of an amount equal to the tax credit in respect of the dividend

Shareholder information (continued)

minus a withholding tax of 15% of the sum of the cash dividend plus the tax credit (the withholding tax cannot exceed the amount of the tax credit). On the basis of an £80 dividend (which amount has been selected for illustrative purposes only) the tax credit relating to the dividend is equal to £8.89 (10% of the sum of the £80 dividend and the £8.89 tax credit). The Tax Treaty Payment is calculated by reducing the £8.89 tax credit by withholding tax of 15% of the sum of the £80 dividend and the £8.89 tax credit. Accordingly, using the example set out above, such US holder will not receive a Tax Treaty Payment. A US holder need not make a claim to the UK Inland Revenue for the Tax Treaty Payment that, as discussed above, will be offset by the UK withholding tax. A US holder who is an individual or a corporate portfolio holder who receives the £80 dividend in the above example should be considered for US federal income tax purposes to receive a dividend of £88.89 (£80 dividend plus the £8.89 tax credit) and would include that amount in income. Such US holder also should be considered to have paid £8.89 of UK tax that, subject to the applicable limitations, would be creditable against such US holder's US federal income tax liability.

The aggregate of the dividend paid to a US holder who is an individual or a corporate portfolio holder and the gross tax credit in respect of it will be treated as dividend income for US federal income tax purposes to the extent made from the Company's current or accumulated earnings and profits, as determined under US federal income tax principles. Distributions in excess of such current and accumulated earnings and profits will be applied against and will reduce the US holder's tax basis in the shares or ADSs and to the extent in excess of such tax basis will be treated as a gain from the sale or exchange of the shares or ADSs.

The amount of any dividend paid in pounds sterling will equal the US dollar value of the pounds sterling received calculated by reference to the exchange rate in effect on the day that the dividend is received by the US holder, in the case of shares, or by the Depository (or its Custodian), in the case of ADSs, regardless of whether the dividend payment is converted into US dollars. Foreign currency exchange gain or loss, if any, realised in a subsequent sale or other disposition of pounds generally will be treated as US source ordinary income or loss to the US holder.

Dividends received on the shares or ADSs generally will be foreign source passive income for US foreign tax credit purposes and generally will not be eligible for the dividends received deduction allowed to US corporations under Section 243 of the US Internal Revenue Code. However,

as illustrated in the example above, the withholding tax will be treated as foreign income tax eligible for credit or deduction against a US holder's US federal income tax liability at the option of such US holder, subject to applicable limitations. US holders should consult their tax advisers as to the method of claiming such foreign tax credit or deduction and compliance with special tax return disclosure requirements that apply to US holders who claim the benefit of the foreign tax credit on such US holders' US federal income tax returns.

A US holder will be denied a foreign tax credit (and instead allowed a deduction) for foreign taxes imposed on a dividend if the US holder has not held the shares or ADSs for at least 16 days in the 30 day holding period beginning 15 days before the ex-dividend date. Any days during which a US holder has substantially diminished its risk of loss on the shares or ADSs are not counted towards meeting the 16 day holding period required by statute. A US holder that is under an obligation to make related payments with respect to the shares or ADSs (or substantially similar or related property) also is not entitled to claim a foreign tax credit with respect to a foreign tax imposed on a dividend.

A US holder should elect to receive a foreign tax credit or deduction with respect to any UK withholding tax. This election is made on Line 5 of US Internal Revenue Service Form 8833 (Treaty-Based Return Position Disclosure under Section 6114 or 7701(b)). The completed Form 8833 should be filed with the US holder's income tax return for the relevant year. Pursuant to this election, the US holder will be treated as having paid the UK withholding tax on the date of the distribution.

The US and the UK have agreed to the form of a new double tax convention (the "New Convention") to replace the existing Convention. The New Convention is not yet in force, but it is anticipated to come into force in the near future. If the New Convention enters into force, the Tax Treaty Payment and UK withholding tax will no longer apply to US holders. The UK does not currently apply a withholding tax on dividends under its internal laws. If the UK were

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to impose a withholding tax, as permitted under the New Convention, the rate of such withholding tax will not exceed 15% of the dividend paid to a US holder. In such circumstances, a US holder should be entitled to a credit for such withholding tax, subject to applicable limitations, against the US holder's federal income tax liability. As described above, a US holder will continue to be subject to the holding period requirements.

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US information reporting and US backup withholding tax

Under US Treasury regulations, dividends paid on shares or ADSs may be subject to US information reporting requirements and backup withholding tax of up to 31%. In addition, under US Treasury regulations, the payment of the proceeds of a sale, exchange or redemption of shares or ADSs to a US holder or non-US holder in the US, or through US or US-related persons, may be subject to US information reporting requirements and backup withholding tax.

US holders can avoid the imposition of backup withholding tax by reporting their tax payer identification number to their broker or paying agent on US Internal Revenue Service Form W-9. Non-US holders can avoid the imposition of backup withholding tax by providing a duly completed US Internal Revenue Service Form W-8 BEN, W-8 ECI or W-8 IMY, as appropriate, to their broker or paying agent. Any amounts withheld under the backup withholding rules from a payment to a holder will be allowed as a refund or a credit against such holder's US federal income tax liability, provided that the required returns are filed with US Internal Revenue Service on a timely basis.

Taxation of capital gains

Generally a US holder who is neither resident nor ordinarily resident for tax purposes in the UK will not be liable for UK tax on capital gains realised on the sale or other disposal of shares or ADSs unless, in the year of assessment in which the gain accrues to such holder, that US holder carries on a trade in the UK through a branch or agency and the shares or ADSs are or have been used by, held by, or acquired for use by, or for the purpose of, such trade, branch or agency. However, a US holder who has been resident in the UK for at least four years and held shares or ADSs at that time may, in certain circumstances, become liable to UK capital gains tax on his return to the UK following a disposal of such shares or ADSs. Any US holders whose circumstances are such that they may fall within such provisions are advised to consult their tax adviser.

A US holder who is resident or ordinarily resident for tax purposes in the UK, a US corporation which is resident in the UK by reason of being managed and controlled in the UK, or a US holder who, or a US corporation which, is trading in the UK through a branch or agency, where shares or ADSs are or have been acquired, used or held for the purposes of such trade, branch or agency, may be liable for both UK tax and US federal income tax on a gain on the

disposal of the shares or ADSs. Such US holder generally will be entitled to offset a credit for UK tax against its US federal income tax liability in respect of such gain.

A US holder of shares or ADSs will be liable for US federal income tax on gains realised on the sale or exchange of shares or ADSs to the same extent as on any other gains from sales of shares. Such gains will be capital gains if the shares or ADSs were capital assets in the hands of such US holder.

Inheritance tax

Shares or ADSs held by an individual who is domiciled in the US for the purposes of the double taxation convention relating to estate and gift taxes between the US and the UK, and for the purposes of the convention is not a national of the UK, will not be subject to UK inheritance tax on the individual's death or on a lifetime transfer of shares or ADSs, except in certain cases where the shares or ADSs are placed in trust (other than by a settlor domiciled in the US who is not a national of the UK) and, in the exceptional case, where the shares or ADSs are part of the business property of a UK permanent establishment of an enterprise or pertains to a UK fixed base of an individual used for the performance of independent personal services.

The convention generally provides a credit for the amount of any tax paid in the UK against the US federal tax liability in a case where the shares or ADSs are subject both to UK inheritance tax and to US federal gift or estate tax. However, the terms of the US/UK estate and gift tax convention are currently being reviewed and possibly renegotiated. Further advice should be sought by any holder who is likely to need to rely upon the provisions of the convention.

UK stamp duty and stamp duty reserve tax

Stamp duty is (subject to exceptions for charities) currently payable on any instrument transferring shares to the Custodian of the Depositary at the rate of 1.5% on the value of such shares. In accordance with the terms of the Deposit Agreement relating to the shares, any tax or duty payable by the Depositary or the Custodian of the

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Depository on future deposits of shares will be charged by the Depository to the party to whom ADSs are delivered against such deposits.

No UK stamp duty will be payable on transfer of an ADS, provided that the ADS (and any separate instrument of transfer) is executed and retained at all times outside the UK. A transfer of an ADS in the US will not give rise to UK

Shareholder information (continued)

stamp duty provided the instrument of transfer is not brought into the UK. A transfer of an ADS in the UK may attract stamp duty at a rate of 0.5% of the consideration. Any transfer (which will include a transfer from the Depository to an ADS holder) of the shares, including shares underlying an ADS, may result in a stamp duty liability at the rate of 0.5% of the consideration. There is no charge to ad valorem stamp duty on gifts. On a transfer of shares from a nominee to the beneficial owner (the nominee having at all times held the shares on behalf of the transferee) under which no beneficial interest passes and which is neither on sale, nor arises under or following a contract of sale, nor is in contemplation of sale, a fixed stamp duty of £5 will be payable.

Stamp duty reserve tax generally at a rate of 0.5% of the consideration is currently payable on any agreement to transfer shares or any interest therein unless: (i) an instrument transferring the shares is executed; (ii) stamp duty, generally at a rate of 0.5%, is paid; and (iii) generally the instrument is stamped on or before the accountable date for stamp duty reserve tax. The duty will, however, be refundable if within six years the agreement is completed by an instrument which has been duly stamped, generally at the rate of 0.5%. Stamp duty reserve tax will not be payable on any agreement to transfer ADSs which represent interests in depositary receipts.

Selected financial data

	2002/03	2002/03 ⁽¹⁾	2001/02 ⁽²⁾	2000/01	1999/00	1998/99
	£m	\$m	£m	£m	£m	£m
Amounts under UK GAAP:						
Profit and loss account						
Sales	1,608.0	2,637.1	1,578.1	1,387.3	1,136.5	991.2
Cost of sales ⁽³⁾	(1,331.6)	(2,183.8)	(1,318.3)	(1,158.9)	(952.3)	(843.5)
Gross profit	276.4	453.3	259.8	228.4	184.2	147.7
Administrative expenses	(60.2)	(98.7)	(59.1)	(49.7)	(45.1)	(45.4)
Operating profit	216.2	354.6	200.7	178.7	139.1	102.3
Net interest payable	(16.5)	(27.1)	(17.9)	(15.9)	(11.4)	(13.1)
Profit before tax	199.7	327.5	182.8	162.8	127.7	89.2
Taxation	(70.8)	(116.1)	(63.1)	(52.1)	(38.3)	(24.0)
Profit for the period	128.9	211.4	119.7	110.7	89.4	65.2
Earnings per share □ basic	7.5p	\$0.12	7.1p	6.6p	5.3p	3.9p
□ diluted	7.5p	\$0.12	7.0p	6.5p	5.3p	3.9p
Earnings per ADS □ basic	225.0p	\$3.69	213.0p	198.0p	159.0p	117.0p
□ diluted	225.0p	\$3.69	210.0p	195.0p	159.0p	117.0p
Balance sheet data (at period end)						
Working capital ⁽⁴⁾	644.2	1,056.5	663.1	405.8	457.2	407.7
Total assets	1,213.8	1,990.6	1,241.0	1,133.3	867.1	766.7
Total debt	229.3	376.1	268.2	266.6	182.9	176.7
Long-term debt	174.0	285.4	215.3	51.5	143.5	153.3
Cash at bank and in hand	89.2	146.3	66.5	37.5	91.3	65.2
Shareholders' funds (as restated ⁽⁵⁾)	696.5	1,142.3	679.7	565.4	448.3	379.6
Store data:						
Number of stores open at end of period:						
US	1,050		1,025	999	827	788
UK	610		606	605	606	606
Percentage increase/(decrease) in like for like sales:						
US	5%		1%	6%	11%	10%
UK	5%		9%	9%	5%	(1)%
Average sales per store: ⁽⁶⁾						
US	1,088		1,125	1,117	939	823
UK	747		735	665	613	580
Amounts under US GAAP:						

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Profit and loss account data						
Operating income	215.1	352.8	183.0	164.1	123.8	93.1
Net income	128.3	211.2	101.7	97.1	64.3	49.6
Income/(loss) per share □ basic	7.5p	\$0.12	6.0p	5.8p	3.8p	3.0p
□ diluted	7.4p	\$0.12	6.0p	5.7p	3.8p	3.0p
Income/(loss) per ADS □ basic	225.0p	\$3.70	180.5p	173.7p	115.0p	88.9p
□ diluted	222.9p	\$3.67	179.2p	172.2p	113.8p	88.7p
<hr/>						
Balance sheet data (at period end)						
Total assets	1,372.8	2,251.4	1,436.1	1,383.0	1,084.4	1,007.1
Total debt	76.3	125.1	91.4	161.3	64.7	59.9
Long-term debt	24.2	39.7	38.7	51.5	48.6	36.6
Cash at bank and in hand	89.2	146.3	66.5	37.5	91.3	65.2
Shareholders' funds (as restated [†])	998.0	1,636.7	1,026.9	919.0	785.0	729.4

Explanatory notes referred to in the above table are on page 108.

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Selected financial data (continued)

The selected consolidated financial data set out on the preceding page for 1998/99, 1999/00, 2000/01, 2001/02 and 2002/03 has been derived, in part, from the audited consolidated accounts for such periods included elsewhere in this Annual Report. The selected consolidated financial data should be read in conjunction with the accounts, including the notes thereto, and the Financial review included on pages 22 to 27 of this Annual Report.

The accounts of the Group have been prepared in accordance with UK GAAP which differ in certain respects from US GAAP. See pages 88 to 96 for information on the material differences between UK GAAP and US GAAP that affect the Group's profit and shareholders' funds.

Results of operations

The following table sets out certain consolidated financial data as a percentage of reported sales:

	Percentage of sales		
	2002/03	2001/02	2000/01
	%	%	%
Sales	100.0	100.0	100.0
Cost of sales ⁽³⁾	(82.8)	(83.5)	(83.5)
Gross profit	17.2	16.5	16.5
Administrative expenses	(3.8)	(3.8)	(3.6)
Operating profit	13.4	12.7	12.9
Net interest expense	(1.0)	(1.1)	(1.1)
Profit before taxation	12.4	11.6	11.8
Taxation	(4.4)	(4.0)	(3.8)
Net profit	8.0	7.6	8.0

(1) Amounts in pounds sterling are translated into US dollars solely for the convenience of the reader, at a rate of £1.00 to \$1.64, the Noon Buying Rate on 1 February 2003.

(2) 53 week year.

(3) Cost of sales includes the costs of goods sold, rental expense and non-headquarters' selling, general and administrative expenses.

(4) Working capital represents current assets (excluding amounts recoverable after more than one year) less current liabilities.

(5) During 2001/02 the Group adopted FRS19 'Deferred Tax'. The adoption of the standard has resulted in a prior year adjustment affecting UK GAAP shareholders' funds for 1998/99, 1999/00 and 2000/01 (see note 17).

(6) Includes only stores operated for the full financial year.

Quarterly results (unaudited)

For the 52 week period ended 1 February 2003

	13 weeks ended 4 May 2002	13 weeks ended 3 August 2002	13 weeks ended 2 November 2002	13 weeks ended 1 February 2003	52 weeks ended 1 February 2003
	£m	£m	£m	£m	£m
Sales	354.8	328.0	278.9	646.3	1,608.0
Operating profit	28.5	28.0	7.2	152.5	216.2
Net interest payable and similar charges	(4.6)	(4.4)	(3.6)	(3.9)	(16.5)
Profit on ordinary activities before taxation	23.9	23.6	3.6	148.6	199.7
Tax on profit on ordinary activities	(8.5)	(8.4)	(1.3)	(52.6)	(70.8)
Profit for the financial period	15.4	15.2	2.3	96.0	128.9)

For the 53 week period ended 2 February 2002

	13 weeks ended 29 April 2001	13 weeks ended 28 July 2001	13 weeks ended 27 October 2001	14 weeks ended 2 February 2002	53 weeks ended 2 February 2002
	£m	£m	£m	£m	£m
Sales	312.5	317.2	268.8	679.6	1,578.1
Operating profit	23.0	27.1	7.2	143.4	200.7
Net interest payable and similar charges	(5.1)	(4.8)	(3.8)	(4.2)	(17.9)
Profit on ordinary activities before taxation	17.9	22.3	3.4	139.2	182.8
Tax on profit on ordinary activities	(6.2)	(7.7)	(1.2)	(48.0)	(63.1)
Profit for the financial period	11.7	14.6	2.2	91.2	119.7

The profit impact of the 53rd week is analysed on page 23.

Definitions

In this document the following words and expressions shall, unless the context otherwise requires, have the following meanings:

ADR	American Depositary Receipt evidencing title to an ADS
ADS	American Depositary Share representing 30 Signet Group plc shares
APB	Accounting Principles Bulletin (US)
c.a.g.r.	Compound Annual Growth Rate
Company	Signet Group plc
Depository	The Bank of New York, depository under the amended and restated deposit agreement for the issue of ADRs
Directors	The directors of the Company
Earnings per share (EPS)	Profit attributable to shareholders divided by the weighted average number of shares in issue.
EPOS	Electronic Point of Sale
ESOT	Employee Share Ownership Trust
FRS	Financial Reporting Standard (UK)
FURBS	Signet Group Funded Unapproved Retirement Benefit Scheme
GAAP (UK or US)	Generally Accepted Accounting Principles
Gearing	Net debt as a percentage of shareholders' funds
Group	Signet Group plc and its subsidiary undertakings
Independent (Directors)	Considered to be independent under 'Review of the role and effectiveness of non-executive directors' (the 'Higgs report')
LIBOR	London Inter-Bank Offered Rate
LTIP	Long Term Incentive Plan
NASD	National Association of Securities Dealers
Nasdaq	National Association of Securities Dealers Automated Quotations
NYSE	New York Stock Exchange
Pounds, £, pound sterling, pence or p	Units of UK Currency

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Qualifying Employee Share Trust

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Definitions (continued)

Return on capital employed (ROCE)	Operating profit divided by monthly average capital employed
Shares	Ordinary shares of 0.5 pence each in Signet Group plc
Signet	Signet Group plc and its subsidiary undertakings
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards (US)
SOP	Statement of Position (US)
SSAP	Statement of Standard Accounting Practice (UK)
UK or United Kingdom	United Kingdom, Channel Islands, Isle of Man and the Republic of Ireland
US or United States	United States of America
US dollar, \$ or cents	Units of US currency

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Glossary of terms

Terms used in Annual Report & Accounts	US equivalent or brief description
Accounts	Financial statements
Allotted	Issued
Called-up share capital	Shares, issued and fully paid
Capital allowances	Tax term equivalent to US tax depreciation allowances
Cash at bank	Cash
Creditors	Payables
Debtors	Receivables
Finance lease	Capital lease
Freehold	Ownership with absolute rights in perpetuity
Interest receivable	Interest income
Interest payable	Interest expense
Like for like sales	Same store sales
Loans	Long-term debt
Net asset value	Book value
Profit	Income
Profit and loss account	Income statements
Profit and loss account reserve	Retained earnings
Profit attributable to shareholders	Net income
Share capital	Capital stock or common stock
Share option	Stock option
Shareholders funds	Shareholders equity
Share premium account	Additional paid-up capital or paid-in surplus (not distributable)
Shares in issue	Shares outstanding
Stocks	Inventories

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Tangible fixed assets

Property and equipment

Value Added Tax (VAT)
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UK sales tax

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Shareholder contacts

ADS Information

The ADS programme is administered on behalf of the Company by The Bank of New York and any enquiries, including those to do with change of address or dividend payments, should be addressed to:

The Bank of New York
ADR Department 22W Floor
101 Barclay Street
New York, NY 10286
Telephone toll free:
+1 888 269 2377

The Company is subject to the regulations of the United States Securities and Exchange Commission (the SEC) as they apply to foreign private issuers and files with the SEC its Annual Report on Form 20-F and other information as required.

UK Shareholders

Enquiries concerning the following matters should be addressed to:

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Telephone: 0870 162 3100
Telephone (overseas): +44 208 639 2157
email: ssd@capitaregistrars.com
web site: www.capitaregistrars.com

Dividend payments

Dividend mandate instructions

Dividend reinvestment plan

Loss of share certificates

Notification of change of address or name

Transfer of shares to another person

Amalgamation of shareholdings: if you receive more than one copy of the full Report & Accounts, you may wish to amalgamate your accounts on the share register.

Registered office

Zenith House
The Hyde
London NW9 6EW
Telephone: 0870 909 0301

Investor Relations contact

Timothy Jackson
Company Secretary and Investor Relations Director
Zenith House
The Hyde
London NW9 6EW
Telephone: 0870 909 0301
email: investorrelations@signet.co.uk

Corporate web site

Further information about the Group including the Annual and Interim Reports, public announcements and share price data are available in electronic format from the Group's corporate web site at www.signetgroupplc.com.

Unsolicited mail

As the Company's share register is, by law, open to public inspection, shareholders may receive unsolicited mail from organisations that use it as a mailing list. To limit the amount of unsolicited mail you receive, write to:

Mailing Preference Service
FREEPOST 22
London
W1E 7EZ

[Back to Contents](#)**Cross reference to Form 20-F to Form 20- (continued)**

The information in this document that is referenced in the following table shall be deemed to be part of the Annual Report on Form 20-F for 2003 and to be filed with the Securities and Exchange Commission for all purposes.

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Item 19. Exhibits

Exhibit

Number Description of Exhibit

- 1.1 Articles of Association of Signet Group plc, adopted by Special Resolution passed on June 13, 2002.
- 4.1* \$410 million Multicurrency Revolving Facilities Agreement, dated as of August 30, 2001, between Signet Group plc, Barclays Capital, HSBC Investment Bank plc, First Union National Bank, The Royal Bank of Scotland plc and HSBC Investment Bank plc (incorporated herein by reference to Exhibit 4.1 to the Company's Annual Report on Form 20-F, as filed with the Securities and Exchange Commission on May 16, 2002 (File No. 0-16945)).
- 4.2* \$100 million Multicurrency Revolving Credit Facility Agreement, dated as of May 31, 2000, between Signet Group plc; H.Samuel Limited; Signet US Holdings, Inc.; Sterling Inc.; Sterling Jewelers Inc.; James Walker, Goldsmith and Silversmith, Limited; Checkbury Limited; Sterling Jewelers LLC; Signet Holdings Limited; Signet Trading Limited; Signet UK Dormants Limited; Ernest Jones Limited; Barclays Capital; First Union National Bank; HSBC Investment Bank PLC; The Bank of Nova Scotia; The Royal Bank of Scotland PLC; Barclays Bank PLC; and HSBC Bank plc (incorporated herein by reference to Exhibit 4.1 to the Company's Annual Report on Form 20-F, as filed with the Securities and Exchange Commission on May 11, 2001 (File No. 0-16945)).
- 4.3* \$250 million Multicurrency Revolving Credit Facility Agreement, dated as of July 13, 1998, between Signet Group plc; H.Samuel Limited; Ratners US Holdings, Inc.; Sterling Inc.; Sterling Jewelers Inc.; James Walker, Goldsmith and Silversmith, Limited; Checkbury Limited; Sterling Jewelers LLC; Barclays Capital; HSBC Investment Bank PLC; The Royal Bank of Scotland PLC; Barclays Bank PLC; Midland Bank plc; First Union National Bank; The Bank of Nova Scotia; Sumitomo Trust & Banking Co. Ltd.; Banca Monte Dei Paschi di Siena SPA, London Branch; Bank Austria AG; Bankgesellschaft Berlin AG, London Branch; The Huntington National Bank; Singer & Friedlander Limited; Banco Espirito Santo e Comercial de Lisboa S.A.; Brown Shipley, & Co. Limited; National City Bank; and Smurfit Paribas International (incorporated herein by reference to Exhibit 4.2 to the Company's Annual Report on Form 20-F, as filed with the Securities and Exchange Commission on May 11, 2001 (File No. 0-16945)).
- 4.4* Guarantor Accession Memorandum, dated as of August 12, 1999, with respect to \$250 million Multicurrency Revolving Credit Facility Agreement (incorporated herein by reference to Exhibit 4.3 to the Company's Annual Report on Form 20-F, as filed with the Securities and Exchange Commission on May 11, 2001 (File No. 0-16945)).

*Incorporated by reference.

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Exhibit

Number Description of Exhibit

- 4.5* Side Letter, dated as of January 3, 2001, with respect to \$250 million Multicurrency Revolving Credit Facility Agreement (incorporated herein by reference to Exhibit 4.4 to the Company's Annual Report on Form 20-F, as filed with the Securities and Exchange Commission on May 11, 2001 (File No. 0-16945)).
- 4.6* \$60 million Senior Unsecured Loan Notes Agency Agreement, dated as of July 27, 1998, between Signet Group plc; H.Samuel Limited; Ratners US Holdings, Inc.; Sterling Inc.; Sterling Jewelers Inc.; James Walker, Goldsmith and Silversmith, Limited; Checkbury Limited; Sterling Jewelers LLC; and De Nationale Investeringsbank N.V. (incorporated herein by reference to Exhibit 4.5 to the Company's Annual Report on Form 20-F, as filed with the Securities and Exchange Commission on May 11, 2001 (File No. 0-16945)).
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- 4.8* Letter of NIB Capital Bank to Signet Group plc, dated as of November 24, 2000, with respect to U.S. \$60,000,000 Senior Unsecured Loan Notes due 2005 (incorporated herein by reference to Exhibit 4.7 to the Company's Annual Report on Form 20-F, as filed with the Securities and Exchange Commission on May 11, 2001 (File No. 0-16945)).
- 4.9* Executive Service Agreement, dated as of June 14, 1995, between the Company and Walker Boyd, as amended May 15, 2000 (incorporated herein by reference to Exhibit 4.8 to the Company's Annual Report on Form 20-F, as filed with the Securities and Exchange Commission on May 11, 2001 (File No. 0-16945)).
- 4.10* Contract of Service, dated as of July 26, 1999, between the Company and Ian Xavier Dahl (incorporated herein by reference to Exhibit 4.9 to the Company's Annual Report on Form 20-F, as filed with the Securities and Exchange Commission on May 11, 2001 (File No. 0-16945)).
- 4.11 * Amended and Restated Employment Agreement, dated as of December 20, 2000, between Sterling Jewelers Inc. and Terry Burman (incorporated herein by reference to Exhibit 4.10 to the Company's Annual Report on Form 20-F, as filed with the Securities and Exchange Commission on May 11, 2001 (File No. 0-16945)).
- 8.1 List of Significant Subsidiaries of Signet Group plc
- 10.1 Consent of KPMG Audit plc
- 10.2 Certification of Walker Boyd pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002
- 10.3 Certification of Terry Burman pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002

*Incorporated by reference.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

SIGNET GROUP PLC

By: /s/ Walker Boyd

Name: Walker Boyd

Title: Group Finance Director

Date: April 24, 2003

CERTIFICATION

I, Walker Boyd, certify that:

1. I have reviewed this annual report on Form 20-F of Signet Group plc;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 24, 2003

By: /s/ Walker Boyd

Name: Walker Boyd

Title: Group Finance Director

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CERTIFICATION

I, Terry Burman, certify that:

1. I have reviewed this annual report on Form 20-F of Signet Group plc;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - d. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - e. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - f. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - c. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - d. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 24, 2003

By: /s/ Terry Burman

Name: Terry Burman

Title: Chief Executive Officer

[Back to Contents](#)**Exhibit Index**

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