

Financial review

	2001/02		2000/01		1999/00	
	£m	%	£m	%	£m	%
Net sales:						
US	1,126.0	71.4	978.1	70.5	759.8	66.9
UK	452.1	28.6	409.2	29.5	376.7	33.1
Total	1,578.1	100.0	1,387.3	100.0	1,136.5	100.0
Operating profit:						
US	145.1	72.3	132.2	74.0	103.1	74.1
UK	60.7	30.2	50.0	28.0	39.3	28.3
Group central costs	(5.1)	(2.5)	(3.5)	(2.0)	(3.3)	(2.4)
Total	200.7	100.0	178.7	100.0	139.1	100.0

53 weeks ended 2 February 2002

Total Group sales for 2001/02 rose by 13.8% to £1,578.1 million compared with £1,387.3 million in 2000/01. The like for like sales increase of 3.1% was unaffected by the 53rd week.

Group profit before tax for the year was £182.8 million (2000/01: £162.8 million). After a tax charge of 34.5% (2000/01: 32.0%) earnings per share were 7.1p (2000/01: 6.6p), an increase of 7.6%. Operating profit increased by 12.3% to £200.7 million (2000/01: £178.7 million).

Sales

US

Like for like sales (including Marks & Morgan from 31 July 2001) grew by 0.6%. Significant benefit was obtained from both merchandising and marketing initiatives, including a further concentration on broadcast media advertising. Like for like sales were down by 2.3% in the first nine months of the year reflecting the challenging trading conditions. During the Christmas season consumer spending improved and like for like sales increased by 4.6% in the fourth quarter, ahead of the main competition. Jared continued to perform particularly well. Total sales for the year grew by 15.1% to £1,126 million (11.3% at constant exchange rates). The acquisition of Marks & Morgan (which was completed on 31 July 2000) contributed sales of £42.0 million (3.7% of annual sales growth) and new space (excluding Marks & Morgan) contributed 5.1%.

UK

In a favourable retail environment the UK jewellery division had an excellent year. Advantage was derived from product range improvements, increased marketing activity, enhanced staff incentives and a stepped-up programme of store refurbishments. Like for like sales were up by 9.4% and total sales rose to £452.1 million (2000/01: £409.2 million). Sales in H.Samuel were £277.3 million (2000/01: £259.8 million), with a like for like increase of 6.4%. For Ernest Jones like for like sales increased by 14.6% and sales were £168.5 million (2000/01: £143.9 million). In the fourth quarter like for like sales increased by 9.7% (H.Samuel up by 7.2% and Ernest Jones up by 14.2%), a particularly strong performance given the demanding comparatives.

Operating profit

US

The trading environment in 2001/02 was very challenging. Operating profit rose by 9.8% to £145.1 million (2000/01: £132.2 million) and on a constant exchange rate basis increased by 6.1%. Goodwill amortisation of £1.3 million was charged (2000/01: £0.6 million, also charged in 2000/01 were £1.7 million of non-recurring acquisition costs). Operating profit as a percentage of sales declined to 12.9% (2000/01: 13.5%), reflecting the low level of like for like sales growth and a significant increase in new selling space in recent years, offset by tight control of costs. Gross margin percentage was slightly below last year's level, due to changes in the sales mix and the increasing proportion of sales from Jared stores. The ratio of bad debts to total net sales decreased to 3.2% (2000/01: 3.4%).

UK

In the UK the strong like for like sales growth underpinned an improvement in operating profit, which, as a percentage of sales, increased to 13.4% (2000/01: 12.2%). Operating profit grew to £60.7 million (2000/01: £50.0 million), an increase of 21.4%. This resulted from further leverage of the divisional cost base, with gross margin in line with that of last year.

EBITDA

The US business achieved an EBITDA of £169.4 million (2000/01: £152.0 million) and the UK £71.1 million (2000/01: £60.8 million) before charging Group central costs of £5.1 million (2000/01: £3.5 million). Group EBITDA increased to £235.4m (2000/01: £207.9m). EBITDA to sales ratios decreased to 15.0% in the US (2000/01: 15.5%) but increased to 15.7% in the UK (2000/01: 14.9%) and decreased marginally to 14.9% for the Group (2000/01: 15.0%).

Net income

Net income for the year increased by 8.1% to £119.7 million (2000/01: £110.7 million).

Return on capital employed (“ROCE”)

The Group's ROCE decreased to 23.3% (2000/01: 25.2%), and to 20.4% in the US (2000/01: 23.1%) while ROCE increased to 39.4% in the UK (2000/01: 35.6%). US capital employed included US in-house credit card debtors amounting to £327.0 million at 2 February 2002 (27 January 2001: £314.7 million).

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 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%). It is anticipated that there will be a further increase in the effective tax rate to about 35.5% in 2002/03.

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 September 2001 an interim dividend of 0.289p per ordinary share was declared (2000/01: 0.275p). The Board is recommending to shareholders a final dividend of 1.50p (2000/01: 1.35p) per ordinary share for 2001/02, which, subject to shareholder approval, is to be paid on 5 July 2002 to those shareholders on the register of members at close of business on 7 June 2002. Future dividends will depend upon the capital needs of the businesses, the level of gearing and the amount of profits available for distribution.

Prior year adjustment

This year the Group has 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 has been 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.

Financial review continued

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 £188.0 million (2000/01: £132.1 million). This reflected an increase in EBITDA, partially offset by working capital requirements for stores opened in the period. It is anticipated that in 2002/03 there will be a further increase in working capital due to planned store openings. Net financing costs of £17.9 million (2000/01: £16.1 million) and tax of £57.9 million (2000/01: £50.9 million) were paid. Cash flow before investing activities was £112.2 million (2000/01: £65.1 million).

Group capital expenditure was £60.7 million (2000/01: £56.2 million). Disposal proceeds were £nil (2000/01: £2.2 million). Capital expenditure in 2002/03 is expected to be in the region of £70 million, the vast majority relating to real estate.

Equity dividends of £27.7 million (2000/01: £24.8 million) were paid.

Net debt

Net debt at 2 February 2002 was £201.7 million (27 January 2001: £229.1 million, £235.4 million restated at constant exchange rates). Group gearing (that is the ratio of net debt to shareholders' funds) at the year end was 29.7% (27 January 2001: 40.0%). Under UK GAAP, bank loans and overdrafts at 2 February 2002 include £176.8 million in respect of securitised US customer receivables at the exchange rate then applicable (27 January 2001: £105.3 million). Net debt excluding the \$251 million facility secured on the private label credit card receivables was £24.9 million and gearing was 3.7%. (27 January 2001: 21.7%).

In the US, in November 2001, the Company refinanced 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 amounted to \$251.0 million at 2 February 2002 and 10 April 2002. The certificates have a weighted average interest rate 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. The aggregate outstanding principal amount of the certificates of this previous securitisation approximated \$153.8 million at 27 January 2001 (£105.3 million) and had a weighted average interest rate of 7.28%.

Also in the US, in January 2002 the Group entered into a \$70 million Conduit securitisation facility ("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 a margin of 0.375% above the cost of funds paid by Sheffield Receivables Corporation. At 2 February 2002 and 10 April 2002 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 ("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 64). It also has certain provisions which are customary to this type of agreement, including standard “negative pledge” and “*pari passu*” clauses. At 2 February 2002 the amount outstanding under the Facility Agreement was \$nil and at 10 April 2002 it was \$nil million.

This Facility Agreement replaced two facilities which the Group had entered into in July 1998 (\$250 million) and May 2000 (\$100 million). The two facilities were cancelled in August 2001. At 27 January 2001 the amount outstanding under these facilities was \$115 million.

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 64). The Loan Note also has certain provisions which are customary to this type of agreement, including standard “negative pledge” and “*pari passu*” clauses. At 27 January 2001, 2 February 2002 and 10 April 2002 the amount outstanding under the Loan Note was \$60 million.

The principal financial covenants on each of the above facilities are set out in note 16 on pages 64 and 65.

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 2 February 2002 the interest rate (before margin) on 75% of forecast floating rate US dollar borrowings for 2002/03 was capped effectively at 5.00%. Further details of the interest rate protection agreements are given in note 26 on page 74.

Critical accounting policies

Critical accounting policies for retailers include stock valuation, revenue recognition, particularly with regard to special customer programmes such as warranties; advertising costs; operating leases and fixed asset depreciation. For Signet, the bad debt provisioning policy relating to the in-house credit operation in the US is also critical. 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 54 to 56 and are summarised in the paragraph below.

Sales represent sales to customers outside the Group, exclusive of VAT and sales tax. 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 where necessary provision is made for obsolete stock. Advertising costs are expressed as incurred. Depreciation is provided on fixed assets at rates set out in note 1 on page 55. Where appropriate, provision is made on assets that have a lower economic value than net book value. 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. Full provision is made for debts that are 90 days past their due date and there is a general provision based on the historic performance of the receivables portfolio.

Contingent property liabilities

Approximately 171 UK property leases had been assigned by the Group up to 2 February 2002 (and remained unexpired and occupied by assignees at that date) and approximately 52 additional stores were sublet 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 sublet, the Group or one of its UK subsidiaries 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.

52 weeks ended 27 January 2001

Total Group sales for 2000/01 rose by 22.1% to £1,387.3 million compared with £1,136.5 million in 1999/00. The like for like increase over the 52 week period was 6.8%.

Financial review continued

Group profit before tax for the year was £162.8 million (1999/00: £127.7 million). After a tax charge of 32.0% (1999/01: 30.0%) earnings per share were 6.6p (1999/00: 5.3p), an increase of 24.5%. Operating profit increased by 28.5% to £178.7 million (1999/00: £139.1 million).

Sales

Sales growth in the US was driven by further developing the division's competitive advantages in merchandising, marketing, store operations and real estate. Sales grew strongly in the first nine months of the year with a like for like sales increase of 9.6%. In the fourth quarter, however, there was a sharp deterioration in consumer expenditure when like for like growth was 1.1%. Nevertheless, the US division continued to outperform the market and its main publicly listed competitors. Total sales for the year grew by 28.7% to £978.1 million (18.4% at constant exchange rate). The acquisition of Marks & Morgan on 31 July 2000 contributed £57.7 million (6.8% of annual sales growth) and new space (excluding Marks & Morgan) contributed 5.6%. Like for like sales (excluding Marks & Morgan) grew by 5.9%. Gross margin percentage improved slightly on the prior year.

The UK division achieved excellent results, reflecting the success of its operational strategy and favourable trading conditions in the jewellery sector. Like for like sales were up by 8.6% and total sales rose to £409.2 million (1999/00: £376.7 million). Sales in H.Samuel were £259.8 million (1999/00: £245.4 million), with a like for like increase of 6.0%. Ernest Jones like for like sales increased by 13.5% and sales were £143.9 million (1999/00: £125.7 million). In the fourth quarter like for like sales increased by 7.9% (H.Samuel up by 6.5% and Ernest Jones up by 10.5%) which was particularly pleasing given the strong comparatives.

Operating profit

US operating profit rose by 28.2% to £132.2 million (1999/00: £103.1 million) and at constant exchange rates rose by 17.9%. Excluding the contribution of Marks & Morgan, the increase was 13.2% at constant exchange rates.

Marks & Morgan was fully integrated in the third quarter of 2000/01. Whilst sales for the period since the acquisition were below last year's level, reflecting the integration process and the downturn in the trading environment, the acquisition was earnings enhancing. Operating profit from Marks & Morgan was £7.6 million before non-recurring acquisition costs of £1.7 million and goodwill amortisation of £0.6 million.

Total US operating profit as a percentage of sales declined marginally to 13.5% (1999/00: 13.6%), with the increase in gross margin and leverage of strong sales growth on fixed costs largely offsetting the impact of lower operating margins from recently opened Jared stores. The ratio of bad debts to total net sales increased to 3.4% (1999/00: 2.9%) but was still within the range of performance in recent years.

In the UK the strong like for like sales growth underpinned an improvement in operating profit, which, as a percentage of sales, increased to 12.2% (1999/00: 10.4%). Operating profit grew to £50.0 million (1999/00: £39.3 million), an increase of 27.2%. This was achieved by the further leverage of the divisional cost base, with gross margin in line with that of the prior year.

EBITDA

The US business achieved an EBITDA of £152.0 million (1999/00: £118.7 million) and the UK £60.8 million (1999/00: £51.3 million) before charging Group central costs of £3.5 million (2000/01: £3.3 million). EBITDA to sales ratios increased marginally to 15.5% in the US (1999/00: 15.6%) and increased to 14.9% in the UK (1999/00: 13.6%).

Return on capital employed ("ROCE")

The Group's ROCE increased to 25.2% (1999/00: 24.1%), US 23.1% (1999/00: 24.9%), UK 35.6% (1999/00: 25.9%). US capital employed includes the in-house credit card debtors amounting to £314.7 million at 27 January 2001 (29 January 2000: £220.1 million).

Depreciation and capital expenditure

Depreciation charges were £30.0 million (1999/00: £27.8 million), £19.2 million in the US (1999/00: £15.6 million) and £10.8 million in the UK (1999/00: £12.2 million). Capital expenditure in the US was £46.5 million (1999/00: £27.4 million) and in the UK was £9.7 million (1999/00: £11.9 million).

Acquisition

Marks & Morgan was acquired on 31 July 2000 for £107.5 million (\$161.3 million), funded by debt. The total goodwill arising from the acquisition was £24.7 million, which is being written off over 20 years. In the six months from the acquisition to 27 January 2001, the amortisation charge was £0.6 million (1999/00: £nil). Asset write-off and integration costs associated with the acquisition of £1.7 million (1999/00: £nil) were charged to profits in the period. Prior to the amortisation charge, the asset write-off and integration costs, Marks & Morgan contributed £7.6 million to US operating profits in 2000/01 during the period from the time of acquisition.

Group costs

Group central costs amounted to £4.9 million (1999/00: £5.4 million). After crediting property gains of £1.4 million (1999/00: £2.1 million) net Group costs were £3.5 million (1999/00: £3.3 million).

Net interest payable and similar charges

Net interest payable and similar charges amounted to £15.9 million (1999/00: £11.4 million, at constant exchange rates £12.4 million), an increase of 39.5%. This primarily reflected the acquisition of Marks & Morgan, which was financed by increased borrowings, and the impact of exchange translation. At a constant exchange rate, net interest payable and similar charges increased by 28.2%.

Taxation

The tax charge of £52.1 million increased from £38.3 million in 1999/00. The US tax losses, which have reduced the effective tax rate in prior years, were fully utilised during 1999/00 and this resulted in an increase in the effective tax rate to 32.0% from 30.0% in 1999/00.