SIGNET GROUP PLC
Form 20-F
May 04, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

o Registration statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended January 28, 2006

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from ________ to ________.

o Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 0-16945

SIGNET GROUP plc
(Exact name of Registrant as specified in its charter)

ENGLAND

(Jurisdiction of incorporation or organization)

15 Golden Square
London W1F 9JG
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	1,738,843,382
Class A Dollar Deferred Shares of $0.01 each	0
Class B Dollar Deferred Shares of $1.00 each	0

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

x Yes o No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

o Yes x No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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.

x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

x Large accelerated filer o Accelerated filer o Non-accelerated filer

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

x Item 17 o Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

Explanatory Note

This document comprises the annual report on Form 20-F for the year ended 28 January 2006 of Signet Group plc (the 2005/06 Form 20-F). Reference is made to the Cross Reference to Form 20-F table on page 1 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, 333-09634 and 333-08964), 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 2005/06 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.

In 2005, the Company began preparing its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and as permitted by IFRS has prepared one year of comparative financial data on a consistent basis. As a result, in accordance with the instructions of Form 20-F, selected financial data for only 2004/05 and 2005/06 is included below. Selected financial data under US GAAP is presented for 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06.

Signet Group plc

Annual Report & Accounts
Year ended 28 January 2006

The world s largest speciality retail jeweller

The world s largest speciality retail jeweller

¿	Like for like sales:		up 2.4%
¿	Sales:	£1,752.3m	up 8.5%
¿	Operating profit:	£208.2m	down 2.0%
¿	Profit before tax:	£200.4m	down 1.7%
¿	Earnings per share[1]:	7.5p	down 3.8%
¿	Dividend per share:	3.3p	up 10.0%

¿	Return on capital employed[1]:	22.4%	down from 26.3%
¿	Gearing[1]:	11.2%	up from 10.8%

(1) Earnings per share, return on capital employed and gearing are defined on page 121.

Annual Report & Accounts
Year ended 28 January 2006

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

In this Annual Report, 2004/05 , 2005/06 and 2006/07 , refer to, as appropriate, the 52 weeks ended 29 January 2005, the 52 weeks ended 28 January 2006 and the 53 weeks ending 3 February 2007.

This Annual Report contains translations of certain pound sterling amounts into US dollars at a rate of $1.77 = £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 28 January 2006. 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 5 April 2006 the Noon Buying Rate was $1.75 = £1.

For financial years commencing on or after 1 January 2005 UK listed companies are required to report in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The Group therefore now prepares its results under IFRS and this Annual Report contains audited and restated comparative information for 2004/05.

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 30 to 35.

Chairman s statement

Group results
In the 52 weeks to 28 January 2006 total sales rose by 8.5% to £1,752.3 million (2004/05: £1,615.5 million). Like for like sales advanced by 2.4%, a strong US performance more than compensating for a significant fall in the UK. Profit before tax was £200.4 million (2004/05: £203.9 million). The tax rate was 34.7% (2004/05: 33.9%). Earnings per share were 7.5p (2004/05: 7.8p). See page 27 for the impact of exchange rate movements.

The US division again significantly outperformed its main competition and has now become the largest US speciality jewellery retailer by sales. Total dollar sales increased by 12.1%, with like for like sales up 7.1%. Like for like sales in the first half rose by 7.9% followed by a solid performance in the second half when they rose by 6.4%.

The UK experienced the sharpest deterioration in retail trading conditions for 14 years. Consequently the division s annual like for like sales fell by 8.2%, a performance believed to be at least in line with that of the UK jewellery sector.

The Group had a net cash outflow of £4.8 million (2004/05: £10.0 million) after investing £136.7 million in fixed and working capital during the year (2004/05: £152.1 million). The balance sheet remains strong and gearing (net debt to shareholders funds) at 28 January 2006 was 11.2% (29 January 2005: 10.8%). The store refurbishment programme in the UK continued at a similar level to that in 2004/05. In the US, new store space grew by 9% (2004/05: 8%) and will increase further over the next five years given a planned investment programme of $1 billion.

Dividend
The Board is pleased to recommend a 10.0% increase in the final dividend to 2.8875p per share (2004/05: 2.625p), the total for the year being 3.3p per share (2004/05: 3.0p). Dividend cover is 2.3 times (2004/05: 2.6 times). Distribution policy is regularly reviewed taking into account earnings, cash flow, gearing and the needs of the business. See page 79 regarding dividends to US holders of ordinary shares and ADSs.

Board changes
Following the announcement made at this time last year, I now confirm that I will retire from the Board at the end of the 2006 annual general meeting. I have held the position of Chairman since 1992. At that time the Group was in a perilous state but much has changed since then and today Signet has a market capitalisation approaching £2 billion. I will stand down knowing that the business is in good hands and I would like to thank Board colleagues, executives and staff for their contribution and support during my tenure in office.

Subject to shareholders electing Malcolm Williamson as a director at the annual general meeting in 2006, the Board has appointed him as Chairman with effect from the conclusion of that annual general meeting. Mr Williamson is a senior international businessman with significant chairmanship experience and has been a non-executive of the Group since November 2005.

Mark Light was appointed Chief Executive of the US division in January 2006. He was also appointed an executive director of Signet Group plc at that time. Mr Light joined the Group in 1978 and had been President and Chief Operating Officer of the US business since 2002.

Current trading
In the year to date, US like for like sales have increased at a similar rate to that achieved in the year to 28 January 2006. The gross margin eased reflecting the expansion of Jared, product mix changes and higher commodity costs. In the UK, the like for like sales decline during the nine week period reduced to low single digits. Valentine s Day promotions and a stronger performance by the insurance replacement business resulted in some reduction in gross margin.

James McAdam
Chairman
5 April 2006

Group Chief Executive s review

Group
Group operating profit was £208.2 million (2004/05: £212.5 million). The operating margin was 11.9% (2004/05: 13.2%) and the return on capital employed (ROCE) 22.4% (2004/05: 26.3%). The declines being primarily due to difficult trading conditions in the UK.

The Group s medium term objectives are to maintain leading performance standards on both sides of the Atlantic, to increase new store space in the US, and to maintain a strong balance sheet whilst funding expansion of space in the US and dividend payments.

US division
During the year the division became the largest speciality retail jeweller in the US with an 8.2% market share. Kay substantially strengthened its position as the leading speciality jewellery brand and Jared is now also among the top-five brands in the sector. Operating profit rose by 17.3% to £167.1 million (2004/05: £142.4 million). At constant exchange rates the increase was 13.6% and the five year annual compound growth rate was 11.9%.

The division significantly outperformed the US retail sector with total dollar sales up by 12.1% and like for like sales rising by 7.1%. Jared s like for like sales performance was particularly strong. Kay s like for like sales increased broadly in line with the division as a whole, while those of the regional brands were slightly ahead of last year. Over the last five years the US division s total dollar sales have grown at an annual compound rate of 9.7% and like for like sales by 4.7%. During the same period, the division s share of the speciality jewellery market has risen from 5.8% to 8.2%. Consolidation in the speciality jewellery sector continues, providing significant opportunity to gain further market share.

New store space growth increased to 9% during 2005/06 (2004/05: 8%), compared with 6% in 2001/02. Compound growth in new store space over the last five years has been 7% per annum. The majority of the space increase was attributable to the expansion of Jared. The business also continued to invest in support services including increased capacity in the distribution centre, staff recruitment and training, and an expanded real estate department.

Over the next five years it is planned to invest $1 billion in fixed and working capital to grow new store space. This will increase the number of stores in operation by over 40%. Over the longer term the US division has the potential to double store space within the three existing formats of Kay, Jared and the regional brands.

The division s current strategy is to gain further profitable market share through like for like sales growth by focusing on proven competitive advantages and by increasing new store space by 8% - 10% per annum (a measured increase from the previous target of 7% - 9%). Where appropriate, acceleration of this growth through acquisitions will be considered. Increases in total sales will provide further leverage of the cost base and supply chain efficiencies. The US division is increasingly becoming the speciality jewellery retailer of choice for customers, employees, suppliers and real estate developers.

UK division
Against the background of a difficult retail environment, UK operating profit fell to £49.1 million (2004/05: £76.9 million including a restructuring charge of £1.7 million). The retail sector experienced the sharpest deterioration in trading conditions since 1991. Whilst like for like sales fell by 8.2% the division still achieved a healthy operating margin of 10.5%, ROCE of 26.6% and strong cash flow. The division s strategy is to increase store productivity and operating margin by lifting the average transaction value, predominantly through higher diamond sales.

Notwithstanding the difficult environment, the average transaction value increased by 5% and diamonds now account for 29% (2004/05: 28%) of the division s sales. During the last five years the average transaction values have increased by 34% in H.Samuel and by 37% in Ernest Jones. Diamond participation has risen from 17% to 21% and from 33% to 38% respectively.

The business has continued to focus on improving customer service, with concentration on staff training and motivation. The diamond selection was further improved, with the Leo and Forever Diamond ranges once more outperforming the division. Stores remodelled during the year achieved a superior sales performance sufficient to satisfy the Group s investment criteria. Further trials of television advertising for both brands took place. In implementing these initiatives the division continued to draw on the US business best practice and experience. While the UK business has undergone significant changes in recent years there are still many opportunities for further improvement.

US performance review (73% of Group sales)
Details of the US division s performance are set out below:

	2005/06	2004/05	Change	Change at constant exchange rates	Like for like change
	£m	£m	%	%	%
Sales	**1,282.7**	1,107.8	+15.8	+12.1	+7.1
Operating profit	**167.1**	142.4	+17.3	+13.6	
Operating margin	**13.0%**	12.9%			
ROCE	**22.4%**	22.2%			

The operating margin was a little above that of last year, leverage of like for like sales growth offsetting the impact of additional immature space of 50 basis points as well as the adverse movement in gross margin of 50 basis points. The change in gross margin primarily reflected the growth of Jared and the increase in average transaction values as customers increasingly purchased larger and more expensive diamonds. Both of these factors were drivers of the like for like sales growth and are expected to continue in 2006/07. A range of supply chain initiatives and selective pricing changes largely counterbalanced commodity cost increases. The increase in the price of diamonds has moderated although the cost of fine gold continues to rise. Further pricing and supply chain initiatives are planned to

Group Chief Executive s review (continued)

mitigate the impact of commodity cost increases. The bad debt charge was 3.0% of total sales (2004/05: 2.8%). The proportion of sales through the in-house credit card was 51.1% (2004/05: 50.6%).

In the jewellery sector, superior customer service and product knowledge are critical competitive advantages and during 2005/06 a system to measure customer satisfaction was introduced to help identify areas for improvement on a store-by-store basis. The proportion of qualified diamontologists, including those in training, increased to over 70% of full time sales staff. Recruitment practices were further improved and the programme to enhance jewellery repair procedures continued. A virtual diamond vault, offering consumers access via an in-store computer to a supplier s inventory of loose diamonds, was rolled out to all Jared stores and selected mall stores.

Average unit selling prices in both mall stores and Jared increased by some 8% reflecting further positive response by the consumer to new, higher value, merchandising initiatives, as well as selective changes in retail prices due to increased commodity costs. The upper end of the diamond selection was further enhanced and the Leo Diamond range was again expanded. In Jared the luxury watch ranges continued to be extended. During the year an initiative to develop the capability to source rough diamonds was commenced with the objective of securing additional reliable and consistent supplies of diamonds.

The annual gross marketing spend amounted to 6.7% of sales (2004/05: 6.6%) and dollar marketing expenditure increased by 12.7% reflecting the growth in sales. Kay s consistent use of its highly effective Every kiss begins with Kay advertising campaign enabled it to gain further consumer awareness thereby benefiting its sales performance. It is intended to launch a new Kay website with an e-commerce capability during the second half of 2006. Regional brands continued to use radio advertising although television advertising was tested in one market over Christmas 2005. The test will be expanded to a further two markets in 2006/07. Local television advertising supported all Jared stores for the first time during the holiday period and it is now expected that Jared will have sufficient scale to move to national television advertising in the fourth quarter of 2007/08.

A project to increase the capacity of the distribution centre commenced in 2005/06 and is on schedule to be completed in 2006/07. As part of this project a new central repair facility was opened thereby increasing productivity.

In 2005/06 Kay increased sales by 9.9% to $1,290.1 million (2004/05: $1,174.4 million) and at the year end there were 781 Kay stores. It is planned to increase Kay s representation in malls by 23-28 net new stores in 2006/07. In selected malls a superstore format, drawing on the experience of Jared and the recently launched metropolitan store concept, will be tested during 2006/07. The trial of Kay in open-air retail centres has proved successful and the rate of openings will be increased to 20-25 in 2006/07 (2005/06: 11). Three stores in metropolitan locations started trading in 2005/06 and two

more sites are expected to be added in 2006/07. An opportunity to open Kay stores in outlet centres has also been identified and it is intended to test about five stores in this format in 2006/07. In total a net 50-60 additional Kay stores are planned for 2006/07 (2005/06: 39) and in the longer term there is the potential for over 1,450 stores.

330 mall stores traded under strong regional brand names at 28 January 2006 with sales of $484.5 million (2004/05: $471.1 million). The regionally branded stores 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. It is planned that 10-15 net new stores will be opened in 2006/07 (2005/06: nine) and there is potential for some 700 regional stores under a single national brand.

Jared sales were $534.2 million (2004/05: $415.0 million) and the portfolio of 110 stores is equivalent in space terms to about 450 mall stores. The Jared concept is the primary vehicle for US space growth and in 2005/06 the number of store openings increased to 18 (2004/05: 14). One store in New Orleans was closed due to hurricane and flood damage. The chain is immature with only 40% of stores having traded for five full years. Nonetheless Jared s average store contribution rate is nearing that of the division as a whole. The 43 mature Jareds achieved, on average, sales of some $5.6 million in their fifth year of trading, above their target level. During 2006/07 it is intended to increase the number of Jared openings to 18-23 and opportunities for over 250 stores have been identified.

The table below sets out the store numbers and net new openings and the potential number of stores by chain:

Store numbers	29 January 2005	**Net openings 2005/06**	28 January 2006	Planned net openings 2006/07	Potential

Kay:					
Mall	721	**25**	746	23-28	850+
Off-mall	20	**11**	31	20-25	c.500
Metropolitan	nil	**3**	3	2	c.50
Outlet	1	**nil**	1	5	50-100
	742	**39**	781	50-60	1,450+
Regionals	321	**9**	330	10-15	c.700
Jared	93	**17**	110	18-23	250+
Total	1,156	**65**	1,221	80-90	2,400+

In 2005/06 fixed capital investment was $88.4 million (2004/05: $77.6 million) and this is planned to rise to over $100 million in 2006/07. Some $45 million of the fixed capital investment related to new store space in 2005/06, with an increase to about $55 million expected in 2006/07. The investment in working capital, that is inventory and receivables, associated with space growth amounted to some $96 million in 2005/06[and is expected to increase to over $115 million in 2006/07.

Recent investment in the store portfolio, both fixed and working capital, is set out below:

	2005/06	2004/05
New stores:		
Mall stores	**49**	44
Off-mall stores(1)	**14**	10
Jared stores	**18**	14
Fixed capital investment	**$45m**	$27m
Working capital investment	**$96m**	$76m
New store investment	**$141m**	$103m
Store refurbishments and relocations	**57**	76
Other store fixed capital investment	**$28m**	$29m
Total store investment	**$169m**	$132m

(1) Includes three metropolitan stores

UK performance review (27% of Group sales)

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

	2005/06	2004/05	Change	Like for like change
	£m	£m	%	%
Sales: H.Samuel	**256.2**	281.1	(8.8)	(8.7)
Ernest Jones	**208.5**	221.1	(5.7)	(7.5)
Other	**4.9**	5.5	(10.9)	
Total	**469.6**	507.7	(7.5)	(8.2)
Operating profit	**49.1**	76.9(1)	(36.2)	
Operating margin	**10.5**%	15.1%(1)		
ROCE	**26.6**%	44.5%(1)		

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

The UK division s operating margin was 10.5% (2004/05: 15.1%) reflecting the poor trading conditions and the resulting negative operational leverage. Pricing discipline was maintained and the gross margin increased by 60 basis points in 2005/06 but is expected to show a slight decline in 2006/07.

Diamond jewellery assortments were further enhanced during the year and participation continued to rise. The Leo Diamond range was further expanded in Ernest Jones and the Forever Diamond selection was increased in H.Samuel. White metal jewellery again proved popular. The average selling price in H.Samuel was £38 (2004/05: £37) and in Ernest Jones £148 (2004/05: £141).

Both customer service and product knowledge remain priorities. A carefully structured weekly training programme continues to be followed, with an emphasis on measurable outcomes. The sales commission scheme, which drew on the Group s US experience, was successfully tested in 2004/05 and rolled out during 2005/06.

The television advertising trial continued at a similar level of coverage to 2004/05. Marketing expenditure represented 3.2% of sales in 2005/06 (2004/05: 3.0%). In August 2005 an e-commerce capability was launched on the H.Samuel website as a complement to store-based customer service. It is anticipated that the Ernest Jones website will commence e-commerce in 2006/07.

During the year 78 stores were refurbished or relocated. At the year end 228 stores, mostly H.Samuel, traded in the modernised format, accounting for over 40% of the UK division s sales. Five Ernest Jones and three H.Samuel stores were opened. 15 H.Samuel and two Ernest Jones stores were closed. At the year end there were 593 stores (386 H.Samuel and 207 Ernest Jones). A lower level of store refit is planned for 2006/07 in line with the normal refit cycle, with store capital expenditure expected to be some £12 million (2005/06: £22 million).

Recent investment in the store portfolio is set out below:

Number of stores	**2005/06**	2004/05
Store refurbishments and relocations	**78**	81
New H.Samuel stores	**3**	2
New Ernest Jones stores	**5**	7
Store fixed capital investment	**£22m**	£23m

Terry Burman
Group Chief Executive
5 April 2006

Financial summary

	2005/06 £m	2005/06(1) $m	2004/05 £m
Sales	**1,752.3**	**3,101.6**	1,615.5
Operating profit	**208.2**	**368.5**	212.5
Financing costs	**(7.8)**	**(13.8)**	(8.6)
Profit before tax	**200.4**	**354.7**	203.9
Taxation	**(69.6)**	**(123.2)**	(69.1)
Profit for the period	**130.8**	**231.5**	134.8
Earnings per share(2)	**7.5p**	**$0.13**	7.8p
Dividend per share (£)	**3.300p**		3.000p
Dividend per share ($)	**$0.0594**		$0.0558
Capital expenditure	**75.9**	**134.3**	70.5
Investment in fixed and working capital	**136.7**	**242.0**	152.1
Depreciation and amortisation	**46.2**	**81.8**	41.7
Net debt	**98.6**	**174.5**	83.5
Shareholders funds	**878.9**	**1,555.7**	771.7
Shares in issue (million)	**1,738.8**		1,735.6
Gearing(2)	**11.2%**		