SIGNET GROUP PLC
Form 20-F
May 03, 2005

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 January 29, 2005

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:

Title of each class	**Name of each exchange on which registered**
Ordinary Shares, nominal value £0.005 each	New York Stock Exchange*
American Depositary Shares, each representing 10 ordinary shares	New York Stock Exchange

* Not for trading, but only in connection with the registration of the ADSs pursuant to the requirements of the Securities and Exchange Commission.

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

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	1,735,615,152

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

Explanatory Note

This document comprises the annual report on Form 20-F and the annual report to shareholders for the year ended 29 January 2005 of Signet Group plc (the "2004/05 Form 20-F"). Reference is made to the Cross Reference to Form 20-F table beginning on page 137 hereof (the "Cross Reference to Form 20-F Table"). Only (i) the information in this document that is referenced in the Cross Reference to Form 20-F Table, (ii) the cautionary statement concerning forward-looking statements on page 1 and (iii) the Exhibits, shall be deemed to be filed with the Securities and Exchange Commission for any purpose, including incorporation by reference into the Registration Statements on Form S-8 of Signet Group plc (No. 333-12304, 333-9634, 333-8764 and 033-42119), and any other documents, including documents filed by Signet Group plc pursuant to the Securities Act of 1933, as amended, which purport to incorporate by reference the 2004/05 Form 20-F. Any information herein which is not referenced in the Cross Reference to Form 20-F Table, or the Exhibits themselves, shall not be deemed to be so incorporated by reference.

2004/05
Group highlights

		Reported basis	At constant exchange rates(1)(2)
Like for like sales:		up 5.0%	
Sales:	£1,614.4m	up 0.6%(2)	up 7.8%
Operating profit:	£218.9m	up 4.1%(2)	up 11.3%
Profit before tax:	£210.3m	up 5.3%(2)	up 12.1%
Earnings per share(3):	8.2p	up 9.3%(2)	up 15.5%
Dividend per share:	3.0p	up 20.0%	
Return on capital employed(3)	26.5%	up from 25.9%(2)	
Gearing(3)	11.3%	down from 11.8%(2)	

(1) See page 29 for reconciliation to Generally Accepted Accounting Principles (GAAP) figures.
(2) 2000/01 to 2003/04 restated for the implementation in 2004/05 of the amendment to FRS 5, Application Note G Revenue Recognition .
(3) Earnings per share, return on capital employed and gearing are defined on page 130.
(4) 53 week year.

Annual Report & Accounts
Year ended 29 January 2005

Contents

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 listed on the New York Stock Exchange (under the symbol SIG).

This document comprises the Annual Report & Accounts of the Group in accordance with United Kingdom requirements.

In this Annual Report, 2000/01 , 2001/02 , 2002/03 , 2003/04 , 2004/05 and 2005/06 , refer to, as appropriate, the 52 weeks ended 27 January 2001, the 53 weeks ended 2 February 2002, the 52 weeks ended 1

This Annual Report contains translations of certain pound sterling amounts into US dollars at a rate of $1.89 = £1, 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 29 January 2005. These translations should not be construed as representations that the pound sterling amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated. On 6 April 2005 the Noon Buying Rate was $1.88 = £1.

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

	February 2003, the 52 weeks ended 31 January 2004, the 52 weeks ended 29 January 2005 and the 52 weeks ending 28 January 2006.		this Annual Report. Readers are referred to Risk and other factors on pages 35 to 40.	

Back to Contents

Chairman s statement

Group results

In the year to 29 January 2005 the Group further extended its growth record. On a reported basis profit before tax rose by 5.3% to £210.3 million (2003/04: £199.8 million restated, see note 17) reflecting an underlying increase of 12.1% at constant exchange rates. Like for like sales advanced by 5.0%. Total sales rose by 7.8% at constant exchange rates: reported sales were broadly unchanged at £1,614.4 million (2003/04: £1,604.9 million restated). The tax rate fell to 32.9% from 35.1%. Earnings per share were 8.2p (2003/04: 7.5p restated), up by 9.3% on a reported basis and 15.5% at constant exchange rates.

These results reflect the continuing successful implementation of the Group s strategies on both sides of the Atlantic. However the full extent of the Group s progress has not been reflected in the reported results due to further weakening of the average US dollar exchange rate from $1.68/£1 to $1.86/£1. This had a significant adverse impact on the translation of the US division s sales and operating profit into sterling, thereby affecting Group profit before tax by some £12 million. The results also included a restructuring charge in the UK of £1.7 million.

The US division had a very strong start to 2004/05 with an excellent performance during the Valentine s Day period. Although the retail environment became less predictable as the year progressed, the business had a strong fourth quarter with like for like sales up by 4.7%. For the year as a whole the division again out-performed its main competition and gained further market share. 2004 saw the Group s nationwide Kay chain become the largest speciality retail jewellery brand by sales in the US.

The UK division also had a particularly strong first quarter but faced a softening trend in the trading environment during the rest of the year. Annual like for like sales increased by 3.0%; a good performance in an increasingly difficult marketplace. The Christmas period proved to be particularly challenging and both H.Samuel and Ernest Jones did well to out-perform the general retail market.

The Group continued to utilise its cash flow and strong balance sheet to invest in the growth of the business. £159.1 million was invested in fixed and working capital during the year. There was an acceleration in new store space growth in the US and a major store refurbishment programme in the UK. Gearing (net debt to shareholders funds) at 29 January 2005 was 11.3% (31 January 2004: 11.8% restated).

Accounting standards developments

A period of significant and rapid change in accounting is currently taking place with UK Generally Accepted Accounting

Principles (GAAP) being replaced by International Financial Reporting Standards (IFRS), and both converging with US GAAP. The process this year has resulted in a restatement relating to the revenue recognition of extended service agreements in the US (see note 17, page 85) and the replacement in 2005/06 of UK GAAP by IFRS as explained in more detail in the Financial review (page 33).

Dividend

The Board is pleased to recommend a 21.5% increase in the final dividend to 2.625p per share (2003/04: 2.160p), the total for the year being 3.000p per share (2003/04: 2.501p). The dividend cover is 2.7 times (2003/04: 3.0 times restated). The Board will continue to review regularly its distribution policy taking into account earnings, cash flow, gearing and the needs of the business. See note 8 regarding dividends to US holders of ordinary shares and ADSs.

People

I would like to thank our staff and management for their invaluable contribution to the continued success of the Group.

Robert Walker joined the Board as a non-executive director in November 2004. I am confident that his broad experience of international business will enable him to make a significant contribution to the Group.

Rob Anderson, Chief Executive of Signet s UK division, joined the Board as an executive director in April 2005 and I am sure will make a valuable contribution at Group level.

I have also recently announced my intention to retire from the Board no later than at the Company s annual general meeting in June 2006.

Current trading

In the year to date Group like for like sales growth has been in low single digits after taking account of the change in the timing of Easter. This reflects a US like for like increase a little ahead of the fourth quarter last year partly offset by negative mid single digit like for like sales in the UK following a marked deterioration in the general trading environment. Both businesses were up against particularly strong prior year comparatives.

James McAdam

Chairman
6 April 2005

Back to Contents

Group Chief Executive s review

Introduction

Group operating profit rose to £218.9 million from £210.2 million (restated), an increase of 11.3% at constant exchange rates or 4.1% on a reported basis. The operating margin increased to 13.6% (2003/04: 13.1% restated), and the return on capital employed (ROCE) was 26.5% (2003/04: 25.9% restated).

The Group s medium term objectives are to set leading performance standards in its sector of the jewellery market on both sides of the Atlantic, to increase new store space in the US and store productivity in the UK, and to be broadly cash flow neutral after funding the needs of the business and dividend payments.

US division

In 2004/05 the business continued to build on its competitive strengths. It again out-performed its main competition and gained further market share. Operating profit rose by 17.1% at constant exchange rates and by 5.7% on a reported basis to £147.3 million (2003/04: £139.3 million restated). The five year annual compound growth was 12.2% at constant exchange rates.

Like for like sales rose by 5.9% and total dollar sales by 10.3%. The mall stores reported solid growth and Jared, the off-mall destination concept, performed particularly strongly. Over the last five years the US division s like for like sales have grown at an annual compound rate of 4.5% and total dollar sales by 11.0%. During the same period, the US division s share of the speciality jewellery market has increased from 5.1% to 7.2%.

New store space rose by 8% during 2004/05 further leveraging both central overhead costs and marketing expenditure. In the last five years new store selling space has increased by some 60%, with the number of Kay stores up by over a third to 742. Over the same period the number of Jared stores has more than tripled to 93.

Growth in new store space and further development of the division s competitive strengths in the critical areas of merchandising, store operations and marketing have contributed significantly to the out-performance of the business and remain key elements of future strategy. Given the continuing consolidation in the speciality jewellery sector, there should be opportunities to gain further market share both organically and, if appropriate, by acquisition. The US division is now targeting organic space growth of 7% - 9% in future years (previously 6% - 8%).

UK division

Against the background of an increasingly difficult trading environment UK operating profit advanced by 2.1% to £78.2 million (2003/04: £76.6 million), the compound five year annual growth rate being 15.8%. There was a restructuring charge of £1.7 million reflecting the relocation and consolidation of central administration functions to enhance efficiency that should generate future cost savings of about £0.6 million per annum. Like for like sales rose by 3.0%, the compound annual growth rate during the last five years being 6.3%. The business continues to be strongly cash generative and enjoyed a ROCE of over 40% in 2004/05.

The drive to increase diamond sales as a proportion of total sales showed further success and remains central to the future strategy of both H.Samuel and Ernest Jones. Diamonds now account for 28% of the division s product mix compared with 22% five years ago. The objective is to leverage both chains   strong market positions by increasing average transaction values which have risen by 42% in H.Samuel and by 29% in Ernest Jones in the last five years.

Central to selling diamonds is the interaction between the customer and the salesperson. The roll-out of the new store format, which facilitates such interaction, was implemented as part of the store refurbishment cycle in 2004/05. The focus on customer service was also evident in the priority given to staff training. The significant changes taking place in the UK business are being supported by increased marketing expenditure. In implementing these initiatives the UK business is able to draw on the US division s best practices.

US (68% of Group sales)

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

	Change		
		At constant	Like

				exchange	for like
	2004/05	2003/04(1)	Reported	rates(2)	change
	£m	£m	%	%	%
Sales	**1,100.0**	1,103.9	0.4	+10.3	+5.9
Operating profit	**147.3**	139.3	+5.7	+17.1	
Operating margin	**13.4%**	12.6%			
ROCE	**22.4%**	21.3%			

(1) Restated for amendment to FRS 5, Application Note G Revenue Recognition .

(2) See page 29 for reconciliation.

The operating margin improved on last year, reflecting leverage of like for like sales growth partly offset by the adverse impact of immature store space. Gross margin was maintained at last year s level, as a range of supply chain initiatives and pricing actions counter-balanced commodity cost increases. Commodity costs continue to rise and further initiatives are being implemented in

Back to Contents

Group Chief Executive s review (continued)

the current year to help again offset the impact. The bad debt charge was towards the bottom of the range of the last five years at 2.9% of total sales (2003/04: 2.8%). The proportion of sales through the in-house credit card was 50.1% (2003/04: 49.3%).

In the jewellery sector superior customer service and product knowledge are important competitive advantages readily identified by the consumer, and the division now has at least one certified diamontologist in every store. Also during 2004/05 all sales staff were coached using the Ultimate Diamond Presentation training course. Procedures for recruitment were strengthened and staff retention was also improved. The multi-year initiative to enhance store systems saw the introduction of improved repair and special order services.

In mall stores the upper end of the diamond selection was enhanced and the Leo Diamond range was successfully expanded. The gold category was reinvigorated by the development of fashion gold merchandise in conjunction with the World Gold Council. In Jared sales of loose diamonds, the Leo Diamond range, luxury watches such as Rolex, Tag Heuer and Raymond Weil all performed well. Cartier watches will be tested in certain Jared stores in 2005/06. Average unit selling prices in both the mall stores and Jared increased by some 10% reflecting not only consumer movement to higher value merchandise such as the Leo Diamond range, but also the changes in retail prices implemented during the year. The division s competitive advantage obtained by sourcing loose stones for about 55% of diamond merchandise proved to be particularly beneficial during a period of higher rough diamond costs.

Strong marketing programmes again contributed to the sales growth out-performance. Kay television advertising impressions were increased by 11% over the Christmas period and national radio advertising was successfully introduced. Some 90% of Jared stores benefited from television advertising compared with around 75% in the prior year. The annual gross marketing spend amounted to 6.6% of sales (2003/04: 6.5%) and dollar marketing expenditure has doubled over the last five years.

Kay, with a turnover of $1,155.5 million, became the number one speciality jewellery brand by sales during 2004/05 having consistently out-performed its major competitors. Over the last five years the number of Kay stores has increased by almost 200 to a total of 742 and average sales per store have grown to $1.584 million from $1.355 million. Brand name recognition has risen very significantly since the introduction of the Every kiss begins with Kay advertising campaign in 2000/01. It is planned to increase Kay s representation in malls by between 20 and 30 new stores in 2005/06. In addition to mall locations, stores under

the Kay brand are currently being opened in lifestyle and power strip centres. Ten such stores were opened in 2004/05 and a similar number are planned in 2005/06. In the current year it is anticipated that up to four stores will be trialled in metropolitan areas.

Currently 321 mall stores trade under strong regional brand names. Sales in the year were over $450 million, reflecting average sales per store of $1.533 million. The regional stores could provide the potential to develop a second mall brand of sufficient size to justify the cost of national television advertising. This would require about 550 stores which could be achieved in the medium term by a mixture of store openings and acquisitions. In 2005/06 it is planned that 20-30 new stores will be opened under the regional brand names.

Jared now has sales of just over $400 million and a portfolio of 93 stores, equivalent in space terms to about 400 mall stores. The Jared concept is the primary vehicle for US space growth and in 2004/05 a further 14 stores were opened. The chain is still relatively immature with some 70% of stores not yet having traded for five full years. Excluding the three prototype stores the 25 Jared stores that have reached maturity achieved, in aggregate, the target level of sales and store contribution (set at the time of investment) in their fifth year of trading. During 2005/06 it is intended to increase the number of Jared openings to 15 - 20 per annum, from the 12 - 15 per annum opened in the last six years.

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

	Total	Kay	Regional	Jared
31 January 2004	**1,103**	717	307	79
Store openings	**68**	34	20	14
Store closures	**(15)**	(9)	(6)	

29 January 2005	**1,156**	742	321	93

In 2004/05 total fixed and working capital investment in the US business was $228.3 million (2003/04: $138.3 million) and new store space increased by a net 8% as planned.

Recent investment in the store portfolio is set out below:

Number of stores	**2004/05**	2003/04	2002/03	2001/02	2000/01
Store refurbishment and relocations	**76**	61	71	91	99
New mall stores	**44**	47	36	41	40
New off-mall Kay stores	**10**	10			
New Jared stores	**14**	12	12	12	15
Store fixed capital investment	**$53m**	$42m	$38m	$51m	$60m
Store total investment(1)	**$140m**	$98m	$92m	$96m	$107m

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

Back to Contents

In 2005/06 net new store space growth of 7% - 9% is planned reflecting the increased rate of Jared store openings, an acceleration in the expansion of stores under regional brand names, the continued growth of Kay stores and the closure of some 15 mall stores. Total US fixed capital expenditure is expected to be some $90-$100 million in 2005/06 (2004/05: $77.6 million), including the refurbishment or relocation of approximately 90 stores. Total store investment, including working capital, is planned to be some $155 million in 2005/06.

UK (32% of Group sales)

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

	2004/05 £m	2003/04 £m	Change %	Like for like change %
Sales				
H.Samuel	**285.5**	285.8	0.1	+1.9
Ernest Jones	**223.4**	209.4	+6.7	+4.5
Other	**5.5**	5.8		
Total	**514.4**	501.0	+2.7	+3.0
Operating profit	**78.2(1)**	76.6	+2.1	
Operating margin	**15.2%(1)**	15.3%		
ROCE	**44.7%**	47.1%		

(1) After charging a restructuring expense of £1.7 million.

The division s gross margin benefited from the effect of the lower dollar exchange rate on dollar denominated commodity costs. The operating margin at 15.2% was little changed after absorbing a restructuring charge of £1.7 million. Like for like sales were up by 1.9% in H.Samuel, while total sales were similar to last year due to nine net store closures and a significant increase in the number of temporary closures for refurbishment. H.Samuel s sales per store increased to £0.723 million (2003/04: £0.707 million). Ernest Jones had another strong performance with like for like sales up by 4.5%, total sales increasing by 6.7% and sales per store reaching £1.150 million (2003/04: £1.101 million).

Diamond jewellery assortments were enhanced during the year and continued to perform strongly, accounting for 20% of sales in H.Samuel and 38% in Ernest Jones. The Leo Diamond range was expanded in Ernest Jones and the Forever Diamond selection is now in all H.Samuel stores. White metal jewellery also proved popular. In H.Samuel the fashion watch range was increased whilst the gift and collectibles selection continued to be rationalised. The average selling price in H.Samuel was £37 (2003/04: £35) and in Ernest Jones £141 (2003/04: £139).

The focus on diamonds requires a higher level of customer service and greater product knowledge by the store staff. New training practices continued to be enhanced in 2004/05 involving a weekly programme of centrally prepared material, regular feedback from supervisors and emphasis on measurable

outcomes. Particular benefit from improved staff training was gained in the diamond category. During the year a new incentive scheme, which drew on the Group s US experience, was tested and will be expanded further in 2005/06.

Catalogues remain the main marketing tool, with design and distribution being strengthened during the period. The television advertising test was extended during Christmas 2004 with H.Samuel national coverage increasing to about 65% from around 40% in the prior year. Ernest Jones coverage was doubled to some 60%. It is planned to continue the trial in 2005/06. Ernest Jones successfully launched a customer relationship marketing programme during 2004/05. Over the last five years marketing expenditure has increased at an annual compound rate of 20% and represented 3.0% of sales in 2004/05 (2003/04: 2.5%).

In 2004/05 total fixed and working capital investment in the UK business was £36.3 million (2003/04: £27.5 million), a significant increase reflecting the roll-out of the new store format. At the year end, 142 stores, mostly H.Samuel, traded in the new format, accounting for about 30% of the UK division s sales over the Christmas period. There were seven Ernest Jones and two H.Samuel new store openings. 11 H.Samuel stores were closed. At the year end there were 602 stores (398 H.Samuel and 204 Ernest Jones).

Recent investment in the store portfolio is set out below:

Number of stores	**2004/05**	2003/04	2002/03	2001/02	2000/01
Store refurbishments and relocations	**81**	32	42	93	24
New H.Samuel stores	**2**		4	10	9
New Ernest Jones stores	**7**	5	8	9	3
Store fixed capital investment	**£23m**	£13m	£14m	£15m	£6m

A similar pattern of store investment is planned for 2005/06 with total capital expenditure expected to be some £30-£35 million in 2005/06 (2004/05: £28.8 million). This reflects the continued roll-out of the new store format with about 90 stores planned to be refurbished or relocated during 2005/06, again predominantly H.Samuel.

Terry Burman

Group Chief Executive
6 April 2005

Back to Contents

Five year financial summary

	2004/05 £m	2004/05(1) $m	2003/04 as restated(2) £m	2002/03 as restated(2) £m	2001/02 as restated(2)(3) £m	2000/01 as restated(2) £m
Sales	**1,614.4**	**3,051.2**	1,604.9	1,593.6	1,562.4	1,373.3
Operating profit	**218.9**	**413.7**	210.2	199.9	183.4	163.8
Net interest payable	**(8.6)**	**(16.3)**	(10.4)	(14.0)	(15.0)	(12.7)
Profit before tax	**210.3**	**397.4**	199.8	185.9	168.4	151.1
Taxation	**(69.1)**	**(130.5)**	(70.2)	(65.7)	(57.9)	(48.4)
Profit for the period	**141.2**	**266.9**	129.6	120.2	110.5	102.7
Earnings per share(4)	**8.2p**	**$0.15**	7.5p	7.0p	6.5p	6.1p
Dividend per share (£)	**3.000p**		2.501p	2.110p	1.789p	1.625p
Dividend per share ($)	**$0.0558**		$0.0420	$0.0323	$0.0258	$0.0242
Capital expenditure	**70.5**	**133.2**	50.9	49.5	59.8	56.2
Investment in fixed and working capital	**159.1**	**300.7**	97.7	105.0	113.2	137.2
Depreciation and amortisation						