

Group Chief Executive's review

Introduction

Group sales grew by 13.8% in the year ended 2 February 2002, with like for like sales increasing by 3.1%. In the fourth quarter there were strong performances on both sides of the Atlantic and overall like for like sales increased by 6.1%. A strengthening of the balance sheet was reflected by gearing declining from 40.0% at 27 January 2001 to 29.7% at the year end, after funding further significant investment in the growth of the business.

The US business demonstrated its resilience and ability to outperform in a very challenging trading environment. It again led the sector and gained further market share. During the year approximately 6% was added to selling space, with the increase over the last four years being some 57%, including the acquisition of Marks & Morgan. The division's sustained competitive strengths in the key functions of merchandising, store operations and marketing, together with significant investment in the store portfolio, have been the principal drivers of sales and profit growth. These remain central to the future development of the business. The trend of consolidation in the highly fragmented speciality jewellery sector should provide scope to gain further market share both organically and, if appropriate, by selective acquisitions. The 55 store Jared concept continues to be successfully developed and it is believed that there is longer term potential for over 200 stores generating sales of more than \$1 billion per year. This, together with the planned expansion in mall stores, should result in a doubling of US space over the next decade.

The UK division continued to perform strongly. Like for like sales have grown at a compound annual growth rate of 7.6% during the last three years and average annual sales per store have increased from £580,000 to £735,000 over the same period. The drive to increase the penetration of diamond sales as a percentage of total sales is showing good results and this remains a key element of future strategy for H.Samuel and Ernest Jones. The trend towards more aspirational products continues and the UK division is well placed to take advantage of this, particularly given the upper mass market position of Ernest Jones. This brand should also benefit from further development of the insurance replacement business and is

considered to have the potential to expand from the present complement of 184 stores to around 220. H.Samuel is positioned in the heart of the mass market and is already well represented nationwide. The objective, therefore, is to leverage this chain's strong market position and brand recognition by increasing the average transaction value and making existing space work harder. The ongoing drive to increase market penetration in diamonds, together with new marketing initiatives and further raising of store standards and customer service levels, should all contribute to the achievement of this aim.

In August 2001 the Group and certain of its subsidiaries entered into a \$410 million unsecured multi-currency five year revolving credit facility replacing existing facilities of \$350 million due to expire in 2003, on broadly similar terms. In November 2001 the Group put in place a five year \$251 million facility at a weighted average interest rate of 5.42% secured on the Group's US credit card receivables. The terms were similar to the previous facility of \$191.5 million which amortised during the year and had a weighted average interest rate of 7.28%. Excluding the facility secured on the receivables, gearing at year end was 3.7% (27 January 2001: 21.7%).

Signet is committed to managing the social, ethical and environmental risks and responsibilities facing the Group. In 2001/02 a Statement of Social, Ethical and Environmental Principles and a Supplier Code were published. See pages 92 to 94 for a report on these matters.

US (71% of Group annual sales)

The US business achieved a 9.8% increase in operating profit (6.1% at constant exchange rates). Like for like sales rose by 0.6%, with the increase of 4.6% in the fourth quarter being particularly noteworthy. Costs, gross margin and inventories were tightly managed and significant benefit was obtained from a number of management actions, especially in the merchandising and marketing areas. Marks & Morgan contributed to the leverage of overall marketing and central costs and its like for like sales performance was broadly in line with the rest of the business during the important fourth quarter.

Group Chief Executive's review continued

Details of the performance are set out below:

	2001/02	2000/01	Change	Like for like change
	£m	£m	%	%
Sales	1,126.0 ^(a)	978.1	+15.1	+0.6
EBITDA	169.4	152.0	+11.4	
Operating profit	145.1 ^(b)	132.2	+9.8	
Operating margin %	12.9%	13.5%		
ROCE %	20.4%	23.1%		

(a) At constant exchange rates US total sales increased by 11.2%; week 53 contributed 1.8%.

(b) At constant exchange rates US operating profit increased by 6.1%; week 53 contributed £2.5 million.

The successful merchandising strategy, key to developing competitive advantage in the market, was maintained, with emphasis on thorough testing of new products and the aggressive roll out of proven “winners”. Product selection was further enhanced and the bridal range expanded. Three-stone diamond merchandise sold well, as did the “Leo Diamond”, which has more brilliance than the normal diamond and is exclusive in the US and the UK to the business.

Gross margin rate was slightly down on last year's level due to anticipated changes in sales mix. The proportion of sales through the in-house credit card increased to 50.4% (2001/01: 49.7%). The bad debt charge fell to 3.2% of total sales (2000/01: 3.4%). The reduction in operating margin and ROCE reflected the impact of the lower level of like for like sales growth and the increase in immature store space arising principally from the Jared expansion.

Advertising and marketing activity was increased and gross spend amounted to 6.3% of sales (2000/01: 6.2%). There was a further concentration on broadcast media. Romance based advertising themes, including “Every Kiss Begins With Kay”, proved to be highly compatible with the mood of the consumer.

Jared's like for like sales performance was comfortably above that of the rest of the division, although also affected by the trading environment. The Jared concept is the US division's primary vehicle for space growth and in

the period a further 12 stores were opened, equivalent to about 60 mall stores. Television advertising for Jared is currently being tested.

In 2001/02 total fixed capital investment in the US was £41.0 million (2000/01: £46.5 million). The enhancement and expansion of the real estate portfolio continued, although criteria for new investment were tightened to reflect the more difficult trading environment.

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

	Total	Kay	Regional	Jared
27 January 2001	999	650	306	43
Openings	53	29	12	12
Closures	(27)	(12)	(15)	–
2 February 2002	1,025	667	303	55

In 2002/03 it is planned to modernise or relocate approximately 100 stores and to increase selling space by up to 6%, with Jared accounting for about 65% of the increase. The new space will comprise up to 40 new mall stores (offset by about 15 store closures) and 12 additional Jared stores.

UK (29% of Group annual sales)

The UK division increased operating profit by 21.4% and like for like sales by 9.4%. This reflected the success of the strategy put in place over the last three years, as well as a favourable market for jewellery. Advantage was derived from product range improvements, increased marketing activity and a stepped-up programme of store modernisations. The increased focus on diamonds resulted in an above average sales increase in this category. The gross margin rate was in line with that of last year. The operating margin and ROCE benefited from the leverage of the cost base resulting from increased store productivity. In H.Samuel average sales per store increased by 9.5% to £667,000 (2000/01: £609,000) and in Ernest Jones (including Leslie Davis) by 14.2% to £919,000 (2000/01: £805,000).

Details of the performance are set out below:

	2001/02	2000/01	Change	Like for like change
	£m	£m	%	%
Sales:				
H.Samuel	277.3	259.8	+6.7	+6.4
Ernest Jones	168.5	143.9	+17.1	+14.6
Other	6.3	5.5		
Total	452.1^(a)	409.2	+10.5	+9.4
EBITDA	71.1	60.8	+16.9	
Operating profit	60.7^(b)	50.0	+21.4	
Operating margin %	13.4%	12.2%		
ROCE %	39.4%	35.6%		

(a) Week 53 contributed 1.6%.

(b) Week 53 contributed £1.5 million.

In both H.Samuel and Ernest Jones ranges are better focused and upgrading of product quality continues. Store displays have been reorganised to ensure that core items are positioned in prime slots and there has been an increase in space allocated to the key diamond category, where the layout of product has been further improved. The average retail price of items sold increased by 8.7% to £30.74 (2000/01: £28.29) in H.Samuel and by 8.8% to £119.14 (2000/01: £109.48) in Ernest Jones.

Marketing activity was further extended. There were five additional catalogues, and their distribution was better targeted and significantly increased.

Fixed capital investment, principally in the store portfolio, amounted to £18.8 million (2000/01: £9.7 million). Within the H.Samuel portfolio ten new stores were opened and there were 16 closures, reflecting the programme put in place to improve the quality of the store portfolio. Ernest Jones saw nine openings and two closures. 93 stores were modernised in the period compared with 24 in 2000/01, and some 60 further stores are earmarked for modernisation in 2002/03. At the year end there was a total of 606 stores (422 H.Samuel stores and 184 Ernest Jones stores), a similar number to last year (27 January 2001: 428 H.Samuel and 177 Ernest Jones).



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Group Chief Executive
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