

SIGNET JEWELERS LTD  
Form 10-K  
March 30, 2011  
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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended January 29, 2011

Commission file number 1-32349

# SIGNET JEWELERS LIMITED

(Exact name of Registrant as specified in its charter)

**Bermuda**  
(State or other jurisdiction of incorporation)

**Clarendon House**  
**2 Church Street**  
**Hamilton HM11**

**Not Applicable**  
(I.R.S. Employer Identification No.)

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Bermuda

(441) 296 5872

(Address and telephone number including area code 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
Common Shares of \$0.18 each	The New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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. Yes  No

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 whether the Registrant has submitted electronically and posted on its corporate web site, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of regulation S-K is not contained herein, and will not be contained to the best of Registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of voting common shares held by non-affiliates of the Registrant (based upon the closing sales price quoted on the New York Stock Exchange) as of July 31, 2010 was \$2,547,892,005.

Number of common shares outstanding on March 18, 2011: 86,412,748

**DOCUMENTS INCORPORATED BY REFERENCE**

The Registrant will incorporate by reference information required in response to Part III, Items 10-14, in its definitive proxy statement for its annual meeting of shareholders, to be filed with the Securities and Exchange Commission within 120 days of January 29, 2011.



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**REFERENCES**

Unless the context otherwise requires, references to Signet, refer to Signet Jewelers Limited (and before September 11, 2008 to Signet Group plc) and its consolidated subsidiaries. References to the Company are to Signet Jewelers Limited. References to Predecessor Company are to Signet Group plc prior to the reorganization that was effected on September 11, 2008, and financial and other results and statistics for Fiscal 2008 and prior periods relate to Signet prior to such reorganization.

**PRESENTATION OF FINANCIAL INFORMATION**

All references to dollars, US dollars, \$, cents and c are to the lawful currency of the United States of America. Signet prepares its financial statements in US dollars. All references to pounds, pounds sterling, sterling, £, pence, and p are to the lawful currency of the United Kingdom.

Percentages in tables have been rounded and accordingly may not add up to 100%. Certain financial data may have been rounded. As a result of such rounding, the totals of data presented in this document may vary slightly from the actual arithmetical totals of such data.

Throughout this Annual Report on Form 10-K, financial data has been prepared in accordance with accounting principles generally accepted in the United States (GAAP). However, Signet gives certain additional non-GAAP measures in order to provide increased insight into the underlying or relative performance of the business. An explanation of each non-GAAP measure used can be found in Item 6.

**Fiscal Year**

Signet's fiscal year ends on the Saturday nearest to January 31. As used herein, Fiscal 2013, Fiscal 2012, Fiscal 2011, Fiscal 2010 and Fiscal 2009 refer to the 53 week period ending February 2, 2013, and the 52 week periods ending January 28, 2012, January 29, 2011, January 30, 2010 and January 31, 2009 respectively. As used herein, Fiscal 2007 refers to the 53 week period ending February 3, 2007, Fiscal 2008, Fiscal 2006 and Fiscal 2005 refer to the 52 week periods ending February 2, 2008, January 28, 2006 and January 29, 2005 respectively.

**FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K contains statements which are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, based upon management's beliefs and expectations as well as on assumptions made by and data currently available to management, appear in a number of places throughout this Annual Report on Form 10-K and include statements regarding, among other things, Signet's results of operation, financial condition, liquidity, prospects, growth, strategies and the industry in which Signet operates. The use of the words expects, intends, anticipates, estimates, predicts, believes, should, potential, may, forecast or target, and other similar expressions are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to a number of risks and uncertainties, including but not limited to general economic conditions, the merchandising, pricing and inventory policies followed by Signet, the reputation of Signet and its brands, the level of competition in the jewelry sector, the cost and availability of diamonds, gold and other precious metals, regulations relating to consumer credit, seasonality of Signet's business, financial market risks, deterioration in consumers' financial condition, exchange rate fluctuations, changes in consumer attitudes regarding jewelry, management of social, ethical and environmental risks, inadequacy in and disruptions to internal controls and systems, changes in assumptions used in making accounting estimates relating to items such as extended service plans and pensions, and risks relating to Signet being a Bermuda corporation.

For a discussion of these risks and other risks and uncertainties which could cause actual results to differ materially from those expressed in any forward looking statement, see Item 1A and elsewhere in this Annual Report on Form 10-K. Signet undertakes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances, except as required by law.

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**PART I**

**ITEM 1. BUSINESS  
OVERVIEW**

Signet is the world's largest specialty retail jeweler by sales, with stores in the US, UK, Republic of Ireland and Channel Islands. Signet is incorporated in Bermuda and its address and telephone number are shown on the cover of this document. Its corporate website is [www.signetjewelers.com](http://www.signetjewelers.com), from where documents that the Company is obliged to file or furnish with the US Securities and Exchange Commission (SEC) may be viewed or downloaded free of charge.

On September 11, 2008, Signet Group plc became a wholly-owned subsidiary of Signet Jewelers Limited, a new company incorporated in Bermuda under the Companies Act 1981 of Bermuda, following the completion of a scheme of arrangement approved by the High Court of Justice in England and Wales under the UK Companies Act 2006. Shareholders of Signet Group plc became shareholders of Signet Jewelers Limited, owning 100% of that company. Signet Jewelers Limited is governed by the laws of Bermuda.

Effective January 31, 2010, Signet became a foreign issuer subject to the rules and regulations of the US Securities Exchange Act of 1934 (Exchange Act) applicable to domestic US issuers. Prior to this date, Signet was a foreign private issuer and filed with the SEC its annual report on Form 20-F.

Signet's US division operated 1,317 stores in all 50 states at January 29, 2011. Its stores trade nationally in malls and off-mall locations as Kay Jewelers (Kay), and regionally under a number of well-established mall-based brands. Destination superstores trade nationwide as Jared The Galleria Of Jewelry (Jared). Based on publicly available data, management believes Signet's US division was the largest specialty jeweler in the US in calendar 2010 with sales approximately twice those of the next biggest such retailer. See page 6 for a detailed description of Signet's US division and the US jewelry market.

The UK division's stores trade as H.Samuel, Ernest Jones, and Leslie Davis, and are situated in prime High Street locations (main shopping thoroughfares with high pedestrian traffic) or major shopping malls. The UK division operated 540 stores at January 29, 2011, including 14 stores in the Republic of Ireland and three in the Channel Islands. Based on publicly filed accounts, management believes Signet's UK division was the largest specialty retailer of fine jewelry in the UK with sales in calendar 2009 almost twice those of the next biggest such retailer. See page 19 for a detailed description of Signet's UK division and the UK jewelry market.

**Operating principles**

Management aims to build long term value by focusing on outstanding customer service and providing a superior merchandise selection in high quality real estate locations. An above-industry-average marketing expenditure to sales ratio and effective advertising is designed to assist in attracting consumers into Signet's stores. The operating principles that help management achieve these goals are:

excellence in execution;

test before investing;

continuous improvement; and

disciplined investment.

**Operational execution**

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Management recognizes that while the level of expenditure on jewelry is discretionary and consumers may trade down in a more challenging economic environment, the expression of romance and appreciation, for example

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through bridal jewelry and gift giving, remain very important human needs, as is self reward. Therefore, helping to satisfy those needs is central to driving sales. As a result, the training of sales associates to better understand the shopper's requirements, communicate the value of the merchandise selected and close the sale, remains a high priority. Management also aims to increase the attraction of Signet's store brands to consumers through the use of branded differentiated and exclusive merchandise, while also offering a compelling value proposition in more basic ranges, by utilizing its supply chain and merchandising expertise, scale and balance sheet strength. In addition, management intends to leverage national television advertising and customer relationship marketing, which it believes are the most effective and cost efficient forms of marketing available, to grow its leading share of relevant marketing messages (share of voice).

## **STRATEGY & FINANCIAL OBJECTIVES**

Fiscal 2011 was an outstanding year for Signet. In Fiscal 2012, profit growth and generation of strong cash flow remain priorities. Therefore the strategy in Fiscal 2012 is broadly similar to that of Fiscal 2011. Both the US and the UK divisions are specialty jewelry industry leaders and continue to endeavor to meet customer expectations by further enhancing our competitive advantages. This is expected to increase the performance gap between Signet and others in the sector in the basic retail disciplines of store operations, supply chain management, merchandising, marketing and quality retail estate.

Signet's strategy in Fiscal 2012 is to:

further enhance Signet's position as the world's largest specialty retail jeweler through superior execution;

improve store productivity;

increase investment to strengthen the competitive position of the business; and

maintain a strong balance sheet and financial flexibility.

Accordingly, we plan to invest in our sales associates to drive improvements in customer service; continue to develop and expand distribution of branded differentiated and exclusive merchandise; increase advertising expenditure; invest in information systems, including internet technology that will assist the business to execute more efficiently and effectively; seek ways to improve the supply chain; and increase the number of store refurbishments and openings. The goal is to deliver a superior customer experience by being best in class in all areas of the business, as is appropriate for the industry leader.

In setting the financial objectives for Fiscal 2012, consideration was given to the current operating environment which remains challenging with the developments in the US and UK economies becoming increasingly divergent. There is stabilization in the US economy and growth in the US jewelry market. The UK economy is being impacted by pressure on discretionary spending due to the government's austerity program, which includes an increase in the value added tax rate implemented on January 4, 2011, and higher consumer inflation at a time of limited growth in personal disposable income.

In Fiscal 2012, management's financial objectives for the business are the following:

gain profitable market share;

improve gross margin ratio;

maintain selling, general and administrative expenses to sales ratio broadly similar to the level of Fiscal 2011, flexing primarily with expenses which vary with sales;



capital expenditure of \$110 million to \$130 million; and

positive free cash flow of between \$150 million and \$200 million; non-GAAP measure, see Item 6.

Management anticipates that the gross margin ratio will benefit from improved store productivity, which is expected to offset the impact of changes in the costs of commodities, in particular the cost of diamonds and gold, and provide leverage of occupancy costs and net bad debt expense.

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Investment will be directed, where prudent, to both inventory and capital projects, which are intended to build competitive advantage and support sales growth. It is planned to carry out 105 major store refurbishments and relocations (Fiscal 2011: 64 stores), and increase the number of store openings in the US to 25 (Fiscal 2011: 6), see Table 1 below. The UK division plans to open two stores and close 22 stores in Fiscal 2012 (Fiscal 2011: opened 0 and closed 12). It is therefore expected that net square footage in the US division will be unchanged and that in the UK division it will decrease by approximately 3%.

**Table 1**

Change in US Stores	Kay Mall <sup>(1)</sup>	Kay Off-mall	Regionals	Jared <sup>(2)</sup>	Total	Net space change
January 29, 2011	780	128	229	180	1,317	(2)%
Openings (planned)	8	13		4	25	
Closures (forecast)	(7)	(8)	(21)		(36)	
January 28, 2012	781	133	208	184	1,306	0%

(1) Includes stores in downtown locations.

(2) A Jared store is equivalent in size to about four mall stores.

**MEDIUM TERM OUTLOOK**

The strategy continues to be to build profitable market share for each of Signet's leading store brands by focusing on best in class customer service, great marketing campaigns that build on the store brands' leading share of voice, further development of branded products that differentiate our store brands from our competitors, and, in the US, the provision of proprietary customer finance programs particularly tailored to the needs of a jewelry customer.

Management believes that Signet's operating divisions have the opportunity to take advantage of their enhanced competitive positions to grow sales and increase store productivity. Sales growth allows the business to strengthen relationships with suppliers, facilitates the ability to develop further branded differentiated and exclusive merchandise, improves the efficiency of its supply chain, lifts marketing expenditure and improves operating margins. Management also believes that Signet's strong balance sheet, financial flexibility and superior operating margins allow us to take advantage of investment opportunities, including space growth and strategic developments, that meet management's demanding return criteria.

**BACKGROUND****Business segment**

Signet's results derive from one business segment—the retailing of jewelry, watches and associated services. The business is managed as two geographical operating divisions: the US division (approximately 80% of sales) and the UK division (approximately 20% of sales). Both divisions are managed by executive committees, which report through divisional Chief Executives to Signet's Chief Executive, who reports to the Board of Directors of Signet (the Board). Each divisional executive committee is responsible for operating decisions within parameters established by the Board.

Detailed financial information about both divisions is found in Note 2 of Item 8.

**Trademarks and trade names**

Signet is not dependent on any material patents or licenses in either the US or the UK. However, it does have several well-established trademarks and trade names which are significant in maintaining its reputation and competitive position in the jewelry retailing industry. These registered trademarks and trade names include the



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following in Signet's US operations: Kay Jewelers; Jared The Galleria Of Jewelry; JB Robinson Jewelers; Marks & Morgan Jewelers; Belden Jewelers; Weisfield Jewelers; Osterman Jewelers; Shaw's Jewelers; Rogers Jewelers; LeRoy's Jewelers; Goodman Jewelers; Friedlander's Jewelers; Every kiss begins with Kay; the Leo Diamond; Peerless Diamond; Hearts Desire; Perfect Partner; and Charmed Memories.

Trademarks and trade names include the following in Signet's UK operations: H.Samuel; Ernest Jones; Leslie Davis; Forever Diamonds; and Perfect Partner.

The value of Signet's trademarks and trade names are material, but in accordance with US GAAP, are not reflected on its balance sheet. Their value is maintained and increased by Signet's expenditure on training of its sales associates, marketing and store investment.

**Seasonality**

Signet's sales are seasonal, with the first and second quarters each normally accounting for slightly more than 20% of annual sales, the third quarter a little under 20% and the fourth quarter for about 40% of sales, with December being by far the most important month of the year. Sales made in November and December are known as the Holiday Season. Due to sales leverage, Signet's operating income is even more seasonal, with nearly all of the UK division's, and about 50% of the US division's operating income normally occurring in the fourth quarter. Selling, general and administrative costs are spread more evenly over the fiscal year.

**Employees**

In Fiscal 2011, the average number of full-time equivalent persons employed was 16,229 (US: 12,803; UK: 3,426). Signet usually employs a limited number of temporary employees during its fourth quarter. 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.

	Fiscal 2011	Year ended Fiscal 2010	Fiscal 2009
Average number of employees <sup>(1)</sup>			
US	12,803	12,596	13,218
UK	3,426	3,724	3,697
Total	16,229	16,320	16,915

(1) Full-time equivalent.

**US DIVISION****US market**

Total US jewelry sales, including watches and fashion jewelry, are provisionally estimated by the US Bureau of Economic Analysis (BEA) to have been \$63.2 billion in calendar 2010. The BEA figures are subject to frequent and sometimes large revisions.

The US jewelry market has grown at a compound annual growth rate of 4.5% over the last 25 years. While Signet's major competitors are other specialty jewelers, Signet also faces competition from other retailers that sell jewelry including department stores, discount stores, apparel outlets and internet retailers. Management believes that the jewelry category competes with other sectors, such as electronics, clothing and furniture, as well as travel and restaurants for consumers' discretionary spending, particularly with regard to gift giving, but less so with regard to bridal (engagement, wedding and anniversary) jewelry.

In calendar 2010, the US jewelry market grew by a provisional estimated 7.4% (source: BEA). Based on provisional estimates, the specialty jewelry sector grew by 4.9% to \$29.6 billion in calendar 2010 (source: US Census Bureau). The specialty sector saw a provisional decrease in market share to 46.9% in calendar 2010 from



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48.0% in calendar 2009. Provisional estimates have historically been subject to significant revisions by the BEA and the US Census Bureau. For example, the provisional share of the specialty market in calendar 2009 was 46.2% but was revised up to 48.0% as a result of a change in the US Census Bureau estimate.

The US division's share of the specialty jewelry market increased to 9.3% in calendar 2010 from 9.0% in calendar 2009, based on initial estimates by the US Census Bureau.

## **US Competitive Strengths**

### ***Store operations and human resources***

*The ability of the sales associate to explain the merchandise and its value is essential to most jewelry purchases*

Centrally prepared training schedules and materials are used by all stores and help ensure a consistently high level of customer service.

All 1,317 store managers are required to be certified diamontologists, so as to provide expert knowledge to customers.

The US division employs almost 5,000 certified diamontologists.

Measurable daily store standards provide sales associates with clear performance targets.

Each store receives a monthly customer experience report helping to identify opportunities to improve customer service.

### ***Merchandising***

*Offering the consumer greater value and selection*

Leading supply chain capability among middle market specialty jewelers provides better value to the customer.

Assists in the creation of branded differentiated and exclusive merchandise.

Each store is merchandised on an individual basis so as to provide appropriate selection.

Highly responsive demand-driven merchandise systems enable swifter response to changes in customer behavior.

24 hour re-supply capability means items wanted by customers are more likely to be available in inventory.

In Fiscal 2011, about 22% of merchandise sales were accounted for by branded differentiated and exclusive ranges.

### ***Marketing***

*Leading brands in middle market sector*

Largest marketing budget in specialty jewelry sector, based on publicly available data, allowing more television advertising impressions than competitors, driving brand awareness and purchase intent.

Kay and Jared are able to achieve marketing leverage through national television advertising.

Ability to drive customer awareness of branded merchandise by advertising on national television as part of the Kay and Jared marketing programs.

A proprietary marketing database of nearly 27 million names provides significant opportunities for customer relationship marketing.

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***Real estate***

*Well designed stores in primary locations with high visibility and traffic flows*

Strict real estate criteria consistently applied over time has resulted in a high-quality store base.

Well tested formats and locations reduce the risk of investing in new stores.

The division's high store productivity and financial strength make Signet an attractive tenant for landlords.

***Customer finance***

*Ability to facilitate customer transactions*

About 54% of sales utilize financing provided by Signet.

Dedicated, proprietary credit underwriting standards more accurately reflect Signet's customer than those used by a typical third party scorecard.

Focus on facilitating the sale of jewelry reflected in low average outstanding balance and fast collection rates.

**US Brand Reviews**

Location of Kay, Jared and Regional stores by state January 29, 2011:



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	Fiscal 2011	Fiscal 2010	Fiscal 2009
Total opened during the year	6	16	77
Kay	4	8 <sup>(1)</sup>	57 <sup>(1)</sup>
Jared	2	7	17
Regional brands		1	3
Total closed during the year	(50)	(56)	(75)
Kay	(19)	(11)	(25)
Jared			
Regional brands	(31)	(45) <sup>(1)</sup>	(50) <sup>(1)</sup>
Total open at the end of the year	1,317	1,361	1,401
Kay	908	923	926
Jared	180	178	171
Regional brands	229	260	304
Average sales per store in thousands <sup>(2)</sup>	\$ 2,028	\$ 1,802	\$ 1,776
Kay	\$ 1,713	\$ 1,570	\$ 1,525
Jared	\$ 4,638	\$ 4,029	\$ 4,473
Regional brands	\$ 1,238	\$ 1,155	\$ 1,151
(Decrease)/increase in net new store space	(2)%	(1)%	4%
Percentage increase/(decrease) in same store sales <sup>(3)</sup>	8.9%	0.2%	(9.6)%

(1) Includes two regional stores rebranded as Kay in Fiscal 2010, and 14 in Fiscal 2009.

(2) Based only upon stores operated for the full fiscal year.

(3) Non-GAAP measure, see Item 6.

*Sales data by brand*

Fiscal 2011	Sales	Average unit selling price <sup>(1)</sup>	Change on previous year		
			Sales	Same store sales <sup>(2)</sup>	Average unit selling price <sup>(1)</sup>
Kay	\$ 1,592.9m	\$330	6.4%	7.0%	7.6%
Jared	\$ 848.3m	\$763	18.1%	15.7%	7.0%
Regional brands	\$ 303.0m	\$342	(6.8)%	1.9%	4.0%
<b>US</b>	<b>\$ 2,744.2m</b>	<b>\$389</b>	<b>8.0%</b>	<b>8.9%</b>	<b>8.0%</b>

(1) Excludes the charm bracelet category, a product with an average unit selling price considerably lower, and a multiple purchase and frequency of purchase much greater, than products historically sold by the division.

(2) Non-GAAP measure, see Item 6.

**Kay Jewelers**

Kay accounted for 46% of Signet's sales in Fiscal 2011 (Fiscal 2010: 46%) and operated 908 stores in 50 states at January 29, 2011 (January 30, 2010: 923 stores). Since Fiscal 2005, Kay has been the largest specialty retail jewelry store brand in the US, based on sales, and has subsequently increased its leadership position. Kay targets households with an income of between \$35,000 and \$100,000. Such households

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account for between 40% and 45% of US jewelry expenditure. Details of Kay's performance over the last five years are given below:

	Fiscal 2011	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 2007 <sup>(1)</sup>
Sales (million)	\$1,592.9	\$ 1,497.2	\$ 1,430.7	\$ 1,476.9	\$ 1,472.8
Sales per store (million)	\$ 1.713	\$ 1.570	\$ 1.525	\$ 1.695	\$ 1.798
Stores at year end	908	923	926	894	832

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(1) 53 week year.

Kay stores typically occupy about 1,600 square feet and have around 1,300 square feet of selling space. Historically they were located in enclosed regional malls. Since 2002, new formats have been developed for locations outside of traditional malls, because management believes these alternative locations present an opportunity to reach new customers who are aware of the brand but have no convenient access to a store, or for customers who prefer not to shop in an enclosed mall. Such stores further leverage the strong Kay brand, marketing support and the central overhead.

Recent net openings and current composition are shown below:

	Stores at	Net (closures)/openings				
	January 29, 2011	Fiscal 2011	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 2007 <sup>(3)</sup>
Mall <sup>(1)</sup>	780	(14)	(1) <sup>(2)</sup>	6 <sup>(2)</sup>	17	26
Off-mall and outlet	128	(1)	(2)	26	45	25
<b>Total</b>	<b>908</b>	<b>(15)</b>	<b>(3)</b>	<b>32</b>	<b>62</b>	<b>51</b>

(1) Includes stores in downtown locations.

(2) Includes two regional stores rebranded as Kay in Fiscal 2010, and 14 in Fiscal 2009.

(3) 53 week year.

**Jared The Galleria Of Jewelry**

With 180 stores in 36 states as of January 29, 2011 (January 30, 2010: 178), Jared is the leading off-mall destination specialty retail jewelry store chain in its sector of the market, based on sales. Jared accounted for 25% of Signet's sales in Fiscal 2011 (Fiscal 2010: 22%). The first Jared store was opened in 1993, and, since its roll-out began in 1998, it has grown to become the fourth largest US specialty retail jewelry brand by sales. Each Jared store is equivalent in size to about four of the division's mall stores and its average retail price of diamond merchandise sold, is more than double that of a Kay store. In space terms, Jared is equivalent to over 700 US division mall stores. Its main competitors are independent operators, with the next two largest such chains operating 20 and 11 stores respectively. Based on its competitive advantages, particularly its scale, management believes that Jared has significant opportunity to gain market share within this segment. An important distinction of a destination store is that the potential customer visits the store with a greater intention of making a jewelry purchase, whereas in a mall there is a possibility that the potential shopper is undecided about the product category in which they will ultimately make a purchase. Jared targets households with an income of between \$50,000 and \$150,000. Management believe that such households account for about 45% of US jewelry expenditure.

Details of Jared's performance over the last five years are given below:

	Fiscal 2011	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 2007 <sup>(1)</sup>
Sales (million)	\$848.3	\$ 718.2	\$ 723.7	\$ 752.5	\$ 660.7
Sales per store (million)	\$4.638	\$ 4.029	\$ 4.473	\$ 5.317	\$ 5.649
Stores at year end	180	178	171	154	135

(1) 53 week year.

The key points of differentiation compared to a typical mall store are Jared's superior customer service and enhanced selection of merchandise. As a result of its larger size, more specialist sales associates are available and additional in-depth selling methodologies may be used.

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Every Jared store has an on-site design and repair shop where most repairs are completed within one hour. The center also mounts loose diamonds in settings and provides a custom design service when required. Each store also has at least one diamond viewing room, a children's play area and complimentary refreshments.

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The typical Jared store has about 4,800 square feet of selling space and around 6,000 square feet of total space. Jared locations are normally free-standing sites with high visibility and traffic flow, positioned close to major roads within shopping developments. Jared stores operate in retail centers that normally contain strong retail co-tenants, including big box, destination stores such as Bed, Bath & Beyond, Best Buy, Dick's Sporting Goods and Home Depot, as well as some smaller specialty units.

**US regional brands**

Signet also operates mall stores under a variety of established regional nameplates, which accounted for 9% of Signet's sales in Fiscal 2011 (Fiscal 2010: 10%). At January 29, 2011, 229 regional brand stores operated in 33 states (January 30, 2010: 260 stores in 36 states). The leading brands include JB Robinson Jewelers, Marks & Morgan Jewelers and Belden Jewelers. With one exception, all of these stores are located in malls where there is also a Kay store, and target a similar customer. Details of the regional brands' performance over the last five years are given below:

	<b>Fiscal 2011</b>	<b>Fiscal 2010</b>	<b>Fiscal 2009</b>	<b>Fiscal 2008</b>	<b>Fiscal 2007<sup>(1)</sup></b>
Sales (million)	<b>\$ 303.0</b>	\$ 325.0	\$ 365.4	\$ 456.6	\$ 497.2
Sales per store (million)	<b>\$ 1.238</b>	\$ 1.155	\$ 1.151	\$ 1.333	\$ 1.504
Stores at year end	<b>229</b>	260	304	351	341

(1) 53 week year.

**US online sales**

The Kay and Jared websites are among the most visited in the specialty jewelry sector (source: Compete) and provide potential customers with a source of information about the merchandise available, as well as the ability to buy online. The websites are integrated with the division's stores, so that merchandise ordered online may be picked up at a store or delivered to the customer. A significant number of customers who buy after visiting the websites, pick up the merchandise from a store, where they can physically examine the product. Ecommerce sales rose by over 20% in Fiscal 2011. While such sales are small in the context of the US division's total sales, the websites make an important and growing contribution to the customer experience of Kay and Jared, and of branded differentiated and exclusive merchandise, as well as to the US division's marketing programs.

**US Functional Review****Operating structure**

While the US division operates under 12 different store brands, many functions are integrated to gain economies of scale. For example, store operations have a separate dedicated field management team for the mall store brands, Jared and the in-store repair function, while there is a combined diamond sourcing function.

**US Customer Service and Human Resources**

In specialty jewelry retailing, the level and quality of customer service is a key competitive factor as nearly every in-store transaction involves the sales associate taking a piece of jewelry or a watch out of a display case and presenting it to the potential customer. Therefore the ability to recruit, train and retain suitably qualified sales associates is important in determining sales, profitability and the rate of net store space growth. Consequently the US division has in place comprehensive recruitment, training and incentive programs and uses employee and customer satisfaction surveys to monitor and improve performance. A continual priority of the US division is to improve the quality of customer experiences in its existing stores, while providing sufficient well trained sales associates with suitable experience to assist in any new stores being opened and raising standards of execution in all other areas of the business.

**Table of Contents*****US Merchandising and Purchasing***

Management believes that merchandise selection, availability, and value for money are critical factors to success for a specialty retail jeweler. In the US business, the range of merchandise offered, and the high level of inventory availability, are supported centrally by extensive and continuous research and testing. Best-selling products are identified and replenished rapidly through analysis of sales by stock keeping unit. This approach enables the US division to deliver a focused assortment of merchandise to maximize sales and inventory turn, and minimize the need for discounting. Management believes that the US division is better able than its competitors to offer greater value and consistency of merchandise, due to its supply chain advantages discussed below. In addition, in recent years management has developed and continues to execute a strategy to increase the proportion of branded differentiated and exclusive merchandise sold, in response to consumer demand.

The scale and information systems available to management, together with the lack of seasonality in jewelry fashions and the gradual evolution of jewelry fashion trends, allows for the careful testing of new merchandise in a range of representative stores. This enables management to make more informed investment decisions about which ranges and stock keeping units to select, thereby increasing the US division's ability to satisfy customers' requirements while reducing the likelihood of having to discount poorly selling merchandise. The US division typically tests merchandise in 50 to 250 stores. The test results are used in helping to determine the merchandising and marketing plans for the all important fourth quarter. Only one other mid-market specialty jewelry retailer has sufficient stores to allow the testing of merchandise in up to 250 stores.

*Average merchandise unit selling price (\$), excluding repairs, warranty and other miscellaneous sales*

	<b>Fiscal 2011<sup>(1)</sup></b>	<b>Fiscal 2010<sup>(1)</sup></b>	<b>Fiscal 2009</b>	<b>Fiscal 2008</b>	<b>Fiscal 2007</b>
Kay	<b>330</b>	307	331	327	317
Jared	<b>763</b>	713	769	747	719
Regional brands	<b>342</b>	329	346	343	332

(1) Excludes the charm bracelet category, a product with an average unit selling price considerably lower, and a multiple of purchase and frequency of purchase much greater, than products sold historically by the division.

***Merchandise mix***

*US division merchandise mix (excluding repairs, warranty and other miscellaneous sales)*

	<b>Fiscal 2011</b>	<b>Fiscal 2010</b>	<b>Fiscal 2009</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Diamonds and diamond jewelry	<b>75</b>	76	75
Gold & silver jewelry, including charm bracelets	<b>10</b>	8	7
Other jewelry	<b>8</b>	9	11
Watches	<b>7</b>	7	7
	<b>100</b>	100	100

Expression of romance and appreciation are primary motivators for the purchase of jewelry and watches, with self adornment and self reward also being important. In the US division, the bridal category, which includes engagement, wedding and anniversary purchases, is estimated by management to account for just over 50% of sales, and is predominantly diamond jewelry. The bridal category is believed by management to be more stable than the other reasons for buying jewelry, but is still dependent on the economic environment as customers can trade up or down price points depending on their available budget. Outside of the bridal category, jewelry and watch purchases, including for gift giving, have a much broader merchandise mix. Gift giving is particularly important ahead of the Holiday Season, Valentine's Day and Mother's Day. The merchandise mix in the US division's store formats is similar, although the average unit selling price is higher in Jared than in the other formats.



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A further categorization of merchandise is branded differentiated and exclusive, branded and generally available. Merchandise that is generally available includes items and styles, such as solitaire rings and diamond stud earrings, available from a wide range of jewelry retailers. It also includes styles such as diamond fashion bracelets, rings and necklaces. Within this category, the US division has some exclusive designs of particular styles and also has value items. Branded merchandise includes mostly watches, but also includes ranges such as charm bracelets produced by Pandora. Branded differentiated and exclusive merchandise are items that are branded and exclusive to Signet within its marketplaces, or that are not widely available in other specialty jewelry retailers.

### *Branded differentiated and exclusive ranges*

Management believes that the development of branded differentiated and exclusive merchandise raises the profile of Signet's stores, helps to drive sales and provides its well trained sales associates with a powerful selling proposition. Such brands may also have a slightly higher gross merchandise margin and there is significantly less exposure to competitive discounting. National television advertisements for Kay and Jared include elements that drive brand awareness and purchase intent of these ranges. Management believes that Signet's scale and proven record of success in developing branded differentiated and exclusive merchandise attracts offers of such programs from jewelry manufacturers and designers ahead of other retailers, and enables it to better leverage its supply chain strengths. Management plans to develop additional branded differentiated and exclusive ranges and to further expand and refine those already launched.

Branded differentiated and exclusive merchandise includes:

the Leo Diamond® range, which is sold exclusively by Signet in the US and the UK, is the first diamond to be independently and individually certified to be visibly brighter;

the Peerless Diamond®, the ideal ideal-cut diamond. The precision of the cut brings out the beauty of the diamond.™ The Peerless Diamond® is available only in Jared;

exclusive ranges of jewelry by Le Vian®, famed for its hand crafted, unique designs;

Open Hearts by Jane Seymour®, a range of jewelry designed by the actress and artist Jane Seymour, was successfully tested and launched in Fiscal 2009;

Love's Embrace®, a collection of classic, timeless diamond fashion jewelry that was tested and rolled out during Fiscal 2010;

Charmed Memories®, a create your own charm bracelet collection, tested and rolled out in Fiscal 2011, sold in Kay and the regional brand stores; and

Neil Lane Bridal™, a vintage-inspired bridal collection by the celebrated jewelry designer Neil Lane. The range was tested in Fiscal 2011 and its availability is being expanded during Fiscal 2012.

### *Value items*

By planning ahead and using its expertise in the loose, polished diamond market and the jewelry manufacturing sector, the US division engineers value items that appeal to the more cost conscious consumer. These items utilize Signet's ability to identify anomalies in the supply chain, together with its scale and balance sheet strength, to purchase merchandise on advantageous terms. The savings achieved, together with a lower gross merchandise margin, result in such items offering great value to the consumer. These items are prominently displayed in printed marketing materials.





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### *Direct sourcing of polished diamonds*

Management believes that the US division has a competitive cost and quality advantage because 45% (Fiscal 2010: 42%) of diamond merchandise sold is sourced through contract manufacturing. This involves Signet purchasing loose polished diamonds on the world markets and outsourcing the casting, assembly and finishing operations to third parties. By using this approach, the cost of merchandise is reduced, enabling the US division to provide better value to the consumer, which helps to increase market share and achieve higher gross merchandise margins. Contract manufacturing is generally utilized on basic items with proven, non-volatile, historical sales patterns that represent a lower risk of over- or under-purchasing the quantity required.

The contract manufacturing strategy also allows Signet's buyers to gain a detailed understanding of the manufacturing cost structures and improves the prospects of negotiating better prices for the supply of finished products.

### *Sourcing of finished merchandise*

Merchandise is purchased as a finished product where the item is complex, the merchandise is considered likely to have a less predictable sales pattern or where cost can be reduced. In addition, a significant proportion of branded differentiated and exclusive merchandise is purchased in this way. This method of buying inventory provides the opportunity to reserve inventory held by vendors and to make returns or exchanges with the supplier, thereby reducing the risk of over- or under-purchasing.

Management believes that the division's scale and strong balance sheet enables it to purchase merchandise at a lower price, and on better terms, than most of its competitors.

### *Merchandise held on consignment*

Merchandise held on consignment is used to enhance product selection and test new designs. This minimizes exposure to changes in fashion trends and obsolescence, and provides the flexibility to return non-performing merchandise. At January 29, 2011, the US division held \$138.0 million (January 30, 2010: \$134.6 million) of merchandise on consignment (see Note 11, Item 8).

### *Virtual inventory*

Signet's supplier relationships allow it to display suppliers' inventories on the Jared and Kay websites for sale to consumers without holding the items in its inventory until the products are ordered by customers, which is referred to as virtual inventory. Virtual inventory is also used for in-store selling systems that are internet-based such as the Jared diamond selling system and the Le Vian® selling system. Virtual inventory is particularly used in expanding the choice of polished loose diamonds available to Jared customers both online and in-store. The Kay website is used to offer customers a wider merchandise selection than a particular store holds as inventory. Virtual inventory reduces the division's investment in inventory while increasing the selection available to the customer.

### *Suppliers*

In Fiscal 2011, the five largest suppliers collectively accounted for approximately 24% (Fiscal 2010: 25%) of the US division's total purchases, with the largest supplier accounting for approximately 7% (Fiscal 2010: 7%). The US division's supply chain is integrated on a worldwide basis, with diamond cutting and jewelry manufacturing being predominantly carried out in Asia.

The division benefits from close commercial relationships with a number of suppliers and damage to, or loss of, any of these relationships could have a detrimental effect on results. Although management believes that alternative sources of supply are available, the abrupt loss or disruption of any significant supplier during the

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three month period (August to October) leading up to the Holiday Season could result in a materially adverse effect on performance. Therefore a regular dialogue is maintained with suppliers, particularly in the present economic climate.

Luxury and prestige watch manufacturers and distributors normally grant agencies to sell their timepieces on a store by store basis. In the US, Signet sells its luxury watch brands primarily through Jared, where management believes that they help attract customers to Jared and build sales in all categories.

### *Raw materials and the supply chain*

The jewelry industry generally is affected by fluctuations in the price and supply of diamonds, gold and, to a much lesser extent, other precious and semi-precious metals and stones.

The ability of Signet to increase retail prices to reflect higher commodity costs varies, and an inability to increase retail prices could result in lower profitability. Historically, jewelry retailers have, over time, been able to increase prices to reflect changes in commodity costs. However, particularly sharp increases and volatility in commodity costs usually result in a time lag before increased commodity costs are fully reflected in retail prices due to the slow inventory turn, hedging activities and the use of average cost accounting in the calculation of costs of goods sold by some retailers. Diamonds account for about 55%, and gold about 20%, of the US division's cost of merchandise sold respectively.

Signet undertakes hedging for a portion of its requirement for gold through the use of options, forward contracts and commodity purchasing. It is not possible to hedge against fluctuations in the cost of diamonds. The cost of raw materials is only part of the costs involved in determining the retail selling price of jewelry, with labor costs also being a significant factor. Management continues to seek ways to reduce the cost of goods sold by improving the efficiency of its supply chain.

The largest product category sold by Signet is diamonds and diamond jewelry. The supply and price of diamonds in the principal world markets are significantly influenced by a single entity, De Beers, through its subsidiary, the Diamond Trading Company, although its market share has been decreasing. Significant changes in the diamond supply chain in recent years have also resulted from changes in government policy in a number of African diamond producing countries. A major new source of diamonds has been discovered in recent years in Marange, Zimbabwe. The quantity and quality of these diamonds, and their status under the Kimberley Process, is uncertain. When these issues have been resolved, these diamonds could have an impact on the worldwide balance between the supply of and demand for rough diamonds.

### *Inventory management*

Sophisticated inventory management systems for merchandise testing, assortment planning, allocation and replenishment are in place, thereby reducing inventory risk by enabling management to identify and respond quickly to changes in consumers' buying patterns. The majority of merchandise is common to all US division mall stores, with the remainder allocated to reflect demand in individual stores. Management believes that the merchandising and inventory management systems, as well as improvements in the productivity of the centralized distribution center, have allowed the US division to achieve inventory turns at least comparable to those of competitors, even though it has a less mature store base and undertakes more direct sourcing of merchandise. The vast majority of inventory is held at stores rather than in the central distribution facility.

### *Other sales*

While repair and design services represent less than 10% of sales, they account for approximately 30% of transactions and have been identified by management as an important opportunity to build consumers' trust, particularly in the Jared division. All Jared stores have a highly visible jewelry repair shop, which is open the same hours as the store. The repair shops meet the repair requirements of the store in which they are located and

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also carry out work for the US division's small brand stores. As a result, nearly all customer repairs are carried out in-house, unlike most other chain jewelers which do this through sub-contractors. The repair and design function has its own field management and training structure.

The US division sells, as a separate item, a lifetime repair warranty for jewelry. The warranty covers services such as ring sizing, refinishing and polishing, rhodium plating white gold, earring repair, chain soldering and the resetting of diamonds and gemstones that arise due to the normal usage of the merchandise. Such work is carried out in-house.

***US Marketing and Advertising***

Management believes customers' confidence in the retailer, store brand name recognition and advertising of branded differentiated and exclusive ranges, are important factors in determining buying decisions in the specialty jewelry sector where the majority of merchandise is unbranded. Therefore, the US division continues to strengthen and promote its reputation by aiming to deliver superior customer service and build brand name recognition. The marketing channels used include television, radio, print, catalog, direct mail, telephone marketing, point of sale signage, in-store displays and online methods. Marketing activities, including the use of new media channels, are carefully tested and their success monitored by methods such as market research and sales productivity.

While marketing activities are undertaken throughout the year, the level of activity is concentrated at periods when customers are expected to be most receptive to marketing messages, which is before Christmas Day, Valentine's Day and Mother's Day. A significant majority of the expenditure is spent on national television advertising. National television advertising is used to promote the Kay and Jared store brands. Within these advertisements, Signet also promoted certain merchandise ranges, in particular its branded differentiated and exclusive merchandise and other branded products. The US division continued to have the leading share of voice within the US jewelry sector.

Statistical and technology-based systems are employed to support a customer marketing program that uses a proprietary database of almost 27 million names to strengthen the relationship with customers through mail, telephone and email communications. The program targets current customers with special savings and merchandise offers during key sales periods. In addition, invitations to special in-store promotional events are extended throughout the year.

Historically, generic marketing activity undertaken by De Beers in the US to promote diamonds and diamond jewelry designs was important in influencing the size of the total jewelry market and the popularity of particular styles of jewelry. With the significant reduction by De Beers of its promotional expenditure on diamonds and diamond jewelry, management believes that marketing carried out by specialty jewelry retailers has become more important. Given the size of the marketing budgets for Kay and Jared, management believes this has increased the US division's competitive marketing advantage, in particular the ability to advertise branded differentiated and exclusive merchandise on national television is of growing importance. The US division's five year record of gross advertising spending is given below:

	<b>Fiscal 2011</b>	<b>Fiscal 2010</b>	<b>Fiscal 2009</b>	<b>Fiscal 2008</b>	<b>Fiscal 2007<sup>(1)</sup></b>
Gross advertising spending (million)	<b>\$ 161.5</b>	\$ 153.0	\$ 188.4	\$ 204.0	\$ 184.5
Percent to sales (%)	<b>5.9</b>	6.0	7.5	7.6	7.0

(1) 53 week year.

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***US Real Estate***

Management has strict operating and financial criteria that have to be satisfied before investing in new stores or renewing leases on existing stores. Substantially all the stores operated by Signet in the US are leased. Net store space in Fiscal 2011 decreased by 2% (Fiscal 2010: decrease 1%), see table on page 9 for details. The greatest opportunity for new stores is in locations outside traditional covered regional malls.

Recent investment in the store portfolio is set out below:

	<b>Fiscal 2011 \$million</b>	<b>Fiscal 2010 \$million</b>	<b>Fiscal 2009 \$million</b>
New store fixed capital investment	<b>3.2</b>	10.1	39.0
Other store fixed capital investment	<b>25.6</b>	8.1	17.3
<b>Total store fixed capital investment</b>	<b>28.8</b>	18.2	56.3

***US Customer Finance***

Management believes that in the US jewelry market it is necessary for retailers to offer finance facilities to the consumer, and that the US division derives significant competitive advantage by managing the process in-house:

credit policies are decided by taking into account the overall impact on the business. In particular the US division's objective is to facilitate the sale of jewelry and to collect the outstanding credit balance as quickly as possible, thereby enabling the customer to buy more jewelry using the credit facility. In contrast, management believes that many financial institutions focus on earning interest by maximizing the outstanding credit balance;

authorization and collection models are based on the behavior of the division's consumers;

it allows management to establish and implement customer service standards appropriate for the business;

it provides a database of regular customers and their spending patterns;

investment in systems and management of credit offerings appropriate for the business can be facilitated; and

it maximizes cost effectiveness by utilizing in-house capability.

Furthermore the various customer finance programs help to establish long term relationships with customers and complement the marketing strategy by enabling a greater number of purchases, higher units per transaction and greater value sales.

In addition to interest-bearing accounts, a significant proportion of credit sales are made using interest-free financing for one year or less, subject to certain conditions. In most US states, customers are offered optional third party credit insurance.

The customer financing operation is centralized and fully integrated into the management of the US division and is not a separate operating division nor does it report separate results. All assets and liabilities relating to customer financing are shown on the balance sheet and there are no associated off-balance sheet arrangements. Signet's balance sheet and access to liquidity do not constrain the US division's ability to grant credit, which is a further competitive advantage in the current economic environment.

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The US division's customer finance facility may only be used for purchases from the US division.

Allowances for uncollectible amounts are recorded as a charge to cost of goods sold in the income statement. The allowance is calculated using a proprietary model that analyzes factors such as delinquency rates and recovery

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rates. A 100% allowance is made for any amount that is 90 days aged on a recency basis. The calculation is reviewed by management to assess whether, based on economic events, additional analyses are required to appropriately estimate losses inherent in Signet's portfolio.

Each individual application for credit is evaluated against set criteria. The risks associated with the granting of credit to particular groups of customers with similar characteristics are balanced against the gross merchandise margin earned by the proposed sales to those customers. Management believes that the primary drivers of the net bad debt to total US sales ratio are the accuracy of the consumer credit scores used when granting customer finance, the procedures used to collect the outstanding balances, credit sales as a percentage to total US sales and the rate of change in the level of unemployment in the US economy. Cash flows associated with the granting of credit to customers of the individual store are included in the projections used when considering store investment proposals.

*Customer financing statistics<sup>(1)</sup>*

	Fiscal 2011	Fiscal 2010	Fiscal 2009
Opening receivables (million)	\$ 921.5	\$ 886.1	\$ 900.6
Credit sales (million)	\$1,486.3	\$ 1,368.2	\$ 1,349.2
Closing receivables (million)	\$ 995.5	\$ 921.5	\$ 886.1
Credit sales as % of total US sales <sup>(2)</sup>	54.2%	53.9%	53.5%
Number of active credit accounts at year end	989,697	936,286	893,740
Average outstanding account balance	\$ 1,029	\$ 1,016	\$ 1,028
Average monthly collection rate	12.6%	12.5%	13.1%
Net bad debt to total US sales	4.2%	5.6%	5.0%
Net bad debt to US credit sales	7.7%	10.4%	9.3%
Period end bad debt allowance to period end receivables	6.8%	7.8%	7.8%

(1) See Note 10, Item 8.

(2) Including any deposits taken at the time of sale.

In Fiscal 2011, the net bad debt charge at 4.2% of total US sales (Fiscal 2010: 5.6%) was 1.4% lower than in Fiscal 2010.

*Customer financing administration*

Authorizations and collections are performed centrally at the US divisional head office. The majority of credit applications are processed and approved automatically after being initiated via in-store terminals, through a toll-free phone number or online through the US division's websites. The remaining applications are reviewed by the division's credit authorization personnel. All applications are evaluated by credit scoring and using data obtained through third party credit bureaus. Collection procedures use risk-based calling and first call resolution strategies. Investment is made in information technology, systems support and collection strategies with the objective of making them more effective.

*Truth in Lending Act*

In Fiscal 2011, the US division had to comply with certain new provisions of the Truth in Lending Act, that became effective on February 22, 2010 and others of which came into force on August 22, 2010. Where possible, actions were taken to reduce the impact of these new provisions, which are estimated by management to have directly and adversely impacted operating income by a net \$11.9 million, primarily by limiting the timing and actions that the US division can take when a customer fails to make an agreed repayment. In addition, systems, procedures and credit terms were amended to comply with the changes in legislation.

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### *Third party credit sales*

In addition to in-house credit sales, the US stores accept major bank cards. Sales made exclusively using third party bank cards accounted for approximately 36% of total US sales during Fiscal 2011 (Fiscal 2010: 35%).

### *US Management Information Systems*

The US division's integrated and comprehensive information systems provide detailed, timely information to monitor and evaluate many aspects of the business. They are designed to support financial reporting and management control functions such as merchandise testing, loss prevention and inventory control, as well as reduce the time sales associates spend on administrative tasks and increase time spent on sales activities.

All stores are supported by the internally developed Store Information System, which includes electronic point of sale ( EPOS ) processing, in-house credit authorization and support, a district manager information system and constant broadband connectivity for all retail locations for data communications including email. The EPOS system updates sales, in-house credit and perpetual inventory replenishment systems throughout the day for each store.

Management believes that the US division has the most sophisticated management information systems within the specialty jewelry sector.

### *US Regulation*

The US division is required to comply with numerous US federal and state laws and regulations covering areas such as consumer protection, consumer privacy, consumer credit (including the Truth in Lending Act, see above), consumer credit insurance, truth in advertising and employment legislation. Management monitors changes in these laws to ensure that its practices comply with applicable requirements.

## **UK DIVISION**

The UK division is managed in pounds sterling, as sales and the majority of operating expenses are both incurred in that currency, and its results are then translated into US dollars for external reporting purposes. The following information for the UK division is given in pounds sterling as management believes that this presentation assists in the understanding of the performance of the UK division. Movements in the US dollar to pound sterling exchange rate therefore may have an impact on the results of Signet, particularly in periods of exchange rate volatility. See Item 6 for analysis of results at constant exchange rates; non-GAAP measures.

### **UK market**

The UK market includes specialty retail jewelers and general retailers who sell jewelry, such as catalog showrooms, department stores, supermarkets, mail order catalogs, and internet based retailers. The retail jewelry



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market is very fragmented and competitive, with a substantial number of independent specialty jewelry retailers. Management believes there are approximately 5,200 specialty retail jewelry stores in the UK as of February 2011, an increase of about 130 stores during calendar 2010 (source: Local Data Company).

In the middle market, H.Samuel competes with a large number of independent jewelers, only one of which has more than 100 stores. Some competition, at the lower end of the H.Samuel product range, also comes from a catalog showroom operator, discount jewelry retailers and supermarkets, many of whom have more stores than H.Samuel.

In the upper middle market, Ernest Jones competes with independent specialty retailers and a limited number of other upper middle market chains, the largest three of which had 132, 66 and 35 stores respectively at January 29, 2011.

## **UK Competitive Strengths**

### ***Store operations and human resources***

*The ability of the sales associate to explain the merchandise and its value is essential to most jewelry purchases*

Industry-leading training, granted third party accreditation, helps sales associates provide superior customer service.

92% of store management have passed the Jewellery Education and Training Course 1 accredited by the National Association of Goldsmiths, demonstrating professionalism of sales associates. The UK division employs 40% of the total number of people that have passed this qualification.

Management trained to support sales associate development programs and build general management skills.

Commission based compensation program developed to improve recruitment and retention of high quality sales associates.

### ***Merchandising***

*Consumer offered greater value and selection*

Leading supply chain capability in the UK jewelry sector, which provides better value to the customer.

Responsive demand-driven merchandise systems enable swifter responses to changes in customer behavior.

Scale to offer exclusive products which improves differentiation from competitors.

24 hour re-supply capability means items wanted by customers are more likely to be available in inventory.

### ***Marketing***

*Leading brands in middle market sector*

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Ability to leverage brand perception through scale of marketing spend.

Leading integrated ecommerce and retail store service within the specialty jewelry sector.

Significant proprietary marketing database enables extensive customer relationship marketing.

H.Samuel is the only specialty jeweler using national TV advertising.

### ***Real estate***

*Well designed stores in primary locations with high visibility and traffic flows*

Strict real estate criteria consistently applied over time has resulted in a high-quality store base.

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Revised store format, more suited to selling diamonds, fine jewelry and watches.

Signet's high store productivity and financial strength make it an attractive tenant to landlords.

**UK Brand Reviews***Sales data by brand*

Fiscal 2011	Sales	Average unit selling price <sup>(1)(2)</sup>	Reported sales	Change on previous year		Average selling price <sup>(2)</sup>
				Sales at constant exchange rates <sup>(3)(4)</sup>	Same store sales <sup>(3)</sup>	
H.Samuel	£ 240.9m	£ 57	(5.2)%	(2.8)%	(1.6)%	8.0%
Ernest Jones <sup>(5)</sup>	£ 206.1m	£ 249	(4.2)%	(1.7)%	(1.1)%	9.3%
Other	£ 0.2m	nm	nm	nm	nm	nm
<b>UK</b>	<b>£ 447.2m</b>	<b>£ 89</b>	<b>(5.5)%</b>	<b>(3.0)%</b>	<b>(1.4)%</b>	<b>9.2%</b>

(1) The average unit selling price in Fiscal 2011 for H.Samuel was \$88, for Ernest Jones \$386 and for the UK division was \$138.

(2) Excludes the charm bracelet category.

(3) Non-GAAP measure, see Item 6.

(4) The exchange translation impact on the total sales of H.Samuel was (2.4)%, and for Ernest Jones (2.5)%.

(5) Includes stores selling under the Leslie Davis nameplate.

nm - not meaningful

***H.Samuel***

H.Samuel accounted for 11% of Signet's sales in Fiscal 2011 (Fiscal 2010: 12%), and is the largest specialty retail jewelry store brand in the UK. With nearly 150 years of jewelry heritage, it serves the core middle market and its customers typically have an annual household income of between £15,000 and £40,000. The typical store selling space is 1,100 square feet.

H.Samuel has increasingly focused on larger stores, in regional shopping centers, where it is better able to offer more specialist customer service and a wider range of jewelry. This also reflects changing shopping patterns of customers. The number of H.Samuel stores in smaller markets has therefore declined as leases expire or suitable real estate transactions became available.

	Fiscal 2011	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 2007 <sup>(1)</sup>
Sales (million)	£ 240.9	£ 247.8	£ 250.3	£ 256.7	£ 260.8
Stores at year end	338	347	352	359	375

(1) 53 week year.

*H.Samuel store data*

Fiscal 2011	Fiscal 2010	Fiscal 2009
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Number of stores:			
Opened during the year			5
Closed during the year	(9)	(5)	(12)
Open at year end	338	347	352
Percentage decrease in same store sales <sup>(1)</sup>	(1.6)%	(1.7)%	(2.6)%
Average sales per store in thousands <sup>(2)</sup>	£ 705	£ 712	£ 718

(1) Non-GAAP measure, see Item 6.

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

**Table of Contents***H.Samuel merchandise mix (excluding repairs, warranty and other miscellaneous sales)*

	Fiscal 2011 %	Fiscal 2010 %	Fiscal 2009 %
Diamonds and diamond jewelry	21	22	22
Gold and silver jewelry, including charm bracelets	29	28	27
Other jewelry	13	13	13
Watches	25	25	26
Gift category	12	12	12
	<b>100</b>	100	100

**Ernest Jones**

Ernest Jones accounted for 9% of Signet's sales in Fiscal 2011 (Fiscal 2010: 10%), and is the second largest specialty retail jewelry store brand in the UK. It serves the upper middle market and its customers typically have an annual household income of between £30,000 and £50,000. The typical store selling space is 900 square feet.

Where local market size and merchandise considerations allow, a two-site strategy is followed using both the Ernest Jones and the Leslie Davis nameplates. While having a similar customer profile to Ernest Jones, Leslie Davis is differentiated where possible by its product offering. Leslie Davis sales and store data is included within that of Ernest Jones.

The number of Ernest Jones stores has been broadly stable over the last five years. While locations would be considered for new stores, any openings would depend on the availability of both suitable sites and prestige watch agencies, as well as satisfying Signet's required investment returns.

	Fiscal 2011	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 2007 <sup>(1)</sup>
Sales (million)	£ 206.1	£ 209.8	£ 208.3	£ 219.4	£ 217.6
Stores at year end	202	205	206	204	206

(1) 53 week year.

*Ernest Jones store data<sup>(1)</sup>*

	Fiscal 2011	Fiscal 2010	Fiscal 2009
Number of stores:			
Opened during the year		1	5
Closed during the year	(3)	(2)	(3)
Open at year end	202	205	206
Percentage decrease in same store sales <sup>(2)</sup>	(1.1)%	(3.2)%	(4.0)%
Average sales per store in thousands <sup>(3)</sup>	£1,041	£ 1,027	£ 1,047

(1) Including Leslie Davis stores.

(2) Non-GAAP measure, see Item 6.

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



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*Ernest Jones merchandise mix (excluding repairs, warranty and other miscellaneous sales)*

	Fiscal 2011 %	Fiscal 2010 %	Fiscal 2009 %
Diamonds and diamond jewelry	36	39	40
Gold and silver jewelry, including charm bracelets	16	14	13
Other jewelry	10	10	10
Watches	36	35	35
Gift category	2	2	2
	<b>100</b>	100	100

**UK online sales**

H.Samuel's website, www.hsamuel.co.uk, is the most visited UK specialty jewelry website and Ernest Jones' website, www.ernestjones.co.uk, is the second most visited (source: Hitwise). The websites provide potential customers with a source of information on merchandise available, as well as the ability to buy online. The websites are integrated with the division's stores, so that merchandise ordered online may be picked up at a store or delivered to the customer. There is pricing parity across all marketing channels. Ecommerce sales delivered directly to the customer rose by over 15% in Fiscal 2011. While such sales are small in the context of the UK division's total sales, the websites make an important and growing contribution to the customer experience of H.Samuel and Ernest Jones, as well as to the UK division's marketing programs.

**UK Functional Review****Operating Structure**

Signet's UK division operates as two brands with a single support structure and distribution center.

**UK Customer Service and Human Resources**

Management regards customer service as an essential element in the success of its business, and the division's scale enables it to invest in industry-leading training. The Signet Jewellery Academy, a multi-year program and framework for training and developing standards of capability, is operated for all sales associates. It utilizes a training system developed by the division called the Amazing Customer Experience (ACE). An ACE Index customer feedback survey gives a reflection of customers' experiences and forms part of the monthly performance statistics that are monitored on a store by store basis. In Fiscal 2011, the UK division implemented an improved coaching methodology and was recognized as one of the top ten large UK companies to work for by the annual Sunday Times survey.

**UK Merchandising and Purchasing**

Management believes that the UK division's leading position in the UK jewelry sector is an advantage when sourcing merchandise, enabling delivery of better value to the customer. An example of this is its capacity to contract with jewelry manufacturers to assemble products, utilizing directly sourced gold and diamonds. In addition, the UK division has the scale to utilize sophisticated merchandising systems to test, track, forecast and respond to consumer preferences. The vast majority of inventory is held at stores rather than in the central distribution facility. The average unit selling price in H.Samuel is below that of Signet's other store formats primarily due to the greater participation of the gift category in its merchandise mix.

*Average merchandise unit selling price<sup>(1)</sup> (£)*

	Fiscal 2011	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 2007
H.Samuel	57	52	48	44	42

Ernest Jones

**249**

228

203

180

163



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(1) Excluding the charm bracelet category.

*Merchandise mix*

*UK division merchandise mix (excluding repairs, warranty and other miscellaneous sales)*

	<b>Fiscal 2011</b>	<b>Fiscal 2010</b>	<b>Fiscal 2009</b>
	%	%	%
Diamonds and diamond jewelry	<b>28</b>	30	30
Gold and silver jewelry, including charm bracelets	<b>23</b>	22	21
Other jewelry	<b>12</b>	11	11
Watches	<b>30</b>	30	30
Gift category	<b>7</b>	7	8
	<b>100</b>	100	100

The merchandise mix in the UK division is much broader than in the US division, and that of H.Samuel is wider than in Ernest Jones. Bridal jewelry is estimated by management to account for between 20% and 25% of the UK division's sales, with gold wedding bands being an important element. As with other UK specialty retail jewelers, most jewelry sold is 9 carat gold.

*Direct sourcing*

The UK division employs contract manufacturers for approximately 20% (Fiscal 2010: 23%) of the diamond merchandise sold, thereby achieving cost savings. The decline in contract manufacturing reflected the strategy to grow value items, which were directly sourced from manufacturers. Approximately 19% of the UK business's gold jewelry is manufactured on a contract basis through a buying office in Vicenza, Italy.

*Suppliers*

Merchandise is purchased from a range of suppliers and manufacturers and economies of scale and buying power continued to be achieved by combining the purchases of H.Samuel and Ernest Jones. In Fiscal 2011, the five largest of these suppliers (three watch and two jewelry) together accounted for approximately 30% of total UK division purchases (Fiscal 2010: approximately 30%), with the largest accounting for around 7%.

*Foreign exchange and merchandise costs*

Fine gold and loose diamonds account for about 20% and 5% to 10% respectively of the merchandise cost of goods sold. The prices of these are determined by international markets and the pound sterling to US dollar exchange rate. The other major category of goods purchased are watches, where the pound sterling cost is influenced by the Swiss franc exchange rate. In total, between 25% to 30% of goods purchased are made in US dollars. The pound sterling to US dollar exchange rate also has a significant indirect impact on the UK division's cost of goods sold for other merchandise.

Signet undertakes hedging for a portion of its requirement for US dollars and gold through the use of options, forward contracts and commodity purchasing. It is not possible to hedge against fluctuations in the cost of diamonds. The cost of raw materials is part of the costs involved in determining the retail selling price of jewelry, with labor costs also being a significant factor. Management continues to seek ways to reduce the cost of goods sold by improving the efficiency of its supply chain.

*UK Marketing and Advertising*

The UK division has strong, well-established brands and leverages them with advertising (television, print and online), catalogs and the development of customer relationship marketing techniques. Few of its competitors



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have sufficient scale to utilize all these marketing methods efficiently. Marketing campaigns are designed to reinforce and develop further the distinct brand identities and to expand the overall customer base and improve customer loyalty. H.Samuel uses television advertising in the fourth quarter and during Fiscal 2011 expanded customer relationship marketing. For Ernest Jones, expenditure is focused on customer relationship marketing. Catalogs remain an important marketing tool for both H.Samuel and Ernest Jones. The UK division's five year record of gross advertising spending is given below:

	<b>Fiscal 2011</b>	<b>Fiscal 2010</b>	<b>Fiscal 2009</b>	<b>Fiscal 2008</b>	<b>Fiscal 2007<sup>(1)</sup></b>
Gross advertising spending (million)	<b>£10.7</b>	£ 10.2	£ 12.6	£ 14.6	£ 14.6
Percent to sales (%)	<b>2.4</b>	2.2	2.8	3.1	3.1

(1) 53 week year.

**UK Real Estate**

In Fiscal 2011, total store capital expenditure was £8.1 million (Fiscal 2010: £6.7 million), as a result of an increase in the number of store refits and resites carried out.

**UK Customer Finance**

In Fiscal 2011, approximately 5% (Fiscal 2010: 5%) of the division's sales were made through a customer finance program provided through a third party. Signet does not provide this service itself in the UK as the demand for customer finance is of insufficient scale. Sales made using third party bank cards were similar to previous years and accounted for approximately 30% of sales.

**UK Management Information Systems**

EPOS equipment, retail management systems, purchase order management systems and merchandise planning processes are in place to support financial management, inventory planning and control, purchasing, merchandising, replenishment and distribution and can usually ensure replacement within 48 hours of any merchandise sold. The UK division uses third party suppliers to support the operation of its information systems.

A perpetual inventory process allows store managers to check inventory by product category. These systems are designed to assist in the control of shrinkage, fraud prevention, financial analysis of retail operations, merchandising and inventory control.

**UK Regulation**

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

**AVAILABLE INFORMATION**

Signet files annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information with the SEC. Prior to February 1, 2010, Signet filed annual reports on Form 20-F and other reports on Form 6-K. Such information, and amendments to reports previously filed or furnished, is available free of charge from our corporate website, [www.signetjewelers.com](http://www.signetjewelers.com), as soon as reasonably practicable after such materials are filed with or furnished to the SEC.

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**ITEM 1A. RISK FACTORS**

*Spending on goods that are, or are perceived to be luxuries, such as jewelry, is discretionary and is affected by general economic conditions. Therefore adverse changes in the economy may unfavorably impact Signet's sales and earnings*

Jewelry purchases are discretionary and are dependent on consumers' perception of general economic conditions, particularly as jewelry is often perceived to be a luxury purchase. Adverse changes in the economy and periods when discretionary spending by consumers may be under pressure, could unfavorably impact sales and earnings.

The success of Signet'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, consumer confidence, employment, the rate of change in employment, the level of consumers' disposable income and income available for discretionary expenditure, the savings ratio, business conditions, interest rates, consumer debt and asset values, availability of credit and levels of taxation for the economy as a whole and in regional and local markets where it operates.

*About half of US sales are made utilizing customer finance provided by Signet. Therefore any deterioration in the consumers' financial position could adversely impact sales and earnings*

Any significant deterioration in general economic conditions or increase in consumer debt levels may inhibit consumers' use of credit and decrease the consumers' ability to satisfy Signet's requirement to authorize customer finance and could in turn have an adverse effect on the US division's sales. Furthermore, any downturn in general or local economic conditions, in particular an increase in unemployment, in the markets in which the US division operates may adversely affect its collection of outstanding accounts receivable, its net bad debt charge and hence earnings.

*Changes to the regulatory requirements regarding the granting of credit to customers could adversely impact sales and operating income*

About half of US sales utilize in-house customer financing programs and about a further 36% of purchases are made using third party bank cards. The ability to extend credit to customers and the terms on which it is achieved depends on many factors, including compliance with applicable state and federal laws and regulations, any of which may change from time to time, and any change in regulations, or the application of regulations, relating to the provision of credit and associated services could adversely affect sales and income. In addition, other restrictions and regulations arising from applicable law could cause limitations in credit terms currently offered or a reduction in the level of credit granted by the US division, or by third parties and this could adversely impact sales, income or cash flow, as could any reduction in the level of credit granted by the US division, or by third parties, as a result of the restrictions placed on fees and interest charged.

The US Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law in July 2010. Among other things, the US Dodd-Frank Act creates a Bureau of Consumer Financial Protection with broad rule-making and supervisory authority for a wide range of consumer financial services, including Signet's customer finance programs. The Bureau's authority becomes effective in July 2011. Any new regulatory initiatives could impose additional costs on the US division and adversely affect its ability to conduct its business.

*Signet's share price may be volatile*

Signet's share price may fluctuate substantially as a result of variations in the actual or anticipated results and financial conditions of Signet and of other companies in the retail industry. In addition, the stock market has experienced price and volume fluctuations that have affected the market price of many retail and other shares in a manner unrelated, or disproportionate to, the operating performance of these companies.

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***The concentration of a significant proportion of sales and an even larger share of profits in the fourth quarter means results are dependent on the performance during that period***

Signet's business is highly seasonal, with a significant proportion of its sales and operating profit generated during its fourth quarter, which includes the Holiday Season. Management expects to continue to experience a seasonal fluctuation in its sales and earnings. Therefore there is 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 from any extensive disruption, for example due to sudden adverse changes in consumer confidence, inclement weather conditions having an impact on a significant number of stores in the last few days immediately before Christmas Day or disruption to warehousing and store replenishment systems. A significant shortfall in results for the fourth quarter of any fiscal year would therefore be expected to have a material adverse effect on the annual results of operations. Disruption at lesser peaks in sales at Valentine's Day and Mother's Day would impact the results to a lesser extent.

***Signet is dependent on a variety of financing resources to fund its operations and growth which may include equity, cash balances and debt financing***

While Signet has a strong balance sheet with significant cash balances and available lines of credit, it is dependent upon the availability of equity, cash balances and debt financing to fund its operations and growth. If Signet's access to capital were to become significantly constrained, its financing costs would likely increase, its financial condition would be harmed and future results of operations could be adversely affected. The changes in general credit market conditions also affect Signet's ability to arrange, and the cost of arranging, credit facilities.

Management prepares annual budgets, medium term plans and risk models which help to identify the future capital requirements, so that appropriate facilities can be put in place on a timely basis. If these models are inaccurate, adequate facilities may not be available.

Signet's borrowing agreements include various financial covenants and operating restrictions. A material deterioration in its financial performance could result in a covenant being breached. If Signet were to breach, or believed it was going to breach, a financial covenant it would have to renegotiate its terms with current lenders or find alternative sources of finance if current lenders required cancellation of facilities or early repayment.

In addition, Signet's reputation in the financial markets and its corporate governance practices can influence the availability of capital, the cost of capital and its share price.

***Restrictions on Signet's ability to make distributions to shareholders could be imposed under future borrowing agreements and may have an adverse impact on the share price***

During most of calendar 2009 and 2010, Signet was restricted from making distributions to shareholders under the terms of its borrowing agreements. Although these restrictions are no longer in place, future borrowing agreements may contain restrictions on shareholder distributions, which may have an adverse impact on the share price.

***As Signet has material cash balances, it is exposed to counterparty credit risks***

At January 29, 2011, Signet had cash and cash equivalents of \$302.1 million (January 30, 2010: \$316.2 million). These balances are predominantly held in AAA rated liquidity funds and also with various banks.

If a liquidity fund were to default or one of the banks were to become insolvent, Signet may be unable to recover these amounts or obtain access to them in a timely manner.

***Movements in the pound sterling to US dollar exchange rates impact the results and balance sheet of Signet***

Signet publishes its consolidated annual financial statements in US dollars. It held approximately 84% of its total assets in US dollars at January 29, 2011 and generated approximately 80% of its sales and 92% of its operating

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income in US dollars for the fiscal year then ended. Nearly all the remaining assets, sales and operating income are in the UK. Therefore its results and balance sheet are subject to fluctuations in the exchange rate between the pound sterling and the US dollar. Accordingly, any decrease in the weighted average value of the pound sterling against the US dollar would decrease reported sales and operating income.

The average exchange rate is used to prepare the income statement and is calculated from the weekly average exchange rates weighted by sales of the UK division. As a result, Signet's results are particularly impacted by movements in the fourth quarter of its fiscal year, with the exchange rate in the first three weeks of December having the largest impact on the average exchange rate used. A movement in the year to date exchange rate from that in the prior quarter in a particular fiscal year will result in that quarter's results being impacted by adjustments to sales and costs in prior quarters to reflect the changed year to date exchange rate. This can have a particularly noticeable impact on results for the third quarter. In addition, as the UK division's selling, general and administrative expenses are spread more evenly between quarters than its sales, these expenses can be particularly impacted in the fourth quarter.

Where pounds sterling are held or used to fund the cash flow requirements of the business, any decrease in the weighted average value of the pound sterling against the US dollar would reduce the amount of cash and cash equivalents and increase the amount of any pounds sterling borrowings.

In addition, the prices of materials and certain products bought on the international markets by the UK division are denominated in US dollars, and therefore the division has an exposure to exchange rate fluctuations on the cost of goods sold.

***Fluctuations in the availability and pricing of commodities, particularly polished diamonds and gold, which account for the majority of Signet's merchandise costs, could adversely impact its earnings and cash availability***

The jewelry industry generally is affected by fluctuations in the price and supply of diamonds, gold and, to a lesser extent, other precious and semi-precious metals and stones. In particular diamonds account for about 50% of Signet's merchandise costs, and gold about 20%.

Due to the sharp decline in demand for diamonds in the second half of Fiscal 2009 and in the first six months of Fiscal 2010, particularly in the US, which accounts for about 40% of worldwide demand, the supply chain was overstocked with polished diamonds. Combined with the reduced levels of credit availability, the over supply of diamonds resulted in decreases in the price of loose polished diamonds of all sizes and qualities. This was particularly marked in diamonds larger, and of better quality, than the type that Signet typically purchases. In the fourth quarter of Fiscal 2010 and during Fiscal 2011, the price of polished diamonds purchased by Signet increased but remained below the level of Fiscal 2009. The cost of diamonds may increase further during Fiscal 2012.

While jewelry manufacture is the major final demand for gold, management believes that the cost of gold is predominantly driven by investment transactions which have resulted in a significant increase in its cost. Therefore Signet's cost of merchandise and potentially its earnings may be adversely impacted by investment market considerations.

An inability to increase retail prices to reflect higher commodity costs would result in lower profitability. Historically jewelry retailers have been able, over time, to increase prices to reflect changes in commodity costs. However, particularly sharp increases and volatility in commodity costs usually result in a time lag before increased commodity costs are fully reflected in retail prices. There is no certainty that such price increases will be sustainable, so downward pressure on gross margins and earnings may occur.

Diamonds are the largest product category sold by Signet. The supply and price of diamonds in the principal world markets are significantly influenced by a single entity the Diamond Trading Company ( DTC ), a subsidiary of De Beers Consolidated Mines Limited. The DTC's share of the diamond supply chain has decreased over recent years and this may result in more volatility in rough diamond prices.

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It is forecast that over the medium and longer term, the demand for diamonds will probably increase faster than the growth in supply, particularly as a result of growing demand in countries such as China and India. Therefore the cost of diamonds is anticipated to rise over time, although fluctuations in price are likely to occur. In the short term, the mining production and inventory policies followed by major producers of rough diamonds can have a significant impact on diamond prices, as can the inventory and buying patterns of jewelry retailers. A major new source of rough diamonds is being developed in Zimbabwe, and the impact of this, including the availability and price of diamonds, is unknown.

The availability of diamonds is significantly influenced by the political situation in diamond producing countries and the Kimberley Process, an inter-governmental agreement for the international trading of rough diamonds. Until alternative sources of diamonds can be developed, any sustained interruption in the supply of diamonds from significant producing countries, or to the trading in rough and polished diamonds which could occur as a result of disruption to the Kimberley Process, could adversely affect Signet and the retail jewelry market as a whole. The Kimberley Process decision making procedure is dependent on a consensus among member governments and that can result in the protracted resolution of issues, which could impact the supply of diamonds.

The possibility of constraints in the supply of diamonds of a size and quality Signet requires to meet its merchandising requirements may result in changes in Signet's supply chain practices. For example, Signet may choose to hold more inventory, to purchase raw materials at an earlier stage in the supply chain or enter into commercial agreements of a nature that it currently does not use. Such actions could require the investment of cash and the development of additional management skills. Such actions may not result in the expected returns and other projected benefits anticipated by management.

The US Dodd-Frank Act requires the SEC to issue rules, which are still being prepared, for the disclosure and reporting on the use of certain minerals, including gold, which come from the conflict zones of the Democratic Republic of Congo and adjoining countries. The gold supply chain is complex and it is estimated that the rules will only cover 1% of annual worldwide gold production. The rules are likely to add to Signet's costs, but this increase is not expected to be material. It is possible, but uncertain, that these rules could adversely impact Signet in other ways.

***The failure to satisfy the accounting requirements for hedge accounting, or default or insolvency of a counterparty to a hedging contract, could adversely impact results***

Signet hedges a portion of its purchases of gold for both its US and UK divisions and US dollar requirements of its UK division. The failure to satisfy the requirements of the appropriate accounting requirements, or default or insolvency of a counterparty to a contract, could increase the volatility of results and may impact the timing of recognition of gains and losses in the income statement.

***The inability of Signet to obtain merchandise that customers wish to purchase, particularly ahead of and during, the fourth quarter would adversely impact sales***

The abrupt loss or disruption of any significant supplier during the three month period (August to October) leading up to the fourth quarter would result in a material adverse effect on Signet's business.

Also, if management misjudges expected customer demand, or fails to identify such changes and its supply chain does not respond in a timely manner, it could adversely impact Signet's results by causing either a shortage of merchandise or an accumulation of excess inventory.

Signet benefits from close commercial relationships with a number of suppliers. Damage to, or loss of, any of these relationships could have a detrimental effect on results. Management holds regular reviews with major suppliers. Signet's most significant supplier accounts for 6% of merchandise.

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The luxury and prestige watch manufacturers and distributors normally grant agencies to sell their ranges on a store by store basis, and most of the leading brands have been steadily reducing the number of agencies over recent years. The watch brands sold by Ernest Jones, and to a lesser extent Jared, help attract customers and build sales in all categories. Therefore an inability to obtain or retain watch agencies for a location could harm the performance of that particular store. In the case of Ernest Jones, the inability to gain additional prestige watch agencies is an important factor in, and does reduce the likelihood of, opening new stores, which could adversely impact sales growth.

The growth in importance of branded merchandise within the jewelry market may adversely impact Signet's sales and earnings if it is unable to obtain supplies of branded merchandise that the customer wishes to purchase. In addition, if Signet loses the distribution rights to an important branded jewelry range, it could adversely impact sales and earnings.

Signet has had success in recent years in the development of branded merchandise that is exclusive to its stores. If Signet is not able to further develop such branded merchandise, or is unable to successfully develop new such initiatives, it may adversely impact sales and earnings.

### ***An inability to recruit, train and retain suitably qualified sales associates could adversely impact sales and earnings***

In specialty jewelry retailing, the level and quality of customer service is a key competitive factor as nearly every in-store transaction involves the sales associate taking a piece of jewelry or a watch out of a display case and presenting it to the potential customer. Therefore an inability to recruit, train and retain suitably qualified sales associates could adversely impact sales and earnings.

### ***Loss of confidence by consumers in Signet's brand names, poor execution of marketing programs and reduced marketing expenditure could have a detrimental impact on sales***

Primary factors in determining customer buying decisions in the jewelry sector include customer confidence in the retailer and in the brands it sells, together with the level and quality of customer service. The ability to differentiate Signet's stores and merchandise from competitors by its branding, marketing and advertising programs is an important factor in attracting consumers. If these programs are poorly executed or the level of support for them is reduced, or the customer loses confidence in any of Signet's brands for whatever reason, it could harm Signet's ability to attract customers.

The DTC promotes diamonds and diamond jewelry in the US. The level of support provided by the DTC and the success of the promotions influence the size of the total jewelry market in the US. As the DTC's market share has significantly reduced, it is changing its approach from generic marketing support of diamonds to one more closely associated with its efforts to develop its own brands. The impact of the loss of generic marketing support is currently unknown and could unfavorably impact the overall market for diamonds and diamond jewelry and adversely impact Signet's sales and earnings.

### ***Long term changes in consumer attitudes to jewelry could be unfavorable and harm jewelry sales***

Consumer attitudes to diamonds, gold and other precious metals and gemstones also influence the level of Signet's sales. Attitudes could be affected by a variety of issues including concern over the source of raw materials; the impact of mining and refining of minerals on the environment, the local community and the political stability of the producing country; labor conditions in the supply chain; and the availability and consumer attitudes to substitute products such as cubic zirconia, moissanite and of laboratory created diamonds. A negative change in consumer attitudes to jewelry could adversely impact sales.



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### ***The retail jewelry industry is highly fragmented and competitive. Aggressive discounting or going out of business sales by competitors may adversely impact Signet's performance in the short term***

The retail jewelry industry is competitive. If Signet's competitive position deteriorates, operating results or financial condition could be adversely affected.

Aggressive discounting by competitors, particularly those facing financial pressures or holding going out of business sales, may adversely impact Signet's performance in the short term. This is particularly the case for easily comparable pieces of jewelry, of similar quality, sold through stores that are situated near to those that Signet operates.

As a result of the growth of Jared and the development of Kay outside of its enclosed mall base, the US division is increasingly competing with independent specialty jewelry retailers that are able to adjust their competitive stance, for example on pricing, to local market conditions. This can put individual stores at a competitive disadvantage as the US division has a national pricing strategy.

### ***Price increases may have an adverse impact on Signet's performance***

If significant price increases are implemented, by either division, across a wide range of merchandise, the impact on earnings will depend on, among other factors, the pricing by competitors of similar products and the response by the consumer to higher prices. Such price increases may result in lower achieved gross margin dollars and adversely impact earnings.

While Signet's major competitors are other specialty jewelers, Signet also faces competition from other retailers including department stores, discount stores, apparel outlets and internet retailers that sell jewelry. In addition, other retail categories, for example electronics, and other forms of expenditure, such as travel, also compete for consumers' discretionary expenditure. This is particularly so during the Christmas gift giving season. Therefore the price of jewelry relative to other products influences the proportion of consumers' expenditure that is spent on jewelry. If the relative price of jewelry increases, Signet's sales may decline.

### ***The inability to rent stores that satisfy management's operational and financial criteria could harm sales, as could changes in locations where customers shop***

Signet's results are dependent on a number of factors relating to its stores. These include the availability of desirable property, the demographic characteristics of the area around the store, the design and maintenance of the stores, the availability of attractive locations within the shopping center that also meet the operational and financial criteria of management, the terms of leases and its relationship with major landlords. The US division leases 16% of its store locations from Simon Property Group and 13% from General Growth Management. Signet has no other relationship with any lessor relating to 10% or more of its store locations. If Signet is unable to rent stores that satisfy its operational and financial criteria, or if there is a disruption in its relationship with its major landlords, sales could be adversely affected.

Given the length of property leases that Signet enters into, it is dependent upon the continued popularity of particular retail locations. As the US division continues to test and develop new types of store locations there can be no certainty as to their success. The majority of long term space growth opportunities in the US are in new developments and therefore future store space is largely dependent on the investment by real estate developers on new projects. Currently there is very limited new real estate development taking place and so the opportunities to grow store space in the US in the short term is limited.

The UK division has a more diverse range of store locations than in the US, including some exposure to smaller retail centers which do not justify the investment required to refurbish the site to the current store format. Consequently the UK division is gradually closing stores in such locations as leases expire or satisfactory property transactions can be executed; however the ability to secure such property transactions is not certain. As

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the UK division is already represented in nearly all major retail centers, a small annual decrease in store space is expected in the medium term which will adversely impact sales growth.

The rate of new store development is dependent on a number of factors including obtaining suitable real estate, the capital resources of Signet, the availability of appropriate staff and management and the level of the financial return on investment required by management.

***Signet's success is dependent on the strength and effectiveness of its relationships with its various stakeholders whose behavior may be affected by its management of social, ethical and environmental risks***

Social, ethical and environmental matters influence Signet's reputation, demand for merchandise by consumers, the ability to recruit staff, relations with suppliers and standing in the financial markets. Signet's success is dependent on the strength and effectiveness of its relationships with its various stakeholders: customers, shareholders, employees and suppliers. In recent years, stakeholder expectations have increased and Signet's success and reputation will depend on its ability to meet these higher expectations.

***Inadequacies in and disruption to internal controls and systems could result in lower sales and increased costs or adversely impact the reporting and control procedures***

Signet is dependent on the suitability, reliability and durability of its systems and procedures, including its accounting, information technology, data protection, warehousing and distribution systems. If support ceased for a critical externally supplied software package or system, management would have to implement an alternative software package or system or begin supporting the software internally. Disruption to parts of the business could result in lower sales and increased costs.

In Fiscal 2012, management plans to relocate various functions, such as external financial reporting, budgeting, management accounting and treasury functions from London, England to Akron, Ohio. This move could adversely impact Signet's control and accounting functions in the short term.

***An adverse decision in legal proceedings and/or tax matters could reduce earnings***

In March 2008, private plaintiffs filed a class action lawsuit for an unspecified amount against Sterling Jewelers Inc. ( Sterling ), a subsidiary of Signet, in U.S. District Court for the Southern District of New York federal court. In September 2008, the US Equal Opportunities Commission filed a lawsuit against Sterling in U.S. District Court for the Western District of New York. Sterling denies the allegations from both parties and intends to defend them vigorously. If, however, it is unsuccessful in either defense, Sterling could be required to pay substantial damages.

At any point in time, various tax years are subject to, or are in the process of, audit by various taxing authorities. To the extent that management's estimates of settlements change, or the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax in the period in which such determinations are made.

***Failure to comply with labor regulations could harm the business***

Failure by Signet to comply with labor regulations could result in fines and legal actions. In addition, the ability to recruit and retain staff could be harmed.

***Failure to comply with changes in law and regulations could adversely affect the business***

Signet's policies and procedures are designed to comply with all applicable laws and regulations. Changing legal and regulatory requirements have increased the complexity of the regulatory environment in which the business

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operates and the cost of compliance. Failure to comply with the various regulations may result in damage to Signet's reputation, civil and criminal liability, fines and penalties, and further increase the cost of regulatory compliance.

### ***Any difficulty executing an acquisition, a business combination or a major business initiative may result in expected returns and other projected benefits from such an exercise not being realized***

Any difficulty in executing an acquisition, a business combination or a major business initiative may result in expected returns and other projected benefits from such an exercise not being realized. A significant transaction could also disrupt the operation of its current activities. Signet's borrowing agreements place constraints on its ability to make an acquisition or enter into a business combination.

### ***Changes in assumptions used in making accounting estimates or in accounting standards may adversely impact investor perception of the business***

Changes in assumptions used in making accounting estimates relating to items such as extended service plans and pensions, may adversely affect Signet's financial results and balance sheet. Changes in accounting standards, such as those currently proposed relating to leases, could materially impact the presentation of Signet's results and balance sheet. Investors' reaction to any such change in presentation is unknown. Such changes could also impact compliance with borrowing covenants and the way that the business is managed.

### ***Loss of one or more key executive officers or employees could adversely impact performance, as could the appointment of an inappropriate successor or successors***

Signet's future success will depend substantially upon the ability of senior management and other key employees to implement the business strategy. While Signet has entered into employment contracts with such key personnel, the retention of their services cannot be guaranteed and the loss of such services, or the inability to attract and retain talented personnel, could have a material adverse effect on Signet's ability to conduct its business.

During Fiscal 2011, a new Chief Executive Officer and a new Chief Financial Officer were recruited from outside of the business, due to the retirement of their predecessors. The new executives do not have the same level of experience in the jewelry sector as the retiring executives and may have a different management approach. In addition, the new executives may wish, subject to Board approval, to change the strategy of Signet. The appointment of new executives may therefore adversely impact performance.

### ***Investors may face difficulties in enforcing proceedings against Signet Jewelers Limited as it is domiciled in Bermuda***

It is doubtful whether courts in Bermuda would enforce judgments obtained by investors in other jurisdictions, including the US and the UK, against the Company or its directors or officers under the securities laws of those jurisdictions or entertain actions in Bermuda against the Company or its directors or officers under the securities laws of other jurisdictions.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

## **ITEM 2. PROPERTIES**

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 and investment criteria are applied.

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### **US property**

Substantially all of Signet's US stores are leased. In addition to a minimum annual rental, the majority of mall stores are also liable to pay rent based on sales above a specified base level. In Fiscal 2011, most of the division's mall stores only made base rental payments. Under the terms of a typical lease, the US business is required to conform and maintain its usage to agreed standards, including meeting required advertising expenditure 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. Towards the end of a lease, management evaluates whether to renew a lease and refit the store, using the same operational and investment criteria as for a new store. Where management is uncertain whether the location will meet management's required return on investment, but the store is profitable, the leases may be renewed for one to three years during which time the store's performance is further evaluated. There are typically about 200 such mall brand stores at any one time. Jared stores are normally opened on 20 year leases with options to extend the lease, and rents are not sales related. A refurbishment of a Jared store is normally undertaken every ten years. At January 29, 2011, the average unexpired lease term of US leased premises was six years, and just over half of these leases had terms expiring within five years. The cost of refitting a store is similar to the cost of fitting out a new store which is typically between \$350,000 and \$400,000 for a mall location and between \$850,000 and \$1,250,000 for a Jared store. In Fiscal 2009, Fiscal 2010 and Fiscal 2011, the level of new store openings was substantially below that in Fiscal 2006, Fiscal 2007 and Fiscal 2008. Management expects that 25 new stores will be opened during Fiscal 2012. In Fiscal 2011, the level of major store refurbishment was below historic levels but higher than recent years with 21 mall locations being completed (Fiscal 2010: 16). It is anticipated that refurbishment activity will increase again in Fiscal 2012 to 68, including 17 Jared locations. The investment will be financed by cash flow from operating activities.

The US division leases 16% of its store locations from Simon Property Group and 13% from General Growth Management, Inc. The US division has no other relationship with any lessor relating to 10% or more of its store locations. At January 29, 2011, the US division had 2.34 million square feet of selling space.

During the past five fiscal years, the US business generally has been successful in renewing its store leases as they expire and has not experienced difficulty in securing suitable locations for its stores. No store lease is individually material to Signet's US operations.

A 340,000 square foot head office and distribution facility is leased in Akron, Ohio through 2032. An 86,000 square foot office building next door to the head office is also leased through 2032. Space surplus to Signet's requirements in this building is currently sublet or is available to be sublet. A 19,000 square foot repair center was opened in Akron, Ohio during Fiscal 2006 and is owned by a subsidiary of Signet. There are no plans for any major capital expenditure related to the head office and distribution facilities.

### **UK property**

At January 29, 2011, Signet's UK division operated from six freehold premises, five premises where the lease had a remaining term in excess of 25 years and 532 other leasehold premises. The division's stores are generally leased under full repairing and insuring leases (equivalent to triple net leases in the US). Wherever possible Signet is shortening the length of new leases that it enters into, or including break clauses in order to improve the flexibility of its lease commitments. At January 29, 2011, the average unexpired lease term of UK premises with lease terms of less than 25 years was seven years, and a majority of leases had either break clauses or terms expiring within five years. Rents are usually subject to upward review every five years if market conditions so warrant. An increasing proportion of rents also have an element related to the sales of a store, subject to a minimum annual value. For details of assigned leases and sublet premises see page 76.

At the end of the lease period, subject to certain limited exceptions, UK leaseholders generally have statutory rights to enter into a new lease of the premises on negotiated terms. 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

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locations in the same general area. Signet has not experienced difficulty in securing leases for suitable locations for its UK stores. No store lease is individually material to Signet's UK operations.

A typical H.Samuel store historically has had a major refurbishment every seven years and an Ernest Jones store every ten years. Once an H.Samuel store has been converted to the current more customer friendly open format, the cost and frequency of subsequent major refurbishments are lower, but much less costly store redecorations are now required, typically every five years. At January 29, 2011, 75% of H.Samuel stores and 56% of Ernest Jones stores traded in the converted format. It is anticipated that by the end of Fiscal 2014 nearly all the UK stores will trade in the converted format. The investment will be financed by cash from operating activities. The cost of refitting to the customer friendly open format is between £150,000 and £250,000 for both brands. The cost of subsequently refitting H.Samuel and Ernest Jones stores is expected to be lower.

The UK division has no relationship with any lessor relating to 10% or more of its store locations. At January 29, 2011, the UK division has 0.53 million square feet of selling space.

Signet owns a 255,000 square foot warehouse and distribution center in Birmingham, where certain of the UK division's central administration functions are based, as well as ecommerce fulfillment. The remaining activities are situated in a 36,200 square foot office in Borehamwood, Hertfordshire which is held on a 15 year lease entered into in 2005. There are no plans for any major capital expenditure related to offices or the distribution center in the UK.

Certain corporate functions are located in a 7,200 square foot office in central London, on a ten year lease which was entered into in 2005.

**Distribution capacity**

The capacity of the US distribution center was increased in Fiscal 2009. Both divisions have sufficient capacity to meet their current needs.

**ITEM 3. LEGAL PROCEEDINGS**

See discussion of legal proceedings in Note 21 of Item 8.

**ITEM 4. REMOVED AND RESERVED**

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market information**

The principal trading market for the Company's Common Shares is the NYSE (symbol: SIG). The Company also maintains a standard listing of its Common Shares on the London Stock Exchange (symbol: SIG).

The following table sets forth the high and low share price on each stock exchange for the periods indicated.

	New York Stock Exchange Price per share		London Stock Exchange Price per share	
	High	Low	High	Low
	\$		£	
<b>Fiscal 2010</b>				
First quarter	16.50	6.06	11.10	4.12
Second quarter	22.24	16.01	13.53	10.36
Third quarter	28.58	20.34	17.25	11.93
Fourth quarter	28.97	23.72	17.65	14.34
Full year	28.97	6.06	17.65	4.12
<b>Fiscal 2011</b>				
First quarter	34.10	26.59	22.15	16.95
Second quarter	32.79	27.31	23.25	17.96
Third quarter	35.31	26.44	22.13	17.24
Fourth quarter	44.30	35.27	28.20	21.90
Full year	44.30	26.44	28.20	16.95

**Number of holders**

As of March 18, 2011 there were 12,584 shareholders of record. However when including shareholders that hold equity in broker accounts under street names, nominee accounts or employee share purchase plans, management estimates the shareholder base at approximately 29,000.

**Dividend policy**

Signet did not pay any dividends in Fiscal 2011 (Fiscal 2010: \$0). Certain restrictions on making shareholder distributions were contained in Signet's borrowing agreements that were eliminated with the prepayment of the Private Placement Notes in November 2010 and amendments to Signet's Revolving Credit Facility in October 2010. See Management's Discussion and Analysis of Financial Condition and Results of Operation in Item 7 below.

**Performance graph**

*The following Performance Graph and related information shall not be deemed soliciting material or to be filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that Signet specifically incorporates it by reference into such filing.*

Historical share price performance should not be relied upon as an indication of future share price performance.

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The following graph compares the cumulative total return to holders of Signet's Common Shares against the cumulative total return of the Russell 1000 Index and Dow Jones General Retailers Index for the five year period ended January 29, 2011. The comparison of the cumulative total returns for each investment assumes that \$100 was invested in Signet's Common Shares and the respective indices on January 29, 2006 through January 29, 2011 including reinvestment of any dividends, and is adjusted to reflect the 1-for-20 share consolidation and the Scheme previously discussed.

The following graph compares the cumulative total return to holders of Signet's Common Shares against the cumulative total return of the FTSE All Share Index and the FTSE General Retailers Index for the five year period ended January 29, 2011. The comparison of the cumulative total returns for each investment assumes that £100 was invested in Signet's Common Shares and the respective indices for the period January 29, 2006 through January 29, 2011 including reinvestment of any dividends, and is adjusted to reflect the 1-for-20 share consolidation and the Scheme previously discussed.

### **Exchange controls**

The Company is classified by the Bermuda Monetary Authority as a non-resident of Bermuda for exchange control purposes. The transfer of Common Shares between persons regarded as resident outside Bermuda for exchange control purposes may be effected without specific consent under the Exchange Control Act of 1972 and regulations thereunder and the issue of Common Shares to persons regarded as resident outside Bermuda for exchange control purposes may be effected without specific consent under the Exchange Control Act of 1972 and regulations

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thereunder. Issues and transfers of Common Shares involving any person regarded as resident in Bermuda for exchange control purposes may require specific prior approval under the Exchange Control Act of 1972.

The owners of Common Shares who are ordinarily resident outside Bermuda are not subject to any restrictions on their rights to hold or vote their shares. Because the Company has been designated as a non-resident for Bermuda exchange control purposes, there are no restrictions on its ability to transfer funds in and out of Bermuda or to pay dividends to US residents who are holders of Common Shares, other than in respect of local Bermuda currency.

## **Taxation**

The following are brief and general summaries of the United States and United Kingdom taxation treatment of holding and disposing of Common Shares. The summaries are based on existing law, including statutes, regulations, administrative rulings and court decisions, and what is understood to be current Internal Revenue Service ( IRS ) and HM Revenue & Customs ( HMRC ) practice, all as in effect on the date of this document. Future legislative, judicial or administrative changes or interpretations could alter or modify statements and conclusions set forth below, and these changes or interpretations could be retroactive and could affect the tax consequences of holding and disposing of Common Shares. The summaries do not consider the consequences of holding and disposing of Common Shares under tax laws of countries other than the US (or any US laws other than those pertaining to income tax), the UK and Bermuda, nor do the summaries consider any alternative minimum tax, state or local consequences of holding and disposing of Common Shares.

The summaries provide general guidance to US holders (as defined below) who hold Common Shares as capital assets (within the meaning of section 1221 of the US Internal Revenue Code) and to persons resident, ordinarily resident and domiciled for tax purposes in the UK who hold Common Shares as an investment, and not to any holders who are taxable in the UK on a remittance basis or who are subject to special tax rules, such as banks, financial institutions, broker-dealers, persons subject to mark-to-market treatment, UK resident individuals who hold their Common Shares under a personal equity plan, persons that hold their Common Shares as a position in part of a straddle, conversion transaction, constructive sale or other integrated investment, US holders whose functional currency is not the US dollar, persons who received their Common Shares by exercising employee share options or otherwise as compensation, persons who have acquired their Common Shares by virtue of any office or employment, S corporations or other pass-through entities (or investors in S corporations or other passthrough entities), mutual funds, insurance companies, exempt organizations, US holders subject to the alternative minimum tax, certain expatriates or former long term residents of the US, and US holders that directly or by attribution hold 10% or more of the voting power of the Company's shares. This summary does not address US federal estate tax, state or local taxes, or the recently enacted Medicare tax on investment income.

The summaries are not intended to provide specific advice and no action should be taken or omitted to be taken in reliance upon it. If you are in any doubt about your taxation position, or if you are ordinarily resident or domiciled outside the UK or resident or otherwise subject to taxation in a jurisdiction outside the UK or the US, you should consult your own professional advisers immediately.

The Company is incorporated in Bermuda. The directors intend to conduct the Company's affairs such that, based on current law and practice of the relevant tax authorities, the Company will not become resident for tax purposes in any other territory. This guidance is written on the basis that the Company does not become resident in a territory other than Bermuda.

### ***US Taxation***

As used in this discussion, the term US holder means a beneficial owner of Common Shares who is for US federal income tax purposes: (i) an individual US citizen or resident; (ii) a corporation, or entity treated as a corporation, created or organized in or under the laws of the United States; (iii) an estate whose income is subject to US federal income taxation regardless of its source; or (iv) a trust if either: (a) a court within the US is



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able to exercise primary supervision over the administration of such trust and one or more US persons have the authority to control all substantial decisions of such trust; or (b) the trust has a valid election in effect to be treated as a US resident for US federal income tax purposes.

If a partnership (or other entity classified as a partnership for US federal tax income purposes) holds Common Shares, the US federal income tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Partnerships, and partners in partnerships, holding Common Shares are encouraged to consult their tax advisers.

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INTERNAL REVENUE SERVICE CIRCULAR 230 NOTICE: TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS DOCUMENT IS NOT INTENDED TO BE USED, AND CANNOT BE USED, BY HOLDERS FOR THE PURPOSES OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

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*Dividends and other distributions upon Common Shares*

Distributions made with respect to Common Shares will generally be includable in the income of a US holder as ordinary dividend income, to the extent paid out of current or accumulated earnings and profits of the Company as determined in accordance with US federal income tax principles. The amount of such dividends will generally be treated partly as US-source and partly as foreign-source dividend income in proportion to the earnings from which they are considered paid for as long as 50% or more of the Company's shares are directly or indirectly owned by US persons. Dividend income received from the Company will not be eligible for the dividends received deduction generally allowed to US corporations under the US Code. Subject to applicable limitations, including a requirement that the Common Shares be listed for trading on the NYSE, the NASDAQ Stock Market, or another qualifying US exchange, dividends with respect to Common Shares so listed that are paid to non-corporate US holders in taxable years beginning before January 1, 2013 will generally be taxable at a maximum tax rate of 15%.

*Sale or exchange of Common Shares*

Gain or loss realized by a US holder on the sale or exchange of Common Shares generally will be subject to US federal income tax as capital gain or loss in an amount equal to the difference between the US holder's tax basis in the Common Shares and the amount realized on the disposition. Such gain or loss will be long term capital gain or loss if the US holder held the Common Shares for more than one year. Gain or loss, if any, will generally be US source for foreign tax credit purposes. The deductibility of capital losses is subject to limitations. Non-corporate US holders are eligible for a maximum 15% long-term capital gains taxation rate for long-term capital gains recognized before January 1, 2013.

*Information reporting and backup withholding*

Payments of dividends on, and proceeds from a sale or other disposition of, Common Shares, may, under certain circumstances, be subject to information reporting and backup withholding at a rate of 28% of the cash payable to the holder, unless the holder provides proof of an applicable exemption or furnishes its taxpayer identification number, and otherwise complies with all applicable requirements of the backup withholding rules. Any amounts

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withheld from payments to a US holder under the backup withholding rules are not additional tax and should be allowed as a refund or credit against the US holder's US federal income tax liability, provided the required information is timely furnished to the IRS.

### *Passive foreign investment company status*

A non-US corporation will be classified as a passive foreign investment company (a PFIC) for any taxable year if at least 75% of its gross income consists of passive income (such as dividends, interest, rents, royalties or gains on the disposition of certain minority interests), or at least 50% of the average value of its assets consists of assets that produce, or are held for the production of, passive income. For the purposes of these rules, a non-US corporation is considered to hold and receive directly the assets and income of any other corporation of whose shares it owns at least 25% by value. Consequently, the Company's classification under the PFIC rules will depend primarily upon the composition of Signet's assets and income.

If the Company is characterized as a PFIC, US holders would suffer adverse tax consequences, and US federal income tax consequences different from those described above may apply. These consequences may include having gains realized on the disposition of Common Shares treated as ordinary income rather than capital gain and being subject to punitive interest charges on certain distributions and on the proceeds of the sale or other disposition of Common Shares. The Company believes that it is not a PFIC and that it will not be a PFIC for the foreseeable future. However, since the tests for PFIC status depend upon facts not entirely within a company's control, such as the amounts and types of its income and values of its assets, no assurance can be provided that the Company will not become a PFIC. US holders should consult their own tax advisers regarding the potential application of the PFIC rules to the Common Shares.

### *New reporting requirement*

Legislation was enacted on March 18, 2010 that generally imposes new US return disclosure obligations (and related penalties for failure to disclose) on US individuals that hold certain specified foreign financial assets in excess of \$50,000. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-US person, any financial instrument or contract held for investment that has an issuer or counterparty other than a US person and any interest in a foreign entity. US holders may be subject to these reporting requirements unless their Common Shares are held in an account at a domestic financial institution. Investors are urged to consult their own tax advisers regarding the possible implications of this recently enacted legislation on their investment in Signet's Common Shares.

## ***UK Taxation***

### *Chargeable gains*

A disposal of Common Shares by a shareholder who is resident or ordinarily resident in the UK may, depending on individual circumstances (including the availability of exemptions or allowable losses), give rise to a liability to (or an allowable loss for the purposes of) UK taxation of chargeable gains.

Any chargeable gain or allowable loss on a disposal of the Common Shares should be calculated taking into account the allowable cost to the holder of acquiring his Common Shares. In the case of corporate shareholders, to this should be added, when calculating a chargeable gain but not an allowable loss, indexation allowance on the allowable cost. (Indexation allowance is not available for non-corporate shareholders).

Individuals who hold their Common Shares within an individual savings account (ISA) and are entitled to ISA-related tax reliefs in respect of the same, will generally not be subject to UK taxation of chargeable gains in respect of any gain arising on a disposal of Common Shares.

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*Taxation of dividends on Common Shares*

Under current UK law and practice, UK withholding tax is not imposed on dividends.

Subject to anti-avoidance rules and the satisfaction of certain conditions, UK resident shareholders who are within the charge to UK corporation tax will in general not be subject to corporation tax on dividends paid by the Company on the Common Shares.

A UK resident individual shareholder who is liable to UK income tax at no more than the basic rate will be liable to income tax on dividends paid by the Company on the Common Shares at the dividend ordinary rate (10% in tax year 2010/11). A UK resident individual shareholder who is liable to UK income tax at the higher rate will be subject to income tax on the dividend income at the dividend upper rate (32.5% in 2010/11). A further rate of income tax (the additional rate) will apply to individuals with taxable income over £150,000. A UK resident individual shareholder subject to the additional rate will be liable to income tax on their dividend income at the higher rate of 42.5% of the gross dividend to the extent that the gross dividend when treated as the top slice of the shareholder's income falls above the £150,000 threshold.

UK resident individuals in receipt of dividends from the Company, if they own less than a 10% shareholding in the Company, will be entitled to a non-payable dividend tax credit (currently at the rate of 1/9th of the cash dividend paid (or 10% of the aggregate of the net dividend and related tax credit)). Assuming that there is no withholding tax imposed on the dividend (as to which see the section on Bermuda taxation below), the individual is treated as receiving for UK tax purposes gross income equal to the cash dividend plus the tax credit. The tax credit is set against the individual's tax liability on that gross income. The result is that a UK resident individual shareholder who is liable to UK income tax at no more than the basic rate will have no further UK income tax to pay on a Company dividend. A UK resident individual shareholder who is liable to UK income tax at the higher rate will have further UK income tax to pay of 22.5% of the dividend plus the related tax credit (or 25% of the cash dividend, assuming that there is no withholding tax imposed on that dividend). A UK resident individual subject to income tax at the additional rate will have further UK income tax to pay of 32.5% of the dividend plus the tax credit (or 36<sup>1</sup>/<sub>9</sub>% of the cash dividend, assuming that there is no withholding tax imposed on that dividend), to the extent that the gross dividend falls above the threshold for the new 50% rate of income tax.

Individual shareholders who hold their Common Shares in an ISA and are entitled to ISA-related tax reliefs in respect of the same will not be taxed on the dividends from those Common Shares but are not entitled to recover from HMRC the tax credit on such dividends.

*Stamp duty/stamp duty reserve tax ( SDRT )*

In practice, stamp duty should generally not need to be paid on an instrument transferring Common Shares. No SDRT will generally be payable in respect of any agreement to transfer Common Shares or Depositary Interests. The statements in this paragraph summarize the current position on stamp duty and SDRT and are intended as a general guide only. They assume that the Company will not be UK managed and controlled and that the Common Shares will not be registered in a register kept in the UK by or on behalf of the UK. The Company has confirmed that it does not intend to keep such a register in the UK.

***Bermuda Taxation***

At the present time, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by the Company or by its shareholders in respect of its Common Shares. The Company has obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 28, 2016, be applicable to it or to any of its

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operations or to its shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or is payable by it in respect of real property owned or leased by it in Bermuda.

**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

The financial data included below for Fiscal 2011, Fiscal 2010 and Fiscal 2009 have been derived from the audited consolidated financial statements included in Item 8. The financial data for these periods should be read in conjunction with the financial statements, including the notes thereto, and Item 7. The financial data included below for Fiscal 2008 and Fiscal 2007 have been derived from the previously published consolidated audited financial statements not included in this document.

The financial statements of Signet for Fiscal 2008 and Fiscal 2007 were prepared in accordance with International Financial Reporting Standards, which differ in certain respects from US GAAP. Any figures used for these years have been converted to US GAAP in this Annual Report on Form 10-K.

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Historic per share data have been adjusted to take account of the 1-for-20 reverse share split (share consolidation) undertaken as part of the move of the primary listing of the shares of the parent company to the NYSE, effective September 11, 2008.

	<b>Fiscal 2011<sup>(1)</sup> \$million</b>	<b>Fiscal 2010<sup>(1)</sup> \$million</b>	<b>Fiscal 2009<sup>(1)</sup> \$million</b>	<b>Fiscal 2008<sup>(1)(2)</sup> \$million</b>	<b>Fiscal 2007<sup>(1)(2)(3)</sup> \$million</b>
<b>Income Statement:</b>					
Sales	3,437.4	3,273.6	3,328.0	3,645.6	3,537.6
Cost of sales	(2,194.5)	(2,208.0)	(2,262.2)	(2,410.1)	(2,259.8)
Gross margin	1,242.9	1,065.6	1,065.8	1,235.5	1,277.8
Selling, general and administrative expense	(980.4)	(916.5)	(969.2)	(1,000.8)	(979.6)
Impairment of goodwill			(516.9)		
Relisting costs			(10.5)		
Other operating income, net	110.0	115.4	119.2	108.8	91.5
Operating income/(loss), net	372.5	264.5	(311.6)	343.5	389.7
Interest income	0.7	0.8	3.6	6.3	16.7
Interest expense	(72.8)	(34.8)	(32.8)	(28.8)	(34.2)
Income/(loss) before income taxes	300.4	230.5	(340.8)	321.0	372.2
Income taxes	(100.0)	(73.4)	(61.8)	(110.6)	(128.9)
Net income/(loss)	200.4	157.1	(402.6)	210.4	243.3
Earnings/(loss) per share: basic	\$ 2.34	\$ 1.84	\$ (4.72)	\$ 2.47	\$ 2.81
diluted	\$ 2.32	\$ 1.83	\$ (4.72)	\$ 2.44	\$ 2.75
Dividends per share			\$ 1.45	\$ 1.45	\$ 1.43
<b>Balance sheet:</b>					
Total assets	3,089.8	3,044.9	3,064.5	3,702.6	3,601.1
Total liabilities	(1,150.8)	(1,341.3)	(1,541.8)	(1,459.5)	(1,441.9)
Total shareholders' equity	1,939.0	1,703.6	1,522.7	2,243.1	2,159.2
Working capital	1,831.3	1,814.3	1,677.4	1,781.4	1,730.2
Cash and cash equivalents	302.1	316.2	96.8	41.7	152.3
Loans and overdrafts	(31.0)	(44.1)	(187.5)	(36.3)	(5.5)
Long term debt		(280.0)	(380.0)	(380.0)	(380.0)
Net cash/(debt) <sup>(4)</sup>	271.1	(7.9)	(470.7)	(374.6)	(233.2)
Common shares in issue (million)	86.2	85.5	85.3	85.3	85.7
<b>Cash flow:</b>					
Net cash provided by operating activities	323.9	515.4	164.4	140.8	199.3
Net cash used in investing activities	(55.6)	(43.5)	(113.3)	(139.4)	(123.8)
Net cash (used in)/provided by financing activities	(283.1)	(251.7)	36.9	(115.8)	(28.4)
Increase/(decrease) in cash and cash equivalents	(14.8)	220.2	88.0	(114.4)	47.1
<b>Ratios:</b>					
Effective tax rate	33.3%	31.8%	(18.1)%	34.5%	34.6%
ROCE <sup>(4)</sup>	23.0%	15.0%	10.6%	17.1%	22.5%
Fixed charge cover <sup>(4)</sup>	2.4x	2.0x	1.9x	2.3x	2.6x

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	Fiscal 2011	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 2007
<b>Store data:</b>					
Store numbers (at end of period)					
US	1,317	1,361	1,401	1,399	1,308
UK	540	552	558	563	581
Percentage (decrease)/increase in same store sales <sup>(4)</sup>					
US	8.9%	0.2%	(9.6)%	(1.5)%	6.1%
UK	(1.4)%	(2.4)%	(3.3)%	2.0%	1.2%
Signet	6.7%	(0.4)%	(8.1)%	(0.6)%	4.7%
Number of employees (full-time equivalents)	16,229	16,320	16,915	17,243	16,836

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- (1) During the third quarter of Fiscal 2011, Signet changed its accounting for extended service plans. Previously, revenue from the sale of extended service plans was deferred, net of direct costs arising from the sale, and was recognized in proportion to the historical actual claims incurred. Signet has conducted a review of the claims cost patterns, including estimates of future claims costs expected to be incurred, and concluded that the deferral period required extension and that claims cost is a more appropriate basis for revenue recognition than the number of claims incurred. Signet now defers all revenues and recognizes direct costs in proportion to the revenue recognized. These changes are in accordance with ASC 605-20-25. The impact resulted in an overstatement of extended service plan revenue and an understatement of deferred revenue. These plans are only sold by the US division and therefore only affect the US segment reporting.
- (2) Based on audited IFRS, converted to US GAAP.
- (3) 53 week year.
- (4) Net cash/(debt), ROCE, fixed charge cover and same store sales are non-GAAP measures, see GAAP and non-GAAP Measures below.
- The following table summarizes the impact of the extended service plan accounting change on Signet's selected consolidated financial data for Fiscal 2010, Fiscal 2009, Fiscal 2008 and Fiscal 2007.

	Fiscal 2010		Fiscal 2009		Fiscal 2008		Fiscal 2007 <sup>(2)</sup>	
	\$million As previously reported	\$million As corrected	\$million As previously reported	\$million As corrected	\$million As previously reported	\$million As corrected	\$million As previously reported	\$million As corrected
<b>Income Statement:</b>								
Sales	3,290.7	3,273.6	3,344.3	3,328.0	3,665.3	3,645.6	3,559.2	3,537.6
Cost of sales	(2,213.8)	(2,208.0)	(2,264.2)	(2,262.2)	(2,414.6)	(2,410.1)	(2,266.3)	(2,259.8)
Gross margin	1,076.9	1,065.6	1,080.1	1,065.8	1,250.7	1,235.5	1,292.9	1,277.8
Operating income/(loss), net	275.8	264.5	(297.3)	(311.6)	358.7	343.5	404.8	389.7
Income/(loss) before income taxes	241.8	230.5	(326.5)	(340.8)	336.2	321.0	387.3	372.2
Income taxes	(77.7)	(73.4)	(67.2)	(61.8)	(116.4)	(110.6)	(134.6)	(128.9)
Net income/(loss)	164.1	157.1	(393.7)	(402.6)	219.8	210.4	252.7	243.3
Earnings/(loss) per share: basic	\$ 1.92	\$ 1.84	\$ (4.62)	\$ (4.72)	\$ 2.58	\$ 2.47	\$ 2.92	\$ 2.81
diluted	\$ 1.91	\$ 1.83	\$ (4.62)	\$ (4.72)	\$ 2.55	\$ 2.44	\$ 2.86	\$ 2.75
<b>Balance sheet:</b>								
Total assets	2,924.2	3,044.9	2,953.9	3,064.5	3,599.4	3,702.6	3,508.2	3,601.1
Total liabilities	(1,126.6)	(1,341.3)	(1,344.2)	(1,541.8)	(1,278.2)	(1,459.5)	(1,280.3)	(1,441.9)
Total shareholders equity	1,797.6	1,703.6	1,609.7	1,522.7	2,321.2	2,243.1	2,227.9	2,159.2
Working capital	1,814.5	1,814.3	1,675.9	1,677.4	1,776.3	1,781.4	1,723.5	1,730.2
<b>Ratios:</b>								
Effective tax rate	32.1%	31.8%	(20.6%)	(18.1%)	34.6%	34.5%	34.8%	34.6%
ROCE <sup>(1)</sup>	14.4%	15.0%	10.6%	10.6%	16.9%	17.1%	22.1%	22.5%

(1) ROCE is a non-GAAP measure, see GAAP and non-GAAP Measures below.

(2) 53 week year.

**GAAP AND NON-GAAP MEASURES**

The discussion and analysis of Signet's results of operations, financial condition and liquidity contained in this Report are based upon the consolidated financial statements of Signet which are prepared in accordance with US GAAP and should be read in conjunction with Signet's financial statements and the related notes included in Item 8. In Fiscal 2011, Signet changed the period of revenue and cost deferral for its extended service plan and this is reflected throughout this Report; see above and Item 8 for additional information. A number of non-GAAP measures are used by management to analyze and manage the performance of the business, and the required disclosures for these non-GAAP measures are given below. In particular, the terms underlying and underlying





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at constant exchange rates are used in a number of places. Underlying is used to indicate where adjustments for significant, unusual and non-recurring items have been made and underlying at constant exchange rates indicates where the underlying items have been further adjusted to eliminate the impact of exchange rate movements on translation of pound sterling amounts to US dollars.

Signet provides such non-GAAP information in reporting its financial results to give investors with additional data to evaluate its operations. Management does not, nor does it suggest investors should, consider such non-GAAP measures in isolation from, or in substitute for, financial information prepared in accordance with GAAP.

### **1. Same store sales growth**

Same store sales growth is determined by comparison of sales in stores that were open in both the current and the prior year. Sales from stores that have been open for less than 12 months are excluded from the comparison until their 12-month anniversary. Sales from the 12-month anniversary onwards are compared against the equivalent prior period sales within the comparable store sales comparison. Stores closed in the current financial period are included up to the date of closure and the comparative period is correspondingly adjusted. Stores that have been relocated or expanded, but remain within the same local geographic market, are included within the comparison with no adjustment to either the current or comparative period. Stores that have been refurbished are also included within the comparison except for the period when the refurbishment is taking place, when those stores are excluded from the comparison both for the current year and for the comparative period. Sales to employees have also been excluded. Comparisons at divisional level are made in local currency and consolidated comparisons are made at constant exchange rates and exclude the effect of exchange rate movements by recalculating the prior period results as if they had been generated at the weighted average exchange rate for the current period. Ecommerce sales are included in the calculation of sales for the period and the comparative figures from the anniversary of the launch of the relevant website. Management considers it useful as it is a major benchmark used by investors to judge performance within the retail industry.

### **2. Income statement at constant exchange rates**

Movements in the US dollar to pound sterling exchange rate have an impact on Signet's results. The UK division is managed in pounds sterling as sales and costs are incurred in that currency and its results are then translated into US dollars for external reporting purposes. Management believes it assists in understanding the performance of Signet and its UK division if constant currency figures are given. This is particularly so in periods when exchange rates are volatile. The constant currency amounts are calculated by retranslating the prior year figures using the current year's exchange rate. Management considers it useful to exclude the impact of movements in the pound sterling to US dollar exchange rate to analyze and explain changes and trends in Signet's sales and costs.

**Table of Contents***(a) Fiscal 2011 percentage change in results at constant exchange rates*

	Fiscal 2011 \$million	Fiscal 2010 \$million	Change %	Impact of exchange rate movement \$million	Fiscal 2010 at constant exchange rates (non-GAAP) \$million	Fiscal 2011 change at constant exchange rates (non-GAAP) %
Sales	3,437.4	3,273.6	5.0	(18.5)	3,255.1	5.6
Cost of sales	(2,194.5)	(2,208.0)	(0.6)	12.6	(2,195.4)	
Gross margin	1,242.9	1,065.6	16.6	(5.9)	1,059.7	17.3
Selling, general and administrative expenses	(980.4)	(916.5)	7.0	4.9	(911.6)	7.5
Other operating income, net	110.0	115.4	(4.7)		115.4	(4.7)
Operating income, net	372.5	264.5	40.8	(1.0)	263.5	41.4
Interest income	0.7	0.8	(12.5)		0.8	(12.5)
Interest expense	(72.8)	(34.8)	109.2		(34.8)	109.2
Income before income taxes	300.4	230.5	30.3	(1.0)	229.5	30.9
Income taxes	(100.0)	(73.4)	36.2	0.3	(73.1)	36.8
Net income	200.4	157.1	27.6	(0.7)	156.4	28.1
Basic earnings per share	\$2.34	\$1.84	27.2	\$(0.01)	\$1.83	27.9
Diluted earnings per share	\$2.32	\$1.83	26.8	\$(0.01)	\$1.82	27.5

*(b) Fourth quarter Fiscal 2011 percentage change in results at constant exchange rates*

	13 weeks ended January 29, 2011 \$million	13 weeks ended January 30, 2010 \$million	Change %	Impact of exchange rate movement \$million	13 weeks ended January 30, 2010 at constant exchange rates (non-GAAP) \$million	13 weeks ended January 29, 2011 change at constant exchange rates (non-GAAP) %
Sales	1,270.5	1,196.8	6.2	(7.0)	1,189.8	6.8
Cost of sales	(752.0)	(765.4)	(1.8)	4.2	(761.2)	(1.2)
Gross margin	518.5	431.4	20.2	(2.8)	428.6	21.0
Selling, general and administrative expenses	(336.7)	(282.6)	19.1	1.5	(281.1)	19.8
Other operating income, net	28.7	28.4	1.1		28.4	1.1
Operating income, net	210.5	177.2	18.8	(1.3)	175.9	19.7
Interest income	0.1	0.1			0.1	
Interest expense	(51.0)	(7.6)	nm		(7.6)	nm
Income before income taxes	159.6	169.7	(6.0)	(1.3)	168.4	(5.2)

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Income taxes		(54.2)	(54.2)	0.4	(53.8)	0.7	
Net income		105.4	115.5	(8.7)	(0.9)	114.6	(8.0)
Basic earnings per share	\$	1.23	\$ 1.35	(8.9)	\$ (0.01)	\$ 1.34	(8.2)
Diluted earnings per share	\$	1.21	\$ 1.34	(9.7)	\$ (0.01)	\$ 1.33	(9.0)

nm - not meaningful

**Table of Contents***(c) Fiscal 2010 percentage change in results at constant exchange rates*

	Fiscal 2010 \$million	Fiscal 2009 \$million	Change %	Impact of exchange rate movement \$million	Fiscal 2009 at constant exchange rates (non-GAAP) \$million	Fiscal 2010 change at constant exchange rates (non-GAAP) %
Sales	3,273.6	3,328.0	(1.6)	(73.9)	3,254.1	0.6
Cost of sales	(2,208.0)	(2,262.2)	(2.4)	48.4	(2,213.8)	(0.3)
Gross margin	1,065.6	1,065.8	(0.0)	(25.5)	1,040.3	2.4
Selling, general and administrative expenses	(916.5)	(969.2)	(5.4)	20.5	(948.7)	(3.4)
Goodwill impairment		(516.9)	nm	(10.5)	(527.4)	nm
Relisting costs		(10.5)	nm		(10.5)	nm
Other operating income, net	115.4	119.2	(3.2)	(0.4)	118.8	(2.9)
Operating income, net	264.5	(311.6)	nm	(15.9)	(327.5)	nm
Interest income	0.8	3.6	(77.8)	(0.3)	3.3	(75.8)
Interest expense	(34.8)	(32.8)	6.1		(32.8)	6.1
Income before income taxes	230.5	(340.8)	nm	(16.2)	(357.0)	nm
Income taxes	(73.4)	(61.8)	18.8	1.8	(60.0)	22.3
Net income	157.1	(402.6)	nm	(14.4)	(417.0)	nm
Basic earnings per share	\$ 1.84	\$ (4.72)	nm	\$ (0.17)	\$ (4.89)	nm
Diluted earnings per share	\$ 1.83	\$ (4.72)	nm	\$ (0.17)	\$ (4.89)	nm

nm - not meaningful

**3. Underlying operating income, underlying income/(loss) before income tax, underlying net income, underlying earnings per share and underlying operating margin percentage**

In Fiscal 2011, Signet made a Make Whole Payment of \$47.5 million as a result of the prepayment in full of the Private Placement Notes outstanding. In Fiscal 2010, the US division benefited by \$13.4 million due to a change in its vacation entitlement policy. This benefit did not recur in Fiscal 2011. Management considers it useful to exclude these significant, unusual and non-recurring items to analyze and explain changes and trends in Signet's and its divisions' results. These underlying amounts are also shown excluding the impact of movements in the pound sterling to US dollar exchange rate.

**Table of Contents***(a) Fiscal 2011 reconciliation to underlying results*

	Fiscal 2011 \$million	Impact of Make Whole Payment \$million	Fiscal 2011 underlying (non- GAAP) \$million
Sales by origin and destination:			
US	2,744.2		2,744.2
UK	693.2		693.2
	3,437.4		3,437.4
Operating income/(loss):			
US	342.7		342.7
UK	57.0		57.0
Unallocated	(27.2)		(27.2)
	372.5		372.5
Interest income	0.7		0.7
Interest expense	(72.8)	47.5	(25.3)
Income before income taxes:	300.4	47.5	347.9
Income taxes	(100.0)	(18.0)	(118.0)
Net income	200.4	29.5	229.9
Basic earnings per share:	\$ 2.34	\$ 0.34	\$ 2.68
Diluted earnings per share:	\$ 2.32	\$ 0.34	\$ 2.66

*(b) Fiscal 2011 percentage change in underlying results, compared to Fiscal 2010 as reported and at constant exchange rates*

	Fiscal 2011 \$million	Fiscal 2010 \$million	Change %	Fiscal 2011 underlying (non- GAAP) \$million	Underlying change (non- GAAP) %	Fiscal 2010 at constant exchange rates (non- GAAP) \$million	Fiscal 2011 underlying change at constant exchange rates (non- GAAP) %
Sales by origin and destination:							
US	2,744.2	2,540.4	8.0	2,744.2	8.0	2,540.4	8.0
UK	693.2	733.2	(5.5)	693.2	(5.5)	714.7	(3.0)
	3,437.4	3,273.6	5.0	3,437.4	5.0	3,255.1	5.6
Operating income/(loss):							
US	342.7	224.5	52.7	342.7	52.7	224.5	52.7
UK	57.0	56.5	0.9	57.0	0.9	55.1	3.4
Unallocated	(27.2)	(16.5)	64.8	(27.2)	64.8	(16.1)	68.9

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	372.5	264.5	40.8	372.5	40.8	263.5	41.4
Income before income taxes:	300.4	230.5	30.3	347.9	50.9	229.5	51.6
Net income	200.4	157.1	27.6	229.9	46.3	156.4	47.0
Basic earnings per share:	\$ 2.34	\$ 1.84	27.2	\$ 2.68	45.7	\$ 1.83	46.4
Diluted earnings per share:	\$ 2.32	\$ 1.83	26.8	\$ 2.66	45.4	\$ 1.82	46.2

**Table of Contents***(c) Fourth quarter Fiscal 2011 percentage change in underlying results compared to Fiscal 2010 as reported and at constant exchange rates*

The underlying results are reported results adjusted for the \$47.5 million Make Whole Payment in Fiscal 2011.

	13 weeks ended January 29, 2011 \$million	13 weeks ended January 30, 2010 \$million	Change %	13 weeks ended January 29, 2011 underlying (non-GAAP) \$million	Underlying change (non- GAAP) %	13 weeks ended January 30, 2010 change at constant exchange rates (non-GAAP) \$million	13 weeks ended January 29, 2011 underlying change at constant exchange rates (non-GAAP) %
Sales by origin and destination:							
US	1,007.0	914.0	10.2	1,007.0	10.2	914.0	10.2
UK	263.5	282.8	(6.8)	263.5	(6.8)	275.8	(4.5)
	1,270.5	1,196.8	6.2	1,270.5	6.2	1,189.8	6.8
Operating income/(loss):							
US	167.9	121.5	38.2	167.9	38.2	121.5	38.2
UK	55.3	60.4	(8.4)	55.3	(8.4)	59.0	(6.3)
Unallocated	(12.7)	(4.7)	170.2	(12.7)	170.2	(4.6)	176.1
	210.5	177.2	18.8	210.5	18.8	175.9	19.7
Income before income taxes:	159.6	169.7	(6.0)	207.1	22.0	168.4	23.0
Net income	105.4	115.5	(8.7)	134.9	16.8	114.6	17.7
Basic earnings per share	\$ 1.23	\$ 1.35	(8.9)	\$ 1.57	16.3	\$ 1.34	17.2
Diluted earnings per share	\$ 1.21	\$ 1.34	(9.7)	\$ 1.55	15.7	\$ 1.33	16.5

*(d) Fiscal 2010 reconciliation to underlying results*

	Fiscal 2010 \$million	Impact of change in vacation entitlement policy \$million	Fiscal 2010 underlying (non- GAAP) \$million
Sales by origin and destination:			
US	2,540.4		2,540.4
UK	733.2		733.2
	3,273.6		3,273.6
Operating income/(loss):			
US	224.5	(13.4)	211.1
UK	56.5		56.5
Unallocated	(16.5)		(16.5)

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	264.5	(13.4)	251.1
Income before income taxes:	230.5	(13.4)	217.1
Net income	157.1	(8.3)	148.8
Basic earnings per share:	\$ 1.84	\$ (0.09)	\$ 1.75
Diluted earnings per share:	\$ 1.83	\$ (0.09)	\$ 1.74



**Table of Contents***(e) Fiscal 2010 percentage change in underlying results, compared to Fiscal 2009 as reported and at constant exchange rates*

	Fiscal 2010 \$million	Fiscal 2009 \$million	Change %	Fiscal 2010 underlying (non- GAAP) \$million	Fiscal 2009 underlying (non- GAAP) \$million	Underlying change (non- GAAP) %	Fiscal 2009 at constant exchange rates (non- GAAP) \$million	Fiscal 2010 underlying change at constant exchange rates (non- GAAP) %
Sales by origin and destination:								
US	2,540.4	2,519.8	0.8	2,540.4	2,519.8	0.8	2,519.8	0.8
UK	733.2	808.2	(9.3)	733.2	808.2	(9.3)	734.3	(0.1)
	3,273.6	3,328.0	(1.6)	3,273.6	3,328.0	(1.6)	3,254.1	0.6
Operating income/(loss):								
US	224.5	(250.7)	nm	211.1	157.3	34.2	157.3	34.2
UK	56.5	(37.4)	nm	56.5	71.5	(21.0)	65.0	(13.1)
Unallocated	(16.5)	(23.5)	(29.8)	(16.5)	(13.0)	26.9	(11.8)	39.8
	264.5	(311.6)	nm	251.1	215.8	16.4	210.5	19.3
Income/(loss) before income taxes:	230.5	(340.8)	nm	217.1	186.6	16.3	181.0	19.9
Net income/(loss)	157.1	(402.6)	nm	148.8	124.8	19.2	121.0	23.0
Basic earnings/(loss) per share:	\$ 1.84	\$ (4.72)	nm	\$ 1.75	\$ 1.47	19.0	\$ 1.42	23.2
Diluted earnings/(loss) per share:	\$ 1.83	\$ (4.72)	nm	\$ 1.74	\$ 1.47	18.4	\$ 1.42	22.5

nm - not meaningful

*(f) Fiscal 2009 reconciliation to underlying results and at constant exchange rates*

	Fiscal 2009 \$million	Impact of goodwill impairment and relisting \$million	Fiscal 2009 underlying (non- GAAP) \$million	Impact of exchange rate movement \$million	Fiscal 2009 underlying at constant exchange rates (non- GAAP) \$million
Sales by origin and destination:					
US	2,519.8		2,519.8		2,519.8
UK	808.2		808.2	(73.9)	734.3
	3,328.0		3,328.0	(73.9)	3,254.1
Operating (loss)/income:					

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US	(250.7)	408.0	157.3		157.3
UK	(37.4)	108.9	71.5	(6.5)	65.0
Unallocated	(23.5)	10.5	(13.0)	1.2	(11.8)
	(311.6)	527.4	215.8	(5.3)	210.5
(Loss)/income before income taxes:	(340.8)	527.4	186.6	(5.6)	181.0
Net (loss)/income	(402.6)	527.4	124.8	(3.8)	121.0
Basic (loss)/earnings per share:	\$ (4.72)	\$ 6.19	\$ 1.47	\$ (0.05)	\$ 1.42
Diluted (loss)/earnings per share:	\$ (4.72)	\$ 6.19	\$ 1.47	\$ (0.05)	\$ 1.42

**Table of Contents****4. Net cash/(debt)**

Net cash/(debt) is the total of loans, overdrafts and long term debt less cash and cash equivalents, and is helpful in providing a measure of the total indebtedness of the business.

	January 30, 2011 \$million	January 31, 2010 \$million	February 2, 2009 \$million
Long-term debt		(280.0)	(380.0)
Loans and overdrafts	(31.0)	(44.1)	(187.5)
	(31.0)	(324.1)	(567.5)
Cash and cash equivalents	302.1	316.2	96.8
Net cash/(debt)	271.1	(7.9)	(470.7)

**5. Return on capital employed excluding goodwill ( ROCE )**

ROCE is calculated by dividing the annual operating income by the average quarterly capital employed and is expressed as a percentage. Capital employed includes intangible assets excluding goodwill, property, plant and equipment, other non-current receivables, inventories, accounts and other receivables, other assets, accounts payable, accrued expenses and other liabilities, deferred revenue and retirement benefit asset/obligation. This is a key performance indicator used by management for assessing the effective operation of the business and is considered a useful disclosure for investors as it provides a measure of the return on Signet's and the divisions' operating assets and has historically been used for certain performance awards.

**6. Fixed charge cover; net debt to earnings before interest, taxes, depreciation and amortization; and net tangible asset value**

These non-GAAP measures are calculated exactly in accordance with Signet's debt covenants as defined in the original and amended note purchase and revolving credit facility agreements. The Private Placement Notes were prepaid in full on November 26, 2010. These covenants are reported to the lending banks and needed to be met in order to maintain these funding facilities. The reporting of these measures provides an investor with an understanding of Signet's ability to meet these conditions, which are described in Item 7.

**7. Free cash flow**

Free cash flow is a non-GAAP measure defined as the net cash provided by operating activities less net cash flows used in investing activities. It has been calculated both before and after the Make Whole Payment. Management considers that this is helpful in understanding how the business is generating cash from its operating and investing activities that can be used to meet the financing needs of the business. Free cash flow does not represent the residual cash flow available for discretionary expenditure.

	Fiscal 2011 \$million	Fiscal 2010 \$million	Fiscal 2009 \$million
Net cash provided by operating activities	323.9	515.4	164.4
Net cash used in investing activities	(55.6)	(43.5)	(113.3)
Free cash flow, including Make Whole Payment	268.3	471.9	51.1
Make Whole Payment	47.5		
Free cash flow, excluding Make Whole Payment	315.8	471.9	51.1



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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K contains statements which are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, based upon management's beliefs and expectations as well as on assumptions made by and data currently available to management, appear in a number of places throughout this Annual Report on Form 10-K and include statements regarding, among other things, Signet's results of operation, financial condition, liquidity, prospects, growth, strategies and the industry in which Signet operates. The use of the words "expects," "intends," "anticipates," "estimates," "predicts," "believes," "should," "potential," "may," "forecasts" or "target," and other similar expressions are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to a number of risks and uncertainties, including but not limited to general economic conditions, the merchandising, pricing and inventory policies followed by Signet, the reputation of Signet and its brands, the level of competition in the jewelry sector, the cost and availability of diamonds, gold and other precious metals, regulations relating to consumer credit, seasonality of Signet's business, financial market risks, deterioration in consumers' financial condition, exchange rate fluctuations, changes in consumer attitudes regarding jewelry, management of social, ethical and environmental risks, inadequacy in and disruptions to internal controls and systems, changes in assumptions used in making accounting estimates relating to items such as extended service plans and pensions, and risks relating to Signet being a Bermuda corporation.

For a discussion of these risks and other risks and uncertainties which could cause actual results to differ materially from those expressed in any forward looking statement, see Item 1A and elsewhere in this Annual Report on Form 10-K. Signet undertakes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances, except as required by law.

**GAAP AND NON-GAAP MEASURES**

The following discussion and analysis of the results of operations, financial condition and liquidity is based upon the consolidated financial statements of Signet which are prepared in accordance with US GAAP. The following information should be read in conjunction with Signet's financial statements and the related notes included in Item 8. In Fiscal 2011, Signet changed the period of revenue and cost deferral for its extended service plan and this is reflected throughout this Annual Report on Form 10-K; see Items 6 and 8 for additional information.

A number of non-GAAP measures are used by management to analyze and manage the performance of the business, and the required disclosures for these measures are given in Item 6. Signet provides such non-GAAP information in reporting its financial results to give investors additional data to evaluate its operations. The Company's management does not, nor does it suggest investors should, consider such non-GAAP measures in isolation from, or in substitute for, financial information prepared in accordance with GAAP.

**Exchange translation impact**

The average exchange rate is used to prepare the income statement and is calculated from the weekly average exchange rates weighted by sales of the UK division. This means that results are particularly impacted by movements in the fourth quarter of its fiscal year, with the exchange rate in the first three weeks of December having the largest effect on the average exchange rate used. A movement in the year to date exchange rate from that in the prior quarter in a particular fiscal year, will result in that quarter's results being impacted by adjustments to sales and costs in prior quarters to reflect the changed year to date exchange rate. This can have a particularly noticeable impact on Signet's results for the third quarter as the results for the third quarter are close to break-even. In addition, as the UK division's selling, administrative and general expenses are spread more evenly between quarters than its sales, these expenses can be particularly impacted in the fourth quarter. In Fiscal 2012, it is anticipated a one cent movement in the pound sterling to US dollar exchange rate would impact income before income tax by approximately \$0.2 million.

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### **Fiscal 2011 overview**

The strong results for Fiscal 2011 were led by a same store sales increase of 6.7% (Fiscal 2010: decrease of 0.4%), total sales were up by 5.0% to \$3,437.4 million (Fiscal 2010: \$3,273.6 million) and operating margin improving by 270 basis points to 10.8% (Fiscal 2010: 8.1%). As a result, income before income taxes and diluted earnings per share rose to \$300.4 million (Fiscal 2010: \$230.5 million) and \$2.32 (Fiscal 2010: \$1.83), up by 30.3% and 26.8% respectively. Excluding the Make Whole Payment, income before income taxes and diluted earnings per share rose to \$347.9 million and \$2.66, up by 50.9% and 45.4% respectively, non-GAAP measures, see Item 6.

Free cash flow at \$315.8 million excluding the Make Whole Payment; non-GAAP measure, see Item 6 (Fiscal 2010: \$471.9 million), was substantially higher than the original objective for the year of \$150 million to \$200 million. Signet took advantage of its strong balance sheet and financial flexibility to prepay all outstanding Private Placement Notes, significantly reducing future interest expense and eliminating restrictive covenants, including limitations on shareholder distributions and capital expenditure. As a result, a Make Whole Payment of \$47.5 million was incurred. At January 29, 2011, Signet had no long term debt (January 30, 2010: \$280 million), and cash and cash equivalents of \$302.1 million (January 30, 2010: \$316.2 million).

### **Drivers of operating profitability**

The key drivers of operating profitability are:

sales performance;

gross margin;

level of selling, general and administrative expenses;

balance between the change in same store sales and sales from new store space; and

movements in the US dollar to pound sterling exchange rate, as about 20% of Signet's sales and about 8% of operating income, including unallocated costs, were generated in the UK in Fiscal 2011 and Signet reports its results in US dollars.

These and other drivers are discussed more fully below.

### **Sales**

Sales performance in both the US and UK divisions is driven by the change in same store sales and contribution from changes in net store space.

Same store sales are a function of the number of units sold and the average selling price of those units. The average selling price can vary due to changes in the buying patterns of consumers, the introduction of new merchandise, the relative growth rates of different store formats, or price changes. The charm bracelet category, which has an average unit selling price considerably lower, and a multiple purchase and frequency of purchase much greater, than products historically sold by Signet, grew rapidly in Fiscal 2010 and Fiscal 2011. Therefore, the growth of this category has had a significant impact on the average unit selling price achieved by Signet. Management believes that excluding the category from calculations of average unit selling price statistics, is more useful in helping to understand Signet's sales performance. Historically Signet's customers had been purchasing items with larger, higher quality diamonds, which had lifted the average selling price. However, in the second half of Fiscal 2009 and in Fiscal 2010, the challenging economic environment resulted in the typical consumer buying items with a lower average selling price. In Fiscal 2011, prices were selectively increased due to various factors, such as the increased cost of gold and, in the UK the weakness of pound sterling against the dollar and an increase in the rate of value added tax, which resulted in a higher average selling price in both the US and UK divisions. Such price increases typically result in an increase in average unit selling price but may also result in an initial reduction in the number of units sold followed by a recovery in volumes, but not to the



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prior level. However, other factors, such as changes in merchandise mix or a recovery in consumers' discretionary expenditure, may have a greater impact on sales and average unit selling prices. In Fiscal 2011, the average selling price, excluding the charm bracelet category, increased by 8.0% in the US division and in the UK division by 9.2% in pound sterling.

A new store typically has sales of about 60% that of a five year old store, and will only contribute to sales for part of the fiscal year in which it is opened. Store openings are usually planned to occur in the third quarter and store closures in January. When investing in new space, management has stringent operating and financial criteria. US net space decreased by 2% in Fiscal 2011 and by 1% in Fiscal 2010. This is in contrast to net space growth in the US of 4% in Fiscal 2009, 10% in Fiscal 2008 and 11% in Fiscal 2007. The majority of the historic space growth reflected expansion of the Jared format. In the UK, there has typically been a small decline in space as the H.Samuel chain has withdrawn from smaller sized retail markets. There are very limited new space opportunities for either H.Samuel or Ernest Jones to offset these closures. As a result, there was a decline in UK space of 2% in Fiscal 2011 and 1% in Fiscal 2010.

*Net change in store space*

	US	UK	Signet
<b>Fiscal 2011</b>			
Openings	6		6
Closures	(50)	(12)	(62)
Net change	(2)%	(2)%	(2)%
<b>Fiscal 2010</b>			
Openings	16	1	17
Closures	(56)	(7)	(63)
Net change	(1)%	(1)%	(1)%
<b>Fiscal 2009</b>			
Openings	77	10	87
Closures	(75)	(15)	(90)
Net change	4%	1%	3%

**Cost of sales and gross margin**

Cost of sales, which is used to arrive at gross margin, includes merchandise costs net of discounts and allowances, freight, processing and distribution costs of moving merchandise from suppliers to the distribution center and to stores, inventory shrinkage, store operating and occupancy costs, net bad debts and charges for late payments under the US customer finance program. Store operating and occupancy costs include utilities, rent, real estate taxes, common area maintenance charges and depreciation. As the classification of cost of sales or selling, general and administrative expenses varies from retailer to retailer and few retailers have in-house customer finance programs, Signet's gross margin percentage may not be directly comparable to other retailers.

The gross merchandise margin is the difference between the selling price achieved and the cost of merchandise sold expressed as a percentage of the sales price. Gross merchandise margin dollars is the difference expressed in monetary terms. The trend in gross merchandise margin depends on Signet's pricing policy, movements in the cost of merchandise sold, changes in sales mix and the direct cost of providing services such as repairs.

Important factors that impact gross merchandise margin are the cost of polished diamonds and gold. In the US division, about 55% of the cost of merchandise sold is accounted for by polished diamonds and about 20% is accounted for by gold. In the UK division, diamonds and gold account for about 5% to 10% and 20% respectively of the cost of merchandise sold, and watches for about 40%. The pound sterling to US dollar exchange rate also has a material impact as a significant proportion of the merchandise sold in the UK is purchased in US dollars. Signet uses gold and currency hedges to reduce its exposure to market volatility in the



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cost of gold and the pound sterling to dollar exchange rate, but is not able to do so for polished diamonds. For gold, the hedging period is normally a maximum of one year. For currencies, the hedging period can extend to 24 months, although the majority of hedge contracts will normally be for a maximum of 18 months.

The price of diamonds varies depending on their size, cut, color and clarity. The price of diamonds of the size and quality typically purchased by Signet showed little variation over Fiscal years 2007, 2008 and 2009. Due to the sharp decline in demand for diamonds in the second half of Fiscal 2009, particularly in the US which accounts for about 40% of worldwide diamond demand (source: IDEX Online ( IDEX )), the supply chain became overstocked with diamonds. Combined with the reduced levels of credit availability, the oversupply of diamonds resulted in a fall in the price of loose polished diamonds of all sizes and qualities for most of Fiscal 2010. The IDEX Global Diamond Price Index is an independent source that tracks diamond prices in the IDEX inventory database. While IDEX tracks price movements in its database, they are not representative of all transactions in polished diamonds and do not necessarily reflect prices paid by Signet. IDEX reports show that the price of diamonds over three carats, which is larger than Signet usually purchases, are more volatile than for sizes and qualities that are typically used in merchandise sold by Signet. During Fiscal 2011, polished diamond prices increased, but remained below Fiscal 2009 levels. Demand for diamonds is primarily driven by the manufacture and sale of diamond jewelry and their future price is uncertain.

The cost of gold has steadily increased during the last four fiscal years, primarily reflecting increased investment demand rather than changes in the usage for jewelry manufacture. During Fiscal 2011, the cost of gold increased from an average of \$1,110 per troy ounce in January 2010 to \$1,371 per troy ounce in January 2011. In the first seven weeks of Fiscal 2012, the cost of gold has been volatile, and has averaged above \$1,399 per troy ounce. The future price of gold is uncertain.

Signet uses an average cost inventory methodology and, as jewelry inventory turns slowly, the impact of movements in the cost of diamonds and gold on gross merchandise margin takes some time to be fully reflected in the gross merchandise margin. As inventory turn is faster in the fourth quarter than in the other three quarters, changes in the cost of merchandise are more quickly reflected in the gross merchandise margin in that quarter. Furthermore the hedging activities result in movements in the purchase cost of merchandise taking sometime before being reflected in the gross merchandise margin.

Customer receivables comprise a large volume of transactions with no one customer representing a significant balance. The net bad debt to total US sales ratio is an estimate of the allowance for losses as of the balance sheet date, and is calculated using a proprietary model that analyzes factors such as delinquency rates and recovery rates. A 100% allowance is made for any amount that is 90 days aged on a recency basis, as well as an allowance for those under 90 days aged based on historical loss information and performance. Management believes that the primary drivers of the net bad debt to total US sales ratio are the accuracy of the consumer credit scores used when granting customer finance, the procedures used to collect the outstanding balances, credit sales as a percentage of total US sales and the rate of change in the level of unemployment in the US economy.

### **Selling, general and administrative expenses**

Selling, general and administrative expenses include store and central payroll and related benefits, advertising and promotional costs, store administration costs and other operating expenses not specifically categorized elsewhere in the consolidated income statements.

The primary drivers of staffing costs are the number of full time equivalent employees employed and the level of compensation, taxes and other benefits paid. Management varies, on a store by store basis, the hours worked based on the expected level of selling activity, subject to minimum staffing levels required to operate the store. Non-store staffing levels are less variable. A significant element of compensation is performance based, and is primarily dependent on sales or operating profit.

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The level of advertising expenditure can vary. The largest element of advertising expenditure is national television advertising and is determined by management's judgment of the appropriate level of advertising impressions and the cost of purchasing media.

### **Other operating income**

Other operating income is predominantly interest income arising from in-house customer finance provided to Signet's customers by the US division. Its level is dependent on the rate of interest charged and the level of outstanding balances. The level of outstanding balances is dependent on the sales of the US division, the proportion of sales that use the in-house customer finance and the monthly collection rate.

### **Operating income margin**

To maintain the operating income margin, Signet needs to achieve same store sales growth sufficient to offset any adverse movement in gross merchandise margin, any increase in operating costs (including the net bad debt charge), the impact of any immature selling space and adverse changes in other operating income. Same store sales growth above the level required to offset the factors outlined above allows the business to achieve leverage of its fixed cost base and improve operating income margin. Slower sales growth or a sales decline would normally result in a reduced operating income margin. In exceptional cases, such as through the US division's cost saving measures implemented in Fiscal 2010 and described below, Signet may be able to reduce costs enough to increase operating margin. A key factor in driving operating income margin is the level of average sales per store, with higher productivity allowing leverage of expenses incurred in performing store and central functions. Therefore a slower rate of net new space growth is beneficial to operating income margin while an acceleration in growth is adverse.

The impact on operating income of a sharp, unexpected increase or decrease in same store sales performance can be significant. This is particularly so when it occurs in the fourth quarter. However, the impact on operating income of short term sales variances (either adverse or favorable) is less in the US division than the UK, as the UK gross merchandise margin is higher and certain variable expenses such as sales-related rent and staff incentives account for a higher proportion of costs in the US division than in the UK division. In the medium term, there is more opportunity to adjust costs to the changed sales level, but the time it takes varies depending on the type of cost. An example of where it can take a number of months to adjust costs is expenditure on national network television advertising in the US, where Signet makes most of its commitments for the year ahead during its second quarter. It is even more difficult to reduce base lease costs in the short or medium term, as leases in US malls are typically for ten years, Jared sites for 20 years and in the UK for five plus years.

The operating margin may also be impacted by significant, unusual and non-recurring items. In Fiscal 2011, the impact of amendments to the Truth in Lending Act had an estimated net direct adverse impact on operating income of \$11.9 million, primarily by reducing other operating income. In Fiscal 2010, the vacation entitlement policy in the US division was changed, which resulted in the selling, general and administrative costs being reduced, while operating income increased by \$13.4 million. In Fiscal 2009, a charge was recorded for goodwill impairment of \$516.9 million and relisting costs of \$10.5 million related to the move of Signet's primary listing to the NYSE from the LSE.

Other line items may also be impacted by significant, unusual and non-recurring items. For example, in Fiscal 2011, Signet made a Make Whole Payment of \$47.5 million, reflected as an increase to interest expense as a result of the prepayment in full of Private Placement Notes in November 2010.

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	<b>Fiscal 2011 \$million</b>	<b>Fiscal 2010 \$million</b>	<b>Fiscal 2009 \$million</b>
Sales	<b>3,437.4</b>	3,273.6	3,328.0
Cost of sales	<b>(2,194.5)</b>	(2,208.0)	(2,262.2)
Gross margin	<b>1,242.9</b>	1,065.6	1,065.8
Selling, general and administrative expenses	<b>(980.4)</b>	(916.5)	(969.2)
Impairment of goodwill			(516.9)
Relisting costs			(10.5)
Other operating income, net	<b>110.0</b>	115.4	119.2
Operating income/(loss), net	<b>372.5</b>	264.5	(311.6)
Net interest expense	<b>(72.1)</b>	(34.0)	(29.2)
Income/(loss) before income taxes	<b>300.4</b>	230.5	(340.8)
Income taxes	<b>(100.0)</b>	(73.4)	(61.8)
Net income/(loss)	<b>200.4</b>	157.1	(402.6)

The following table sets forth for the periods indicated, the percentage of net sales represented by certain items included in the statements of consolidated income:

	<b>Fiscal 2011 %</b>	<b>Fiscal 2010 %</b>	<b>Fiscal 2009 %</b>
Sales	<b>100.0</b>	100.0	100.0
Cost of sales	<b>(63.8)</b>	(67.4)	(68.0)
Gross margin	<b>36.2</b>	32.6	32.0
Selling, general and administrative expenses	<b>(28.5)</b>	(28.0)	(29.1)
Impairment of goodwill			(15.5)
Relisting costs			(0.3)
Other operating income, net	<b>3.1</b>	3.5	3.5
Operating income/(loss), net	<b>10.8</b>	8.1	(9.4)
Net interest expense	<b>(2.1)</b>	(1.1)	(0.8)
Income/(loss) before income taxes	<b>8.7</b>	7.0	(10.2)
Income taxes	<b>(2.9)</b>	(2.2)	(1.9)
Net income/(loss)	<b>5.8</b>	4.8	(12.1)

The following tables set forth for the periods indicated, the underlying selling, general and administrative expenses adjusted for the change in US vacation entitlement policy; underlying operating income adjusted for the change in US vacation entitlement policy, goodwill impairment and relisting costs and underlying income before income taxes adjusted for the change in US vacation entitlement policy, goodwill impairment, relisting costs and the Make Whole Payment:

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	Fiscal 2011 \$million	Fiscal 2010 \$million	Fiscal 2009 \$million
Selling, general and administrative expenses	(980.4)	(916.5)	(969.2)
Add impact of change in US vacation entitlement policy		(13.4)	
Underlying selling, general and administrative expenses <sup>(1)</sup>	(980.4)	(929.9)	(969.2)

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	<b>Fiscal 2011 \$million</b>	<b>Fiscal 2010 \$million</b>	<b>Fiscal 2009 \$million</b>
Operating income/(loss)	372.5	264.5	(311.6)
Add impairment of goodwill			516.9
Add relisting costs			10.5
Less impact of change in US vacation entitlement policy		(13.4)	
<b>Underlying operating income<sup>(1)</sup></b>	<b>372.5</b>	<b>251.1</b>	<b>215.8</b>
Interest income	0.7	0.8	3.6
Interest expense	(72.8)	(34.8)	(32.8)
Add Make Whole Payment	47.5		
<b>Underlying income before income taxes<sup>(1)</sup></b>	<b>347.9</b>	<b>217.1</b>	<b>186.6</b>

(1) Non-GAAP measure, see Item 6.

The following tables set forth for the periods indicated, the percentage of net sales represented by the underlying selling, general and administrative expenses adjusted for the change in US vacation entitlement policy and underlying operating income adjusted for the change in US vacation entitlement policy, goodwill impairment and relisting costs:

**Fiscal  
2011**