

**PART X**  
**ACCOUNTANT'S REPORTS AND FINANCIAL INFORMATION**

**Accountant's report on historical financial information**

**Private & confidential**

The Directors  
Signet Jewelers Limited  
Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

Dear Sirs

**Signet Jewelers Limited (the "Company")**

We report on the financial information set out on page 72 of the prospectus dated 5 September 2008 (the "**Prospectus**") of Signet Jewelers Limited. This financial information has been prepared for inclusion in the Prospectus on the basis of the accounting policies set out in the notes to the financial information. This report is required by paragraph 20.1 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

**Responsibilities**

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in the notes to the financial information and in accordance with Generally Accepted Accounting Principles in the USA ("**US GAAP**").

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

**Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

**Opinion**

In our opinion, the financial information gives, for the purposes of the Prospectus dated 5 September 2008, a true and fair view of the state of affairs of the Company as at the date stated and of its result for the period then ended in accordance with the basis of preparation set out in the notes to the financial information and in accordance with US GAAP.

**Declaration**

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG Audit plc

**SIGNET JEWELERS LIMITED**  
**FINANCIAL INFORMATION FOR THE PERIOD ENDED 9 JULY 2008**

**Income Statement**

During the period from incorporation on 25 June 2008 to 9 July 2008, the Company has not traded and has received no income and incurred no expenditure. Consequently, during the current period the Company has neither a net income or loss and hence no income statement has been prepared.

**Balance Sheet**

	<b>9 July 2008</b>
	\$
<b>Assets</b>	
Current assets:	
Cash and cash equivalents .....	0.009
<b>Total assets</b> .....	<b>0.009</b>
<b>Shareholder's equity</b>	
Common stock of 0.9c par value; authorised 10,000 million shares, issued and outstanding one share. ....	0.009
Undesignated preference shares of \$0.01 par value; authorised 500,000,000 shares; issued and outstanding, nil shares .....	—
Total liabilities and shareholder's equity .....	<b>0.009</b>

**Statement of cash flow**

During the period from incorporation on 25 June 2008 to 9 July 2008, the Company did not receive or pay any cash other than receiving a payment of US\$0.009 for its one issued common share and hence no cash flow statement has been prepared.

**NOTES TO THE FINANCIAL INFORMATION**

**Basis of preparation**

The financial information has been prepared in accordance with US GAAP and includes the results of the Company from incorporation on 25 June 2008 to 9 July 2008.

**History**

The Company was incorporated in Bermuda on 25 June 2008 under the name Signet Limited and changed its name to Signet Jewelers Limited on 4 July 2008.

**Post balance sheet events**

Pursuant to the scheme of arrangement under Part 26 of the UK Companies Act 2006 between Signet and its shareholders, Signet will become a wholly and directly owned subsidiary of the Company and the existing shareholders of Signet will become the shareholders of the Company. Immediately following the scheme becoming effective, former Signet Shareholders will hold 100 per cent of the Common Shares in issue. The Scheme will be implemented by cancelling and extinguishing all of the Scheme Shares on the Scheme Effective Date, capitalising the reserve created by the cancellation and issuing new Signet Shares to the Company. In return for the Company's receipt of the new Signet Shares to be issued to it, Scheme Shareholders will receive one Common Share for each Signet Share previously held by them at the Scheme Record Date. Following the issue of shares by the Company, all of the issued and unissued common shares of par value \$0.009 each in the capital of the Company will be consolidated and divided into common shares of par value of \$0.18 each.

## **Accountant's report on historical financial information**

### **Private & confidential**

The Directors  
Signet Jewelers Limited  
Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

Dear Sirs

### **Signet Group plc (the "Group")**

We report on the financial information set out on pages 74 to 106 of the prospectus dated 5 September 2008 of Signet Jewelers Limited (the "**Prospectus**"). This financial information has been prepared for inclusion in the Prospectus on the basis of the accounting policies set out in note 1. This report is required by paragraph 20.1 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

### **Responsibilities**

The Directors of the Group are responsible for preparing the financial information on the basis of preparation set out in note 1 and in accordance with Generally Accepted Accounting Principles in the USA ("**US GAAP**").

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

### **Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion, the financial information gives, for the purposes of the Prospectus dated 5 September 2008, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits, cash flows and recognised gains and losses for the periods then ended in accordance with the basis of preparation set out in note 1 and in accordance with US GAAP.

### **Declaration**

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG Audit plc

## Consolidated income statements

	52 weeks ended 2 February 2008	53 weeks ended 3 February 2007	52 weeks ended 28 January 2006	Notes
	\$m	\$m	\$m	
Sales .....	3,665.3	3,559.2	3,154.1	2
Cost of sales .....	(2,414.6)	(2,266.3)	(1,990.1)	
Gross margin .....	1,250.7	1,292.9	1,164.0	
Selling, general and administrative expenses .....	(1,000.8)	(979.6)	(876.8)	
Other operating income, net .....	108.8	91.5	83.3	3
Operating income .....	358.7	404.8	370.5	2
Interest income .....	6.3	16.7	4.3	
Interest expense .....	(28.8)	(34.2)	(20.5)	
Income before income taxes .....	336.2	387.3	354.3	
Income taxes .....	(116.4)	(134.6)	(116.3)	5
Net income .....	219.8	252.7	238.0	
Earnings per share—basic .....	12.9c	14.6c	13.7c	6
—diluted .....	12.8c	14.3c	13.7c	6

All of the above relate to continuing activities attributable to equity shareholders.

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated balance sheets

	2 February 2008	3 February 2007	28 January 2006	Notes
	\$m	\$m	\$m	
Assets				
Current assets:				
Cash and cash equivalents	41.7	152.3	92.9	8
Accounts receivable, net	848.2	792.1	445.7	9
Other receivables	40.5	41.0	36.6	
Other current assets	38.8	36.0	28.5	
Deferred tax assets	–	1.6	–	5
Inventories	1,453.6	1,350.6	1,203.1	10
Total current assets	<u>2,422.8</u>	<u>2,373.6</u>	<u>1,806.8</u>	
Non-current assets:				
Property, plant and equipment, net	489.2	471.4	437.2	12
Goodwill	556.0	556.0	540.9	11
Other intangible assets, net	22.0	15.7	9.9	11
Other assets	34.8	29.2	25.3	
Retirement benefit asset	–	3.7	–	18
Deferred tax assets	74.6	58.6	43.0	5
Total assets	<u>3,599.4</u>	<u>3,508.2</u>	<u>2,863.1</u>	
Liabilities and Shareholders' equity:				
Current liabilities:				
Loans and overdrafts	36.3	5.5	16.4	16
Accounts payable	89.3	115.4	112.0	
Accrued expenses and other current liabilities	268.2	277.0	250.3	13
Deferred revenue	125.3	122.7	111.2	14
Deferred tax liabilities	47.9	27.8	16.1	5
Income taxes payable	79.5	101.7	88.9	
Total current liabilities	<u>646.5</u>	<u>650.1</u>	<u>594.9</u>	
Non-current liabilities:				
Long term debt	380.0	380.0	–	16
Other liabilities	96.4	106.0	87.3	15
Deferred revenue	149.7	144.2	116.1	14
Retirement benefit obligation	5.6	–	1.9	18
Total liabilities	<u>1,278.2</u>	<u>1,280.3</u>	<u>800.2</u>	
Commitments and contingencies				20
Shareholders' equity:				
Common stock of 0.9c par value: authorized 5,929.9 million shares, issued and outstanding 1,705.5 million shares (2007: 0.5p par value: authorized 5,929.9 million, issued and outstanding; 1,713.6 million shares, 2006: 0.5p par value: authorized 5,929.9 million shares issued and outstanding 1,738.8 million shares)	15.3	14.0	14.3	19
Deferred stock, £1 par value: authorized 50,000, issued and outstanding 50,000 shares (2007 and 2006: nil authorized, nil issued and outstanding)	0.1	–	–	19
Additional paid-in-capital	162.5	138.5	130.1	19
Other reserves	235.2	235.1	234.8	19
Treasury stock: 1.7 million shares (2007: 2.6 million shares and 2006: 3.7 million shares)	(10.8)	(13.3)	(15.4)	19
Retained earnings	1,918.4	1,855.5	1,779.2	
Accumulated other comprehensive income/(loss)	0.5	(1.9)	(80.1)	
Total shareholders' equity	<u>2,321.2</u>	<u>2,227.9</u>	<u>2,062.9</u>	
Total liabilities and shareholders' equity	<u>3,599.4</u>	<u>3,508.2</u>	<u>2,863.1</u>	

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated statements of cash flow

	52 weeks ended 2 February 2008	53 weeks ended 3 February 2007	52 weeks ended 28 January 2006
	\$m	\$m	\$m
Cash flows from operating activities:			
Net income .....	219.8	252.7	238.0
Adjustments to reconcile net income to cash flows provided by operations:			
Depreciation of property, plant and equipment .....	109.2	96.0	81.0
Amortization of other intangible assets .....	4.7	2.4	2.2
Pension expense .....	(2.0)	2.3	(1.5)
Share-based payments expense .....	(3.4)	17.2	0.2
Deferred taxation .....	6.9	(1.9)	(12.4)
Other non-cash movements .....	(3.0)	(1.5)	1.0
Loss on disposal of property, plant and equipment .....	1.4	0.8	–
Changes in operating assets and liabilities:			
Increase in accounts receivable .....	(56.2)	(93.3)	(75.9)
Increase in other receivables .....	(5.2)	(11.4)	(14.3)
Decrease in other current assets .....	0.7	1.3	0.2
Increase in inventories .....	(96.8)	(118.1)	(131.0)
(Decrease)/increase in accounts payable .....	(31.7)	(1.7)	36.7
Increase in accrued expenses and other liabilities .....	7.7	1.4	69.0
Increase in deferred revenue .....	9.6	49.2	0.5
(Decrease)/increase in income taxes payable .....	(19.0)	6.4	12.2
Net cash provided by operating activities .....	<u>142.7</u>	<u>201.8</u>	<u>205.9</u>
Investing activities:			
Purchase of property, plant and equipment .....	(129.1)	(116.9)	(126.7)
Purchase of other intangible assets .....	(11.3)	(7.5)	(9.9)
Proceeds from sale of property, plant and equipment .....	1.0	0.6	13.5
Net cash flows used in investing activities .....	<u>(139.4)</u>	<u>(123.8)</u>	<u>(123.1)</u>
Financing activities:			
Dividends paid .....	(123.9)	(108.7)	(94.9)
Proceeds from issue of common stock .....	6.0	7.7	7.0
Purchase of own shares .....	(29.0)	(63.4)	(3.6)
Proceeds from short term borrowings .....	31.1	7.0	–
Repayment of short term borrowings .....	–	–	(83.9)
Proceeds from long term debt .....	–	380.0	–
Repayment of long term debt .....	–	(251.0)	–
Net cash flows used in financing activities .....	<u>(115.8)</u>	<u>(28.4)</u>	<u>(175.4)</u>
Cash and cash equivalents at beginning of year .....	152.3	92.9	193.5
(Decrease)/increase in cash and cash equivalents .....	(112.5)	49.6	(92.6)
Effect of exchange rate changes on cash and cash equivalents .....	1.9	9.8	(8.0)
Cash and cash equivalents at end of year .....	<u>41.7</u>	<u>152.3</u>	<u>92.9</u>
Supplemental cash flow information			
Interest paid .....	29.8	31.4	20.5
Income taxes paid .....	128.5	130.1	116.5

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated statements of shareholders' equity

	Common stock at par value	Deferred stock at par value	Additional paid-in- capital	Other reserves (Note 20)	Own stock held	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Balance at 29 January 2005 .....	14.3	—	123.3	234.8	(14.7)	1,638.6	(0.5)	1,995.8
Net income .....	—	—	—	—	—	238.0	—	238.0
Foreign currency translation adjustments .....	—	—	—	—	—	—	(46.9)	(46.9)
Changes in fair value of derivative instruments, net of tax .....	—	—	—	—	—	—	2.8	2.8
Minimum pension liability adjustment, net of tax .....	—	—	—	—	—	—	(35.5)	(35.5)
Dividends .....	—	—	—	—	—	(94.9)	—	(94.9)
Share options exercised .....	—	—	6.6	—	2.9	(2.5)	—	7.0
Share based compensation expense .....	—	—	0.2	—	—	—	—	0.2
Purchase of own shares by Employee Share Trusts ("ESOT") .....	—	—	—	—	(3.6)	—	—	(3.6)
Balance at 28 January 2006 .....	14.3	—	130.1	234.8	(15.4)	1,779.2	(80.1)	2,062.9
Net income .....	—	—	—	—	—	252.7	—	252.7
Foreign currency translation adjustments .....	—	—	—	—	—	—	73.5	73.5
Changes in fair value of derivative instruments, net of tax .....	—	—	—	—	—	—	2.3	2.3
Minimum pension liability adjustment, net of tax .....	—	—	—	—	—	—	35.5	35.5
Adoption of Statement of Financial Accounting Standards ("SFAS") No. 158 (see Note 18) .....	—	—	—	—	—	—	(33.1)	(33.1)
Dividends .....	—	—	—	—	—	(108.7)	—	(108.7)
Share options exercised .....	—	—	9.9	—	2.1	(4.3)	—	7.7
Adoption of SFAS No. 123(R) (see Note 22) .....	—	—	(5.3)	—	—	—	—	(5.3)
Share based compensation expense .....	—	—	3.8	—	—	—	—	3.8
Purchase of own shares .....	(0.3)	—	—	0.3	—	(63.4)	—	(63.4)
Balance at 3 February 2007 .....	14.0	—	138.5	235.1	(13.3)	1,855.5	(1.9)	2,227.9
Translation of common stock prior to cancellation .....	1.4	—	(1.4)	—	—	—	—	—
Cancellation of pound par common stock .....	(15.4)	—	15.4	—	—	—	—	—
Issuance of dollar par common stock .....	15.4	—	(15.4)	—	—	—	—	—
Issuance of deferred stock .....	—	0.1	—	—	—	—	—	0.1
Net income .....	—	—	—	—	—	219.8	—	219.8
Foreign currency translation adjustments .....	—	—	—	—	—	—	(0.2)	(0.2)
Changes in fair value of derivative instruments, net of tax .....	—	—	—	—	—	—	11.2	11.2
Actuarial gains and losses on pension scheme .....	—	—	—	—	—	—	(9.4)	(9.4)
Prior service costs on pension scheme .....	—	—	—	—	—	—	0.8	0.8
Dividends .....	—	—	—	—	—	(123.9)	—	(123.9)
Share options exercised .....	—	—	6.9	—	2.5	(4.0)	—	5.4
Share based compensation expense .....	—	—	18.5	—	—	—	—	18.5
Purchase of own shares .....	(0.1)	—	—	0.1	—	(29.0)	—	(29.0)
Balance at 2 February 2008 .....	15.3	0.1	162.5	235.2	(10.8)	1,918.4	0.5	2,321.2

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated statements of comprehensive income

	Pension plans					Accumulated other comprehensive income/ (expenses)
	Foreign currency translation	Changes in derivative instruments	Actuarial gains/ (losses)	Prior service (cost)/ credit	Minimum pension liability	
	\$m	\$m	\$m	\$m	\$m	\$m
Balance at 29 January 2005	(0.5)	–	–	–	–	(0.5)
Other comprehensive income:						
Foreign currency translation	(46.9)	–	–	–	–	(46.9)
Changes in fair value of derivative instruments	–	3.6	–	–	–	3.6
Minimum pension liability adjustment	–	–	–	–	(50.8)	(50.8)
Deferred tax on items recognized in equity	–	(0.8)	–	–	15.3	14.5
						<u>(79.6)</u>
Balance at 28 January 2006	(47.4)	2.8	–	–	(35.5)	(80.1)
Other comprehensive income:						
Foreign currency translation	73.5	–	–	–	–	73.5
Changes in fair value of derivative instruments	–	3.2	–	–	–	3.2
Deferred tax on items recognized in equity	–	(0.9)	–	–	–	(0.9)
						<u>75.8</u>
Adoption of SFAS No. 158, net of tax <sup>(1)</sup>	26.1	5.1	–	–	(35.5)	(4.3)
	–	–	(26.6)	(6.5)	35.5	2.4
Balance at 3 February 2007	26.1	5.1	(26.6)	(6.5)	–	(1.9)
Other comprehensive income:						
Foreign currency translation	(0.2)	–	–	–	–	(0.2)
Changes in fair value of derivative instruments	–	12.0	–	–	–	12.0
Actuarial loss	–	–	(13.5)	–	–	(13.5)
Prior service cost	–	–	–	1.2	–	1.2
Deferred tax on items recognized in equity	–	(0.8)	4.1	(0.4)	–	2.9
						<u>2.4</u>
Balance at 2 February 2008	<u>25.9</u>	<u>16.3</u>	<u>(36.0)</u>	<u>(5.7)</u>	<u>–</u>	<u>0.5</u>

(1) includes pre tax amounts for actuarial losses of \$37.6m and prior service cost of \$9.3m.

The accompanying notes are an integral part of these consolidated financial statements.

## NOTES TO THE ACCOUNTS

### 1. Principal Accounting Policies

Signet Group plc (the “**Company**”) and its subsidiary undertakings (collectively, the “**Group**”) is a leading retailer of jewelry, watches and associated services. The Group manages its business as two geographical segments, being the United Kingdom (the “**UK**”) and the United States of America (the “**US**”). The US segment operates retail stores under brands including Kay Jewelers, Jared The Galleria Of Jewelry and various regional brands while the UK segment’s retail stores operate under brands including H. Samuel and Ernest Jones.

In relation to the accounts of the Group, the following accounting policies have, unless otherwise stated, been applied consistently in dealing with items which are considered material in all reporting periods presented herein.

#### (a) *Basis of preparation*

The consolidated accounts of the Group are prepared in accordance with Generally Accepted Accounting Principles in the USA (“**US GAAP**”) and include the results of the Company and its subsidiary undertakings made up for the 52 week period ended 2 February 2008 (“**2007/08**”), the 53 week period ended 3 February 2007 (“**2006/07**”) and the 52 week period ended 28 January 2006 (“**2005/06**”). Intercompany balances have been eliminated on consolidation.

These results are presented in US dollars following a change in the Group’s presentational currency from pounds sterling to US dollars with effect from 5 February 2007. As the majority of the Group’s assets and operations are in the US this change better reflects the underlying performance of the Group.

In addition, on 5 February 2007 the Company redenominated its share capital into US dollars and will retain distributable reserves and declare dividends in US dollars. As a result of these changes, management re-evaluated the Company’s functional currency criteria under Statement of Financial Accounting Standards (“**SFAS**”) No. 52 “Foreign Currency Translation” (“**SFAS 52**”), and determined that beginning 5 February 2007, the functional currency of the Company was the US dollar. This change was adopted prospectively beginning 5 February 2007 in accordance with SFAS 52.

#### (b) *Use of estimates*

The preparation of consolidated financial statements, in conformity with US GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are primarily made in relation to the valuation of intangible assets, the valuation of inventory, depreciation, the valuation of employee benefits, income taxes and contingencies.

#### (c) *Foreign currency translation*

The results of overseas subsidiary undertakings whose functional currency is not US dollars are translated into US dollars at the weighted average rate of exchange during the period and their balance sheets and attributable goodwill are translated at the rates ruling at the balance sheet date. Exchange differences arising from the translation of the net assets of overseas subsidiary undertakings into US dollars and matched foreign currency borrowings are included in accumulated other comprehensive income/loss.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the relevant functional currency at the foreign exchange rate ruling at that date. Transaction gains and losses are recognized in arriving at operating income, net.

#### (d) *Revenue recognition*

Revenue is recognized when:

- there is persuasive evidence of an agreement or arrangement;
- delivery of products has occurred or services have been rendered;
- the seller’s price to the buyer is fixed and determinable; and
- collectability is reasonably assured.

The Group's revenue streams and their respective accounting treatments are discussed below:

#### *Merchandise sales*

Sales are recognized for store sales when the customer receives and pays for the merchandise at the store with either cash or credit card. For online sales, sales are recognized at the estimated time the customer has received the merchandise. Amounts related to shipping and handling that are billed to customers are reflected in sales and the related costs are reflected in cost of sales.

Revenue on the sale of merchandise is reported net of anticipated returns and sales tax collected. Returns are based on previous return rates experienced.

Any deposits received from a customer for merchandise are deferred and recognized when the customer receives the merchandise.

Certain of the Group's merchandise sales are derived from providing replacement merchandise on behalf of insurance organizations to their customers who have experienced a loss of their property. In these cases, the sale price is established by contract with the insurance organization and revenue on the sale is recognized upon both receipt of an insurance voucher from the customer, and receipt of the merchandise.

#### *Merchandise repairs*

Revenue on repair of merchandise is recognized when the service is complete and the customer receives the merchandise.

#### *Extended service and lifetime warranty agreements*

The Group, at the option of the customer, separate from the purchase price of merchandise, sells extended service and lifetime warranty agreements on certain merchandise. The terms of the service agreements obligate the Group to perform certain inspections under the agreement. The terms of the lifetime warranty agreements obligate the Group, subject to certain conditions, to perform repair work beyond normal wear and tear over the lifetime of the product. Revenue from the sale of extended service and lifetime warranty agreements is recognized in proportion to the costs expected to be incurred in performing services under the agreements. Revenue recognized in a period is based on the historical claims experience of the business. The Group reviews the pattern of claims at the end of each period to determine any significant trends that may require changes to revenue recognition rates.

Where the Group sells extended service and lifetime warranty agreements in the capacity as an agent on behalf of a third party, commission revenue is recognized at time of sale. Sales return rates include the impact of cancellations based on historical experience.

#### *Sale vouchers*

When vouchers issued on a purchase give a discount against a future purchase, the estimated fair value of those vouchers to the customer is treated as deferred revenue. This revenue is then recognized as vouchers are redeemed over the period until voucher expiry.

#### **(e) *Cost of sales and selling, general and administrative expenses***

Cost of sales includes all costs incurred in the purchase, processing and distribution of the merchandise and all costs directly incurred in the operation and support of retail outlets. This includes inbound freight charges, purchasing and receiving costs, inspection and internal transfer costs. Selling, general and administrative expenses include all costs not directly incurred in the purchase, processing and distribution of merchandise or support of the retail outlets. This includes selling, administration, finance and management expenses.

#### **(f) *Store opening costs***

The promotional costs of opening new locations are expensed as incurred.

#### **(g) *Advertising and promotional costs***

Advertising and promotional costs are expensed within selling, general and administrative expenses. Production costs are expensed at the first communication of the advertisements, whilst communication expenses are expensed each time the advertisement is communicated. For catalogues and circulars, costs are

all expensed at the first date they can be viewed by the consumer. Point of sale promotional material is expensed when first displayed in the stores. Advertising costs totalled \$233.2 million in 2007/08 (2006/07: \$212.0 million; 2005/06: \$180.0 million).

**(h) Goodwill**

Goodwill represents the excess of the cost on acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is not amortized to the income statement, but is reviewed for impairment, at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Some factors the Group considers important which could trigger an impairment review include the following: (i) significant under performance of a reporting unit relative to projected operating results; (ii) significant changes in the manner of the Group's use of acquired assets; and (iii) significant negative industry or economic trends.

In accordance with SFAS No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"), goodwill is reviewed for impairment by comparing the carrying value of each reporting unit (including allocated goodwill) to the fair value of the reporting unit. If the reporting unit's carrying amount is greater than its fair value, then a second step is performed whereby the implied fair value that relates to the reporting unit's goodwill is compared to the carrying value of that goodwill. The Group recognizes a goodwill impairment charge for the amount the carrying value of goodwill exceeds its implied fair value.

The Group calculates fair value through discounting future cash flow forecasts, derived from the most recent financial results and budgets approved by management. The key assumptions in determining fair value are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs. Management estimates discount rates using pre-tax rates that reflect assessments of the time value of money and the risks specific to the Group.

**(i) Other intangible assets**

Other intangible assets, which comprise computer software purchased or developed for internal use, are stated at cost less accumulated amortization. Costs are capitalized in accordance with the provisions of Statement of Position No. 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". The Group's policy provides for the capitalization of external direct costs of materials and services associated with developing or obtaining internal use computer software. In addition, the Group also capitalizes certain payroll and payroll-related costs for employees who are directly associated with internal use computer projects. Amortization is charged on a straight-line basis over periods from three to five years.

**(j) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Maintenance and repair costs are expensed as incurred.

Depreciation on freehold and leasehold retail premises is calculated over the lesser of 50 years or the lease term. Long leaseholds relate to leases that have an original and unexpired lease term of greater than 25 years. Freehold land is not depreciated.

Depreciation on other fixed assets is provided on a straight-line basis over the estimated useful lives at the following annual rates:

Plant, machinery and vehicles

- rates up to 33 1/3 per cent,

Shopfronts, fixtures and fittings

- rates up to 33 1/3 per cent.

Leasehold improvements are depreciated over the shorter of the term of the lease or the estimated useful life of the improvements. Where the renewal of a lease is reasonably assured, the depreciation period for shopfronts, fixtures and fittings may exceed the remaining initial lease term, if constructed significantly after and not contemplated at the beginning of the lease term.

At the time property, plant and equipment is retired or otherwise disposed of, the cost and accumulated depreciation are eliminated from the asset and accumulated depreciation accounts.

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Potentially impaired assets are

identified by reviewing the cash flows of individual stores. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the undiscounted cash flow is less than the asset's carrying amount, the impairment charge recognized is determined by estimating the fair value of the assets and recording a loss for the amount that the carrying value exceeds the estimated fair value. Property, plant and equipment at stores planned for closure are depreciated over a revised estimate of their useful lives.

**(k) Inventories**

Inventories represent raw materials and goods held for resale and are valued at the lower of cost or market. Cost is determined using average cost and includes overheads directly related to bringing inventory to its present location and condition. These include relevant warehousing, distribution and certain buying, security and data processing costs. Market is defined as estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Inventory write-downs are made for obsolete, slow moving, defective items and shrinkage. The write-down is equal to the difference between the cost of inventory and its estimated market value based upon assumptions of targeted inventory turn rates, future demand, management strategy and market conditions. Shrinkage is estimated for the period from the last inventory date to the end of the fiscal year on a store by store basis. Such estimates are based on experience. Physical inventories are taken at least once annually for all store locations and for distribution centers.

**(l) Vendor contributions**

Contributions are received from vendors through various programs and arrangements including cooperative advertising. Vendor allowances are accounted for in accordance with Emerging Issues Task Force ("EITF") Issue No. 02-16, "Accounting by a Customer (including a reseller) for cash consideration received from a vendor". Where vendor contributions are received in respect of identifiable promotional events, these are matched against the costs of these promotions. Vendor contributions which are received as general contributions and not against specific promotional events are allocated against inventories.

**(m) In-house credit programs**

The Group operates an in-house credit program in the US business to allow customers to finance merchandise purchases. The credit programs have various billing and payment structures, including varying minimum payment levels and finance charge rates and fees. The Group recognizes finance charges in accordance with the contractual agreements. Gross interest earned is recorded as other operating income in the income statement. See note 3. Allowances for uncollectible amounts are recorded as a charge to selling, general and administrative expenses in the income statement.

**(n) Accounts receivable**

Accounts receivable, stated at their nominal amounts, include amounts outstanding from the Group's in-house credit programs and third party credit cards. Accounts receivable under the in-house credit programs are shown net of an allowance for uncollectible amounts. The allowance is an estimate of losses inherent in the customer portfolio as of the balance sheet date. The Group calculates the allowance using models that analyze factors such as delinquency rates, recovery rates and other portfolio data. The calculation is reviewed by management to assess whether, based on economic events, additional analyses are required to appropriately estimate losses inherent in the portfolio.

**(o) Leases**

Assets held under capital leases are leases where substantially all the risks and rewards of the asset have passed to the Group. All other leases are defined as operating leases.

Where operating leases include clauses in respect of predetermined rent increases, those rents are charged to the income statement on a straight-line basis over the lease term, including any construction period or other rental holiday. Other rentals paid under operating leases are charged to the income statement as incurred. Premiums paid to acquire short leasehold properties and inducements to enter into a lease are recognized over the lease term.

Certain leases provide for contingent rentals that are not measurable at inception. These contingent rentals are primarily based on a percentage of sales that are in excess of a predetermined level. These amounts are excluded from minimum rent and are included in the determination of rent expense when it is probable that the expense has been incurred and the amount is reasonably estimable.

**(p) Taxation**

Income taxes are accounted for using the asset and liability method in accordance with SFAS 109, "Accounting for Income Taxes". Under this method, deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements. A valuation allowance is established against deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

On 4 February 2007 the Group adopted FIN 48 "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109". The interpretation establishes a two-step approach for recognizing and measuring tax benefits, with tax benefits arising from uncertain positions only being recognized when considered to be more likely than not sustained upon examination by the taxing authority. A recognized tax position is then measured at the largest amount of benefit that is more than 50 per cent likely to be realized upon settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties, disclosure and transition issues.

At the beginning of 2007/08, the Group had approximately \$20.9 million of total unrecognized tax benefits, all of which could favorably affect the effective income tax rate in future periods. Included within this, as of the adoption date, the Group had accrued interest and penalties expense related to the unrecognized tax benefits of \$2.7 million. The Group recognizes interest and penalties related to unrecognized tax benefits in income tax expense. There was no cumulative effect adjustment to the opening balance of retained earnings arising as a result of the adoption of FIN 48 and no adjustments were made to other components of shareholders' equity in the balance sheet.

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

**(q) Employee benefits**

The Group operates a defined benefit pension scheme (the "**Group Scheme**") in the UK which ceased to admit new employees from April 2004. The Group Scheme, covering two of the executive directors and the participating eligible employees in the UK, provides benefits based on members' salaries at retirement. The Group Scheme's assets are held by the trustees and are completely separate from those of the Group.

The net periodic cost of the Group Scheme is measured on an actuarial basis using the projected unit credit method and relevant actuarial assumptions, the most significant of which are the discount rate and the expected long term rate of return on plan assets. Other material assumptions include rates of participant mortality, the expected long term rate of compensation and pension increases and rates of employee turnover. Gains and losses occur when actual experience differs from actuarial assumptions. If such gains or losses exceed ten percent of the greater of plan assets or plan liabilities, the Group amortizes those gains or losses over the average remaining service period of the employees.

The net periodic pension cost is charged to selling, general and administrative expenses in the income statement.

In September 2006, the Financial Accounting Standards Board ("**FASB**") issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("**SFAS 158**") which required an employer to:

- recognize in its balance sheet the funded status of a benefit plan measured as the difference between the fair value of plan assets and the benefit obligation;
- recognize, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost;
- measure defined benefit plan assets and obligations as of the date of the employer's balance sheet; and
- disclose additional information in the notes to the financial statements about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits and transition asset or obligation.

The requirements of SFAS 158 are applied prospectively upon adoption. The requirements to recognize the funded status of a defined benefit postretirement plan and provide related disclosures are effective for fiscal years ending after 15 December 2006, and have been applied for 2006/07. See Note 18.

The Group also operates a defined contribution pension scheme in the UK and sponsors a defined contribution 401(k) retirement savings plan in the US. Contributions made by the Group to these pension arrangements are charged to the income statement as incurred.

Where appropriate, supplementary pensions and life assurance benefits for UK directors and senior executives were until 5 April 2006 provided through the Signet Group Funded Unapproved Retirement Benefits Scheme (“**FURBS**”) and were charged to the income statement as incurred. The **FURBS** has now been closed and in substitution a supplement of the same amount is now paid directly to the members.

**(r) Derivative financial instruments and hedge accounting**

The Group uses derivative financial instruments for other than trading purposes to alter the risk profile of an existing underlying exposure. Forward foreign currency and commodity contracts are used to manage currency and commodity exposures arising from future purchases.

Derivative financial instruments are measured at fair value and are recognized as assets or liabilities on the balance sheet with changes in the fair value of the derivatives being recognized immediately in the income statement or accumulated other comprehensive income/(loss), depending on the timing and designated purpose of the derivative.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognized directly in equity as a component of accumulated other comprehensive income/(loss). Changes in the fair value of derivatives that do not qualify for hedge accounting, together with any hedge ineffectiveness, are recognized immediately in the income statement. For the effective portion of cash flow hedges, amounts previously recognized in equity are recognized in the income statement in the same period in which the hedged item affects net income or loss.

**(s) Cash and cash equivalents**

Cash and cash equivalents comprise money market deposits and amounts placed with external fund managers with an original maturity of three months or less, and are carried at cost which approximates to fair value.

**(t) Share-based compensation**

On 29 January 2006 the Group adopted SFAS No. 123 (revised 2004), “Share-Based Payment,” (“**SFAS 123(R)**”) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. SFAS 123(R) supersedes the Group’s previous accounting under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“**APB 25**”) beginning in 2006/07. The Group adopted SFAS 123(R) using the modified prospective transition method, which required compensation cost to be recognized beginning on the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date, and (b) based on the requirements of SFAS 123, “Accounting for Share Based Compensation” (“**SFAS 123**”) for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date. Accordingly, the Group’s consolidated financial statements for prior fiscal years have not been restated to reflect the impact of SFAS 123(R).

Pursuant to SFAS 123(R), the Group measures share-based compensation cost for awards classified as equity at the grant date, based on the estimated fair value of the award, and recognizes the cost as expense on a straight-line basis (net of estimated forfeitures) over the employee requisite service period. Certain of the Group’s share plans include a condition whereby vesting is contingent on growth exceeding the scheme target adjusted by movements in the relevant UK or US RPI. In accordance with SFAS 123(R), the RPI condition is neither a market nor a performance condition, and consequently any awards granted with this condition are classified as liability awards. The Group measures share based compensation cost for awards classified as liabilities at fair value, which is re-measured at the end of each reporting period until the performance criteria have been satisfied and the amounts are reclassified to equity. Changes in the fair value that occur during the requisite service period are recognized as compensation cost over the requisite service period.

The Group estimated the fair value of all share-based awards using a Black-Scholes valuation model up to 29 January 2005. Subsequent to 29 January 2005, the Group continued to use a Black-Scholes valuation model for the LTIP options; all other share-based awards, however, were valued using a binomial valuation model. Deferred tax assets for awards that result in deductions on the income tax returns of subsidiary undertakings are recorded by the Group based on the amount of compensation cost recognized and the

subsidiary undertaking's statutory tax rate in the jurisdiction in which it will receive a deduction. Differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on the subsidiary undertaking's income tax return are recorded in additional paid-in-capital (if the tax deduction exceeds the deferred tax asset) or in the income statement (if the deferred tax asset exceeds the tax deduction and no additional paid-in-capital exists from previous awards).

For 2005/06 and prior reporting periods, the Group accounted for incentive and nonqualified share options awarded to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under SFAS 123. Under the intrinsic value method, no compensation expense had been recognized by the Group on the 1993 and 2003 executive share schemes as the options granted under this program had exercise prices equal to the fair market value of the underlying shares at the date of grant. Compensation cost was recognized under the Sharesave Scheme, Employee Share Savings Plan, Irish Sharesave Scheme and LTIP as a discount from market value is provided to eligible employees.

Share based compensation is recorded in selling, general and administrative expenses in the income statement.

See Note 21 for a further description of the Group's share option plans.

**(u) *Contingent liabilities***

Provisions for contingent liabilities are recorded for probable losses when management is able to estimate the loss.

**(v) *Common stock***

When new shares are issued, they are recorded in common stock at their par value. The excess of the issue price over the par value is recorded in additional paid-in-capital.

The cost of own shares purchased to satisfy the exercise of employee share options is deducted from total equity and the proceeds of their onward transfer are credited to total equity.

**(w) *Dividends***

Dividends are provided for in the period in which they are formally approved.

**(x) *Statutory accounts***

The consolidated financial statements as at 2 February 2008, 3 February 2007 and 28 January 2006, and for the 52 week period ended 2 February 2008, the 53 week period ended 3 February 2007 and the 52 week period ended 28 January 2006, do not comprise statutory accounts within the meaning of section 240 of the UK Companies Act 1985.

Statutory accounts prepared in accordance with International Financial Reporting Standards as issued by the IASB ("**IFRS**") for 2007/08 have been delivered to the Registrar of Companies for England and Wales. The auditors' reports on those accounts were unqualified.

**(y) *Recently issued accounting pronouncements***

*Adopted during the period*

EITF 06-3

In September 2006, the Emerging Issues Task Force ("**EITF**") reached a consensus regarding EITF 06-3, "How Sales Taxes Collected from Customers and Remitted to Governmental Authorities should be presented in the Income Statement (That Is, Gross versus Net Presentation)" ("**EITF 06-03**"). The scope of the issue includes any tax assessed by a governmental authority that is directly imposed on a revenue producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added, and some excise taxes. The EITF concluded that the presentation of taxes within the scope of EITF 06-3 as either gross (included within revenues and costs) or net (excluded from revenues) is an accounting policy decision that should be disclosed. In addition, for any such taxes that are reported on a gross basis, a company should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The disclosure of those taxes can be done on an aggregate basis. The guidance in this issue should be applied to financial reports for interim and annual reporting periods beginning after 15 December 2006. On adoption of EITF 06-3, the Group continued to present sales net of taxes. The adoption of EITF 06-3 did not have an impact on the Group's consolidated financial position, results of operations or cash flows or financial statement disclosure.

*To be adopted in future periods*

SFAS No. 160

In December 2007, the FASB issued SFAS No. 160, “Non-controlling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51” (“**SFAS 160**”). SFAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a non-controlling interest (minority interest) as equity in the consolidated financial statements, separate from the parent’s equity. The amount of net income attributable to the non-controlling interest will be included in consolidated net income on the face of the income statement. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years beginning after 15 December 2008. Currently, the Group does not have any non-controlling interests in its subsidiaries.

SFAS No. 141(R)

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), “Business Combinations” (“**SFAS 141(R)**”). SFAS 141(R) will change the accounting for business combinations. Under SFAS 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. It also amends the accounting treatment for certain specific items including acquisition costs and non-controlling minority interests and includes a number of new disclosure requirements. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 15 December 2008.

SFAS No. 157

In September 2006 the FASB issued SFAS No. 157, “Fair Value Measurements” (“**SFAS 157**”), which provides a single definition of fair value, establishes a framework for the measurement of fair value and expands disclosure about the use of fair value to measure assets and liabilities. SFAS 157 is effective for fiscal years beginning after 15 November 2007, and for interim periods within those fiscal years; SFAS 157 is therefore applicable for the Group’s fiscal year which commenced 3 February 2008. In November 2007, the FASB agreed to defer the effective date of SFAS 157 for all non financial assets and liabilities by one year. The Group does not anticipate any impact on the consolidated financial statements upon adoption.

SFAS No. 161

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“**SFAS 161**”), which amends SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”. SFAS 161 requires companies with derivative instruments to disclose information that should enable financial statements users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and how derivative instruments and related hedged items affect a company’s financial position, financial performance and cash flows. The required disclosures include the fair value of derivative instruments and their gains or losses in tabular format, information about credit risk, related contingent features in derivative agreements, counterparty credit risk and a company’s strategies and objectives for using derivative instruments. The Statement expands the current disclosure framework in SFAS 133. SFAS 161 is effective prospectively for periods beginning on or after 15 November 2008.

## **2. Segmental Information**

The Group’s sales are derived from the retailing of jewelry, watches and associated services. The Group is managed as two geographical operating segments, being the US and UK divisions. These segments represent channels of distribution that offer similar merchandise and service and have similar marketing and distribution strategies. Both divisions are managed by executive committees, which report under IFRS through the Group Chief Executive to the board of directors of the Group. Each divisional executive committee is responsible for operating decisions within guidelines set by the board of directors of the Group. The performance of each segment is regularly evaluated based on sales and operating income. The operating segments do not include income taxes or certain Group costs, and there are no material transactions between the operating segments.

The accounting policies of the segments are the same as those used by the Group to report under IFRS. Presented below is a reconciliation of IFRS segment performance to the equivalent amounts determined in accordance with US GAAP.

	<u>2007/08</u>	<u>2006/07</u>	<u>2005/06</u>
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
Sales:			
US .....	2,705.7	2,652.1	2,308.8
UK .....	959.6	907.1	845.3
Consolidated total (IFRS and US GAAP) .....	<u>3,665.3</u>	<u>3,559.2</u>	<u>3,154.1</u>
Operating income:			
US .....	262.2	326.7	300.7
UK .....	105.1	103.4	88.4
Unallocated <sup>(1)</sup> .....	(16.0)	(13.9)	(14.4)
Consolidated total (IFRS) .....	<u>351.3</u>	<u>416.2</u>	<u>374.7</u>
Adjustments:			
—returns provisions (a) .....	—	—	(10.8)
—pensions (b) .....	1.9	(2.4)	(1.0)
—sale and leaseback transactions (c) .....	1.5	1.5	1.5
—share based payment expense (d) .....	3.8	(10.5)	7.9
—asset retirement obligations (e) .....	—	—	(1.8)
—depreciation of revalued properties (h) .....	0.2	—	—
Consolidated total (US GAAP) .....	<u>358.7</u>	<u>404.8</u>	<u>370.5</u>
Depreciation and amortization:			
US .....	72.1	61.3	51.3
UK .....	42.0	37.1	31.9
	114.1	98.4	83.2
Adjustments:			
— depreciation of revalued properties (h) .....	(0.2)	—	—
Consolidated total (US GAAP) .....	<u>113.9</u>	<u>98.4</u>	<u>83.2</u>
Capital additions:			
US .....	111.1	101.1	88.4
UK .....	28.6	23.3	48.2
Unallocated <sup>(1)</sup> .....	0.7	—	—
Consolidated total (IFRS and US GAAP) .....	<u>140.4</u>	<u>124.4</u>	<u>136.6</u>

	2008	2007	2006
	\$m	\$m	\$m
Total assets:			
US .....	2,298.7	2,115.2	1,877.3
UK .....	496.3	521.2	492.4
Unallocated .....	229.2	328.6	234.0
Consolidated total (IFRS) .....	3,024.2	2,965.0	2,603.7
Adjustments:			
—goodwill <sup>(f)</sup> .....	525.4	525.4	510.3
—depreciation of properties <sup>(g,h)</sup> .....	(4.7)	(4.9)	(4.4)
—revaluation of properties <sup>(h)</sup> .....	(8.5)	(8.5)	(7.6)
—commodity derivatives <sup>(i)</sup> .....	8.1	—	—
—receivables securitization <sup>(j)</sup> .....	—	—	(251.0)
—deferred taxation <sup>(k)</sup> .....	54.9	31.2	12.1
Consolidated total (US GAAP) .....	3,599.4	3,508.2	2,863.1
Total long-lived assets:			
US .....	412.7	374.7	336.5
UK .....	141.6	156.3	153.2
Unallocated .....	0.7	0.1	—
Consolidated total (IFRS) .....	555.0	531.1	489.7
Adjustments:			
—goodwill <sup>(f)</sup> .....	525.4	525.4	510.3
—depreciation of properties <sup>(g,h)</sup> .....	(4.7)	(4.9)	(4.4)
—revaluation of properties <sup>(h)</sup> .....	(8.5)	(8.5)	(7.6)
Consolidated total (US GAAP) .....	1,067.2	1,043.1	988.0
Total liabilities:			
US .....	(803.7)	(870.1)	(836.7)
UK .....	(147.3)	(147.2)	(156.1)
Unallocated .....	(267.1)	(201.7)	(55.2)
Consolidated total (IFRS) .....	(1,218.1)	(1,219.0)	(1,048.0)
Adjustments:			
—pensions <sup>(b)</sup> .....	—	—	25.5
—sale and leaseback transactions <sup>(c)</sup> .....	(10.7)	(12.2)	(12.6)
—share based payment expense <sup>(d)</sup> .....	(1.5)	(21.3)	—
—receivables securitization <sup>(j)</sup> .....	—	—	251.0
—deferred taxation <sup>(k)</sup> .....	(47.9)	(27.8)	(16.1)
Consolidated total (US GAAP) .....	(1,278.2)	(1,280.3)	(800.2)

(1) Unallocated principally relates to Group costs.

(a) *Returns provision.* Historically the Group did not record a reserve for sales returns as the financial statement impact was not material. The Group revised this policy on the adoption of IFRS, recognizing a sales returns reserve as an adjustment to opening retained earnings. Under US GAAP, this adjustment was recorded as a reduction to cost of sales in 2005/06 as the impact was not material, individually or in the aggregate, quantitatively or qualitatively, to the financial statements as a whole.

(b) *Pensions.* Under IFRS actuarial gains and losses are immediately recognized in the Statement of Recognized Income and Expense. Under US GAAP, the Group recognizes actuarial gains and losses, outside the 10 per cent corridor, in the income statement using the guidance in SFAS statement No. 87, “Employers Accounting for Pensions” (“SFAS 87”), which provides for the amortization of these amounts through operating income over the average service lives of the employees. Subsequent to the adoption of SFAS 158, actuarial gains and losses are recorded in other comprehensive income/(loss) and amortized under the existing SFAS 87 amortization policy. Additionally, US GAAP expected return on pension asset and interest charges are required in operating profit but are included in finance income and expense under IFRS.

(c) *Sale and leaseback transactions.* Under IFRS, sale and leaseback transactions of freehold and long leasehold properties result in a full gain in the financial year in which the transaction took place whilst under US GAAP the gain is recognized in equal installments over the life of the lease.

(d) *Share based payment expense.* Certain share schemes are subject to a condition that they may not vest unless the growth in related performance conditions exceeds the scheme target growth adjusted by movements in the relevant UK or US Retail Price Index over the same period. Under IFRS, these awards are treated as equity awards whilst under US GAAP, these awards are treated as liability awards. In addition, under IFRS, employers’ social security liability arising from share-based payment transactions is recognized over the same period or periods as the share-based payment charge. Under US GAAP, employers’ payroll taxes due on the exercise of share options are recognized as an expense when the liability arises, which is generally the option exercise date.

- (e) *Asset retirement obligations.* Where quantifiable, the discounted cost of decommissioning assets installed in leasehold premises is included in the cost of the asset and appropriate decommissioning provisions are recognized. Prior to 2005/06 a provision for decommissioning assets was not recorded. As of 29 January 2006, this is consistent under both IFRS and US GAAP.
- (f) *Goodwill.* This balance represents the unamortized balance of goodwill under US GAAP in excess of the balance under IFRS. As the Group has elected not to restate its prior business combinations on transition to IFRS, goodwill arising on acquisitions before 1 January 1998 remains fully written-off against equity consistent with the approach under prior GAAP, as it stood prior to the transition to IFRS. On acquisitions subsequent to 1 January 1998, until adoption of IFRS, goodwill was amortized over 20 years. Under US GAAP goodwill was amortized over 40 years through 3 February 2002.
- (g) *Depreciation of properties.* This adjustment represents a historical difference between IFRS and US GAAP on certain freehold and long leasehold properties as these properties were not depreciated under UK GAAP and these balances were used on adoption of IFRS.
- (h) *Revaluation of properties.* Certain properties were restated on the basis of appraised values on adoption of IFRS as deemed cost. Under US GAAP, historical cost is used.
- (i) *Derivatives.* Under IFRS the fair value of a cash flow hedge on inventory purchases is recorded as a reduction to the inventory. Under US GAAP, the fair value of cash flow hedges is recorded in accumulated other comprehensive income and released to cost of sales when the associated inventory is sold. Prior to 2007/08 the impact of this adjustment was not material quantitatively or qualitatively to the financial statements.
- (j) *Receivables securitization.* In 2005/06, under IFRS, securitized US receivables of \$251.0 million were included within trade debtors and bank loans, as the related financing was of a revolving nature and therefore not considered to be an outright sale of such accounts receivable. Under US GAAP these amounts qualified for off-balance sheet treatment. This was because the receivables were first sold to a special purpose entity, Sterling Jewelers Receivables Corporation, which then sold on the receivables to a qualifying special purpose unconsolidated trust, Sterling Jewelers Receivables Master Trust. The trust was legally isolated from the Group; the majority of the interest in the US receivables portfolio held by the trust were principally sold on to institutional investors in the form of fixed-rate investor certificates; and the Group did not maintain control over the receivables portfolio transferred to the trust.
- (k) *Deferred taxation.* Represents the deferred tax impact of the adjustments and reclassifications made from IFRS to US GAAP.

The Group's sales by product are presented below:

	<u>2007/08</u>	<u>2006/07</u>	<u>2005/06</u>
	\$m	\$m	\$m
Diamonds and diamond jewelry .....	2,068.5	2,057.3	1,767.6
Watches .....	444.8	410.3	367.9
Gold and silver jewelry, other products and services .....	1,152.0	1,091.6	1,018.6
Total sales (US GAAP) .....	<u>3,665.3</u>	<u>3,559.2</u>	<u>3,154.1</u>

Sales to any individual customer were not significant to the consolidated sales of the Group.

### 3. Other Operating Income, Net

	<u>2007/08</u>	<u>2006/07</u>	<u>2005/06</u>
	\$m	\$m	\$m
Interest income from in-house credit programs .....	108.4	93.3	81.9
Foreign currency exchange gain/(loss) .....	<u>0.4</u>	<u>(1.8)</u>	<u>1.4</u>
Other operating income, net .....	<u>108.8</u>	<u>91.5</u>	<u>83.3</u>

### 4. Staff Costs

Staff costs of the Group were as follows:

	<u>2007/08</u>	<u>2006/07</u>	<u>2005/06</u>
	\$m	\$m	\$m
Wages and salaries .....	635.7	619.8	557.8
Social security costs .....	54.5	51.9	45.7
Pension costs .....	11.4	10.9	9.4
Share-based payment expense .....	<u>0.4</u>	<u>6.7</u>	<u>8.1</u>
Total staff costs .....	<u>702.0</u>	<u>689.3</u>	<u>621.0</u>

## 5. Taxation

	<u>2007/08</u>	<u>2006/07</u>	<u>2005/06</u>
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
Income before tax:			
—UK .....	132.5	113.7	90.4
—US .....	203.7	273.6	263.9
	<u>336.2</u>	<u>387.3</u>	<u>354.3</u>
Current taxation:			
—UK .....	42.0	30.7	20.7
—US .....	67.5	105.8	108.0
Deferred taxation:			
—UK .....	(2.6)	(3.7)	(1.3)
—US .....	9.5	1.8	(11.1)
	<u>116.4</u>	<u>134.6</u>	<u>116.3</u>
	<u>2007/08</u>	<u>2006/07</u>	<u>2005/06</u>
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
Sources of deferred taxation are as follows:			
UK property, plant and equipment .....	(2.5)	(0.8)	2.3
US property, plant and equipment .....	(2.6)	(3.0)	(1.8)
Inventory valuation .....	21.3	16.5	8.7
Allowances for doubtful debts .....	(3.2)	(2.3)	(2.0)
Revenue deferral (extended service agreements) .....	(5.5)	(4.1)	(3.8)
Straight line lease payments .....	(2.2)	(2.4)	(2.0)
Deferred compensation .....	(1.7)	(1.5)	(1.6)
Retirement benefit obligations .....	(1.2)	(2.8)	(1.0)
Other temporary differences .....	4.5	(1.5)	(11.2)
	<u>6.9</u>	<u>(1.9)</u>	<u>(12.4)</u>

The differences between the standard rate of corporation tax in the UK and the effective tax rates for the Group are explained below:

	<u>2007/08</u>	<u>2006/07</u>	<u>2005/06</u>
	<u>%</u>	<u>%</u>	<u>%</u>
UK statutory tax rates .....	30.0	30.0	30.0
Differences between UK and US (including state) standard tax rates .....	5.0	5.7	5.6
Expenditure permanently disallowable for tax purposes, net of permanent undercharges .....	0.6	1.3	(0.5)
Over provision in respect of previous periods .....	(1.0)	(2.2)	(2.3)
	<u>34.6</u>	<u>34.8</u>	<u>32.8</u>

The Group's effective tax rate is higher than the UK statutory tax rate because the significant proportion of the Group's business is conducted in the US where the combined federal and state tax rate approaches 40 per cent. The Group's future effective tax rate is dependent on changes in the geographic mix of incomes and the movement in foreign exchange translation rates. It is likely that there will be greater volatility in the Group's effective tax rate going forward owing to changes in the tax environment in both the UK and the US.

Deferred tax assets/(liabilities) consisted of the following:

	2 February 2008			3 February 2007			28 January 2006		
	Assets	(Liabilities)	Total	Assets	(Liabilities)	Total	Assets	(Liabilities)	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
UK property, plant and equipment .....	2.3	–	2.3	–	(0.2)	(0.2)	–	(0.9)	(0.9)
US property, plant and equipment .....	–	(15.8)	(15.8)	–	(18.3)	(18.3)	–	(21.4)	(21.4)
Inventory valuation .....	–	(77.4)	(77.4)	–	(56.1)	(56.1)	–	(39.5)	(39.5)
Allowances for doubtful debts .....	22.1	–	22.1	18.9	–	18.9	16.6	–	16.6
Revenue deferral (extended service agreements) .....	46.2	–	46.2	40.6	–	40.6	36.5	–	36.5
Straight line lease payments .....	17.3	–	17.3	15.2	–	15.2	12.7	–	12.7
Deferred compensation .....	13.3	–	13.3	11.6	–	11.6	–	–	–
Retirement benefit obligations .....	1.6	–	1.6	–	(1.2)	(1.2)	0.3	–	0.3
Other temporary differences .....	17.1	–	17.1	21.9	–	21.9	22.6	–	22.6
UK property related, net .....	0.3	–	0.3	0.2	–	0.2	0.2	–	0.2
Value of UK capital losses .....	27.7	–	27.7	29.4	–	29.4	26.9	–	26.9
Total deferred tax asset/(liability) .....	147.9	(93.2)	54.7	137.8	(75.8)	62.0	115.8	(61.8)	54.0
Valuation allowance .....	(28.0)	–	(28.0)	(29.6)	–	(29.6)	(27.1)	–	(27.1)
Deferred tax asset/(liability) .....	119.9	(93.2)	26.7	108.2	(75.8)	32.4	88.7	(61.8)	26.9
Current assets .....			–			1.6			–
Current liabilities .....			(47.9)			(27.8)			(16.1)
Non-current assets .....			74.6			58.6			43.0
Deferred tax asset/(liability) .....			26.7			32.4			26.9

The difference on translation in respect of deferred tax posted directly to equity in the period ended 2 February 2008 was \$0.1 million charge (2006/07: \$3.0 million charge). The Company believes that it is more likely than not that the net deferred tax asset of \$26.7 million at 2 February 2008 will be realized on future tax returns, primarily from the generation of future taxable income.

On 4 February 2007 the Group adopted FIN 48 “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109”. The provisions of FIN 48 were applied to all tax positions on adoption of this interpretation. There was no cumulative effect adjustment to the opening balance of retained earnings arising as a result of the adoption of FIN 48 and no adjustments were made to other components of shareholders’ equity in the balance sheet.

The Group has business activity in all states within the US and files income tax returns for the US federal jurisdiction and all applicable states. The Group also files income tax returns in the UK and certain other foreign jurisdictions. The Group is subject to US federal and state examinations by tax authorities for tax years after 2 November 2002 and is subject to examination by the UK tax authority for tax years after 31 January 2003.

At the beginning of 2007/08, the Group had approximately \$20.9 million of total unrecognized tax benefits, all of which would favorably affect the effective income tax rate in future periods if resolved in the Group’s favor. Included within this, as of the adoption date, the Group had accrued interest and penalties expense related to the unrecognized tax benefits of \$2.7 million.

The following table summarizes the activity related to unrecognized tax benefits:

	<u>Total</u>
	<u>\$m</u>
At 3 February 2007 .....	20.9
Increases related to current year tax positions .....	3.4
Prior year tax positions	
Increases .....	3.7
Decreases .....	(3.1)
Cash settlements .....	(1.9)
At 2 February 2008 .....	<u>23.0</u>

The total amount of unrecognized tax benefits in respect of uncertain tax positions as of 2 February 2008 was \$23.0 million, all of which would favorably affect the effective tax rate if resolved in the Group’s favor. These unrecognized tax benefits relate to financing arrangements and intra-group charges which are subject to different and changing interpretations of tax law.

The Group recognizes accrued interest and penalties related to unrecognized tax benefits within income tax expense. During 2007/08, the total amount of interest recognized in income tax expense in the consolidated income statement was \$1.1 million. As of 2 February 2008 the Group had accrued interest and penalties of \$3.8m.

Over the next twelve months management believes that it is reasonably possible that there could be a reduction of substantially all of the unrecognized tax benefits as of 2 February 2008, due to settlement of the uncertain tax positions with the tax authorities.

## 6. Earnings Per Share

	<u>2007/08</u>	<u>2006/07</u>	<u>2005/06</u>
Net income (\$ million) .....	219.8	252.7	238.0
Basic weighted average number of shares in issue (million) .....	1,703.8	1,727.6	1,736.6
Dilutive effect of share options (million) .....	<u>17.6</u>	<u>37.5</u>	<u>3.3</u>
Diluted weighted average number of shares in issue (million) .....	1,721.4	1,765.1	1,739.9
Earnings per share—basic .....	12.9c	14.6c	13.7c
Earnings per share—diluted .....	<u>12.8c</u>	<u>14.3c</u>	<u>13.7c</u>
Earnings per ADS—basic .....	129.0c	146.3c	137.0c
Earnings per ADS—diluted .....	127.7c	143.2c	136.8c

The basic weighted average number of shares excludes shares held by the Employee Stock Ownership Trust (“ESOT”) as such shares are not considered outstanding and do not qualify for dividends. The effect of this is to reduce the average number of shares in 2007/08 by 2,146,735 (2006/07: 3,253,096; 2005/06: 3,745,265). The calculation of fully diluted EPS for the 2007/08 excludes options to purchase 33,793,507 shares (2006/07: 17,846,848 share options; 2005/06: 26,826,235 share options) on the basis that their effect on EPS was anti-dilutive.

Each ADS represents ten ordinary shares.

## 7. Dividends

	<u>2007/08</u>	<u>2006/07</u>	<u>2005/06</u>
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
Final dividend paid of 6.317c per share (2007: 2.8875p; 2006: 2.625p) .....	107.6	94.2	81.9
Interim dividend paid of 0.96c per share (2007: 0.4434p; 2006: 0.4125p) .....	<u>16.3</u>	<u>14.5</u>	<u>13.0</u>
	123.9	108.7	94.9

A dividend of 6.317c per share was paid on 6 July 2007 in respect of the final dividend declared for the 52 weeks ended 3 February 2007. An interim dividend of 0.96c for the 52 weeks ended 2 February 2008 was also paid on 9 November 2007. A proposed final dividend of 6.317 cents per share was paid on 3 July 2008 to those shareholders on the register of members at the close of business on 23 May 2008.

## 8. Cash and Cash Equivalents

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
Bank deposits .....	40.6	151.1	91.8
Cash on hand .....	<u>1.1</u>	<u>1.2</u>	<u>1.1</u>
Total cash and cash equivalents .....	41.7	152.3	92.9

## 9. Accounts Receivable, Net

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
Accounts receivable by geographic location			
—US .....	900.6	828.8	470.3
—Other .....	<u>9.8</u>	<u>15.5</u>	<u>22.3</u>
	910.4	844.3	492.6
Less: valuation allowances .....	<u>(62.2)</u>	<u>(52.2)</u>	<u>(46.9)</u>
Total accounts receivable—net .....	848.2	792.1	445.7

Valuation allowances:

	<u>Balance at beginning of period</u>	<u>Bad debt expense</u>	<u>Utilized<sup>(1)</sup></u>	<u>Balance at end of period</u>
	\$m	\$m	\$m	\$m
2005/06 .....	40.8	81.2	(75.1)	46.9
2006/07 .....	46.9	73.1	(67.8)	52.2
2007/08 .....	52.2	93.6	(83.6)	62.2

(1) Including the impact of foreign exchange translation between opening and closing balance sheet dates.

## 10. Inventories

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	\$m	\$m	\$m
Raw materials .....	16.7	9.4	7.6
Finished goods .....	1,436.9	1,341.2	1,195.5
Total inventory .....	<u>1,453.6</u>	<u>1,350.6</u>	<u>1,203.1</u>

The Group held \$221.5 million of consignment inventory at 2 February 2008 (2007: \$205.7 million; 2006: \$175.6 million) which is not recorded on the balance sheet. The principal terms of the consignment agreements, which can generally be terminated by either side, are such that the Group can return any or all of the inventory to the relevant suppliers without financial or commercial penalties and the supplier can vary the inventory prices.

### *Inventory provisions*

	<u>Balance at beginning of period</u>	<u>Charged to profit</u>	<u>Utilised<sup>(1)</sup></u>	<u>Balance at end of period</u>
	\$m	\$m	\$m	\$m
52 weeks ended 28 January 2006 .....	10.7	23.2	(23.3)	10.6
53 weeks ended 3 February 2007 .....	10.6	28.0	(23.9)	14.7
52 weeks ended 2 February 2008 .....	14.7	39.6	(36.8)	17.5

(1) Including the impact of foreign exchange translation.

## 11. Goodwill and Other Intangible Assets, Net

	Computer software	Purchased goodwill		
		US	UK	Total goodwill <sup>(1)</sup>
	\$m	\$m	\$m	\$m
Cost:				
At 29 January 2005	6.2	674.1	228.4	902.5
Additions	9.9	–	–	–
Translation differences	(0.4)	–	(14.4)	(14.4)
At 28 January 2006	15.7	674.1	214.0	888.1
Additions	7.5	–	–	–
Disposals	(0.2)	–	–	–
Transfers	0.6	–	–	–
Translation differences	0.9	–	24.2	24.2
At 3 February 2007	24.5	674.1	238.2	912.3
Additions	11.3	–	–	–
Transfers	(2.6)	–	–	–
Translation differences	–	–	–	–
At 2 February 2008	33.2	674.1	238.2	912.3
Amortization:				
At 29 January 2005	4.0	266.1	86.5	352.6
Charged in period	2.2	–	–	–
Translation differences	(0.4)	–	(5.4)	(5.4)
At 28 January 2006	5.8	266.1	81.1	347.2
Charged in period	2.4	–	–	–
Disposals	(0.2)	–	–	–
Transfers	0.2	–	–	–
Translation differences	0.6	–	9.1	9.1
At 3 February 2007	8.8	266.1	90.2	356.3
Charged in period	4.7	–	–	–
Transfers	(2.2)	–	–	–
Translation differences	(0.1)	–	–	–
At 2 February 2008	11.2	266.1	90.2	356.3
Net book value:				
At 2 February 2008	22.0	408.0	148.0	556.0
At 3 February 2007	15.7	408.0	148.0	556.0
At 28 January 2006	9.9	408.0	132.9	540.9

(1) Goodwill of \$520.2 million net of accumulated amortization arose on acquisitions prior to 1991.

The reporting units for the purpose of goodwill impairment testing are the US and UK operating segments. In 2007/08, 2006/07 and 2005/06, the Group performed the required impairment tests of goodwill and determined that there was no impairment.

Computer software is stated at cost less accumulated amortization. Amortization charges are recorded in selling, general and administrative expenses in the income statement. The weighted average amortization period for additions in the period is 4.1 years.

Management estimates that the annual amortization charge in respect of computer software held at 2 February 2008 for each of the next five fiscal years will be as follows:

	\$m
2008/09	6.5
2009/10	6.1
2010/11	4.3
2011/12	2.9
2012/13	1.0

Estimated amortization expense can be affected by various factors including future acquisitions and disposals.

## 12. Property, Plant and Equipment, Net

	Land and buildings			Plant, machinery and vehicles	Shopfronts, fixtures and fittings	Total
	Freehold	Long leasehold	Short leasehold			
	\$m	\$m	\$m			
Cost:						
At 29 January 2005	28.1	1.7	249.2	126.1	547.3	952.4
Additions	–	–	2.3	5.6	118.8	126.7
Disposals	(12.6)	–	(2.3)	(21.2)	(94.1)	(130.3)
Transfers	–	–	(222.5)	(1.6)	224.1	–
Translation differences	(1.4)	(0.1)	(0.9)	(2.4)	(14.5)	(19.3)
At 28 January 2006	14.1	1.6	25.8	106.5	781.6	929.6
Additions	–	–	4.9	8.1	103.9	116.9
Disposals	(0.6)	–	(0.6)	(2.4)	(26.9)	(30.5)
Transfers	–	–	–	(1.5)	0.9	(0.6)
Translation differences	1.4	–	1.3	2.3	21.5	26.5
At 3 February 2007	14.9	1.6	31.4	113.0	881.0	1,041.9
Additions	–	–	5.5	14.3	109.3	129.1
Disposals	–	–	(0.5)	(2.9)	(37.7)	(41.1)
Transfers	2.0	–	(2.1)	4.7	(2.0)	2.6
Translation differences	–	–	–	(0.1)	(0.4)	(0.5)
At 2 February 2008	16.9	1.6	34.3	129.0	950.2	1,132.0
Depreciation:						
At 29 January 2005	5.9	1.6	137.5	87.3	306.4	538.7
Charged in period	0.4	–	2.0	11.5	67.1	81.0
Disposals	(0.9)	–	(2.3)	(21.1)	(92.9)	(117.2)
Transfers	–	–	(125.3)	–	125.3	–
Translation differences	(0.4)	(0.1)	(0.7)	(1.4)	(7.5)	(10.1)
At 28 January 2006	5.0	1.5	11.2	76.3	398.4	492.4
Charged in period	0.4	–	2.2	14.3	79.1	96.0
Disposals	(0.5)	–	(0.4)	(2.3)	(25.9)	(29.1)
Transfers	–	–	–	(1.1)	0.9	(0.2)
Translation differences	0.6	–	1.1	1.1	8.6	11.4
At 3 February 2007	5.5	1.5	14.1	88.3	461.1	570.5
Charged in period	0.3	–	2.8	12.4	93.7	109.2
Disposals	–	–	(0.4)	(2.0)	(36.3)	(38.7)
Transfers	0.4	–	(0.4)	2.9	(0.7)	2.2
Translation differences	–	–	–	(0.1)	(0.3)	(0.4)
At 2 February 2008	6.2	1.5	16.1	101.5	517.5	642.8
Net book value:						
At 2 February 2008	10.7	0.1	18.2	27.5	432.7	489.2
At 3 February 2007	9.4	0.1	17.3	24.7	419.9	471.4
At 28 January 2006	9.1	0.1	14.6	30.2	383.2	437.2

Property, plant and equipment are stated at cost. Freehold properties on the consolidated balance sheet include \$6.9 million of depreciable assets (2006/07: \$6.9 million; 2005/06: \$6.2 million).

## 13. Accrued Expenses and other Current Liabilities

	2008	2007	2006
	\$m	\$m	\$m
Social security and PAYE	10.5	11.6	6.7
Other taxes	33.7	42.6	39.5
Other liabilities	23.5	19.7	15.2
Accrued compensation	56.8	66.8	69.8
Accrued expenses	143.7	136.3	119.1
Total accrued expenses and other current liabilities	268.2	277.0	250.3

Sales returns reserve included in accrued expenses:

	Balance at beginning of period	Adjustment <sup>(1)</sup>	Balance at end of period
	\$m	\$m	\$m
2005/06 .....	7.9	0.4	8.3
2006/07 .....	8.3	1.3	9.6
2007/08 .....	9.6	(1.2)	8.4

(1) Adjustment relates to sales returns previously provided for and changes in estimate and includes the impact of foreign exchange translation between opening and closing balance sheet dates.

#### 14. Warranty Revenue

	Balance at beginning of period	Warranties Sold	Revenue recognized	Balance at end of period
	\$m	\$m	\$m	\$m
2005/06 .....	183.8	149.4	(127.8)	205.4
2006/07 .....	205.4	168.1	(140.8)	232.7
2007/08 .....	232.7	166.5	(152.6)	246.6

Deferred revenue represents income under extended service warranty agreements and voucher promotions.

#### 15. Other Liabilities

	2008	2007	2006
	\$m	\$m	\$m
Accrued expenses .....	43.6	39.4	33.1
Lease loss reserve .....	9.6	10.0	11.0
Other liabilities .....	43.2	56.6	43.2
Total other liabilities .....	<u>96.4</u>	<u>106.0</u>	<u>87.3</u>

A lease loss reserve is recorded for the net present value of the difference between the contractual rent obligations and the rate at which income is received or expected to be received from subleasing the properties.

	2008	2007	2006
	\$m	\$m	\$m
At beginning of financial year .....	10.0	11.0	11.0
Adjustments, net .....	0.7	(0.4)	0.9
Utilization <sup>(1)</sup> .....	(1.1)	(0.6)	(0.9)
At end of financial year .....	<u>9.6</u>	<u>10.0</u>	<u>11.0</u>

(1) Including the impact of foreign exchange translation between opening and closing balance sheet dates.

The cash expenditures on the remaining lease loss reserve are expected to be paid over the various remaining lease terms through 2017.

#### 16. Long Term Debt

##### *Revolving credit facility*

In September 2004, the Group entered into an unsecured \$390.0 million multi-currency revolving credit facility with a syndicate of banks for a period of five years at a variable interest rate and at a maximum margin of 0.55 per cent above LIBOR. From commencement, the applicable margin has been 0.40 per cent above LIBOR. At 2 February 2008 and at 3 February 2007 the amount outstanding under this facility was \$nil.

Commitment fees are paid on the undrawn portion of this credit facility at a rate of 40.0 per cent of the applicable margin. The principal financial covenants on this facility, calculated in accordance with IFRS, are as follows:

- the ratio of Consolidated Net Debt (cash and cash equivalents less borrowings falling due within one year and borrowings falling due in more than one year) to Consolidated EBITDA (Earnings Before Interest, Tax, Depreciation & Amortization) shall not exceed 3:1;

- consolidated Net Worth (total net assets) must not fall below £400 million; and
- the ratio of Consolidated EBITARR (Earnings Before Interest, Tax, Amortization, Rents, Rates and Operating Lease Expenditure) to Consolidated Net Interest Expenditure plus Rents, Rates and Operating Lease Expenditure shall be equal to or greater than 1.4:1.

#### *US private placement*

On 30 March 2006 the Group entered into a US Private Placement Note Term Series Purchase Agreement, (“**US Private Placement**”) which was funded largely from US insurance institutional investors in the form of fixed rate investor certificate notes (“**Notes**”). These Notes represent 7, 10 or 12 year maturities. Interest on the Notes is payable semi-annually with the face value payable at time of maturity, accordingly there are no repayments on the Notes due in the next five years. The Series A Notes are \$100.0 million at face value, bear interest at 5.95 per cent and are due in May 2013; Series B Notes are \$150.0 million at face value, bear interest at 6.11 per cent and are due in May 2016 and Series C Notes are \$130.0 million at face value, bear interest at 6.26 per cent and are due in May 2018. The aggregate issuance was at face value for \$380.0 million and the funding date was 23 May 2006. The proceeds from this debt issuance were used to refinance the maturing receivable securitization program and for general corporate purposes. The Notes rank pari passu with the Group’s other senior unsecured debt, of which there is currently none. The principal financial covenants are in line with the Revolving Credit Facility as described above. Debt issuance costs were \$2.0 million.

#### *Conduit securitization facility (“Conduit”)*

On 26 October 2007 the Group entered into a 364 day \$200 million Conduit. Under this securitization, interests in the US private label credit card receivables portfolio held by a trust would be sold to Bryant Park, a Conduit administered by HSBC Securities (USA) Inc., in the form of a secured revolving variable rate certificate. The Conduit bears interest at a margin of 0.22 per cent above the cost of funds paid by Bryant Park and commitment fees are paid on the undrawn portion at a rate of 0.12 per cent. At 2 February 2008 no receivable interests have been placed in trust for sale. Accordingly, the amount outstanding under the Conduit was \$nil.

#### *Receivable Securitization*

In the US, in November 2001, the Group entered into a five year credit card receivable securitization program. Under this program, all eligible revolving credit card accounts originating from sales to customers under the Group’s private label credit plans were sold on an on-going basis to Sterling Jewelers Receivable Corp (“**SJRC**”), a wholly owned, consolidated, special-purpose subsidiary. The receivable accounts were subsequently transferred to Sterling Jewelers Receivables Master Note Trust (“**Trust**”), an unconsolidated, qualifying, special-purpose entity, in exchange for: (a) the aggregate proceeds of \$251,000 derived from the initial sale to outside investors of fixed rate Class A, Class B and Class C asset-backed notes; (b) a non-interest bearing, seller-retained, Class D note in the principal amount of \$26,348; and (c) a Transferor’s certificate representing the residual undivided beneficial interest in the assets of the Trust. Throughout the revolving period of the program, which ended on 20 February 2006, principal collections attributable to the receivables were retained by the trust until the \$251,000 principal amount of the outside investors’ notes was accumulated. The repayment of the notes occurred in November 2006 and is included as repayment of long term debt in the financing activities section of the Statement of Cash Flows. Finance charge collections derived from the receivables owned by the Trust were used to fund monthly interest payments to the note holders, absorb defaulted receivables and pay a monthly servicer’s fee to the Group. Residual finance charge collections were released monthly to SJRC. The notes had a weighted average fixed interest rate of 5.42 per cent and interest was payable monthly in arrears.

The Group’s retained interests in the receivables transferred to the Trust that were attributable to the subordinated Class D note and the Transferor’s certificate were included in accounts receivable in the consolidated balance sheets. The Group periodically measured the fair value of the retained interests using management’s best estimate of the expected future cash collections from the transferred receivables. Actual cash collections could have been different from these estimates and would have directly affected the fair value of the retained interests. Sterling Jewelers Inc. serviced, administered, and collected the receivables. The trust and note holders had no recourse to the Group’s other assets for failure of the debtors to pay when due.

Cash flows between the Trust and the Group for the years ended 3 February 2007 and 26 January 2006 were as follows:

	<u>2006/07</u>	<u>2005/06</u>
	\$m	\$m
Proceeds from collections reinvested in securitizations .....	779.2	938.9
Other cash flows received on retained interests .....	118.4	113.7
Repayment of notes .....	(251.0)	–
Servicing fees received .....	2.1	5.5

The weighted average interest rate on other loans and overdrafts during the year was 5.3 per cent (2006/07: 5.4 per cent; 2005/06: 4.3 per cent)

## 17. Financial instruments and Fair Value

The Group's principal financial instruments are comprised of cash deposits, accounts receivable and payables, derivatives, a revolving credit facility and fixed rate notes. The Group does not enter into derivative transactions for trading purposes. Derivative transactions are used by the Group for risk management purposes to address risks inherent in the Group's business operations and sources of finance.

The main risks arising from the Group's operations are interest rate risk, liquidity risk, and market risk including foreign currency risk and commodity risk. The Group uses derivative financial instruments to manage and mitigate these risks under policies reviewed and approved by the Group's Board of Directors. The Group has applied SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities, as amended" ("SFAS 133"), in accounting for these financial instruments.

### *Interest rate risk*

The Group's operations are financed principally by \$380.0 million fixed rate notes under the US Private Placement. As of 2 February 2008 and 3 February 2007, the Group had no borrowings under the Revolving Credit Facility.

The Group may enter into various interest rate protection agreements in order to limit the impact of movements in interest rates on its borrowings. There were no interest rate protection agreements outstanding at 2 February 2008 or 3 February 2007, as the notes under the US Private Placement are at a fixed rate and not subject to changes in market conditions.

### *Liquidity risk*

The Group's objective is to ensure that it has the ability to generate sufficient cash from either internal or external sources in a timely and cost-effective manner to meet its commitments as they become due and payable. The Group manages liquidity risks as part of the overall risk management policy. Group management produces forecasting and budgeting information that is reviewed and monitored by the Board of Directors. External financing is the main source of funding supplementing the Group's resources in meeting liquidity requirements. The main external sources of funding include the US Private Placement, consisting of Series A Notes of \$100.0 million, Series B Notes of \$150.0 million, and Series C Notes of \$130.0 million, which fall due in 2013, 2016 and 2018 respectively, and an unsecured revolving credit facility of \$390.0 million that was not drawn as of 2 February 2008 or 3 February 2007.

### *Market risk*

The Group generates revenues and expenses in pounds sterling and US dollars. As certain of the Group's UK division purchases are denominated in US dollars, the Group's policy is to enter into foreign currency forward exchange contracts and foreign currency swaps to manage this exposure to the US dollar. The fair value of these contracts is recorded in other assets and other liabilities.

For currency and commodity contracts that are qualifying cash flow hedges as defined by SFAS 133, changes in fair value are recorded as a component of accumulated other comprehensive income/(loss). Amounts are reclassified from other comprehensive income/(loss) into earnings when the hedged exposure affects earnings. For contracts that do not meet the strict hedge accounting requirements of SFAS 133, changes in fair value are recorded in other operating expenses.

### *Credit risk and concentrations of credit risk*

Credit risk represents the loss that would be recognized at the reporting date if counterparties failed to perform as contracted. The Group does not anticipate non-performance by counterparties of its financial

instruments. The Group generally does not require collateral or other security to support financial instruments with credit risk; however it is the Group's policy to only transact financial instruments with counterparties of reputable stature, such as banks and other lending institutions.

Management does not believe the Group is exposed to any significant concentrations of credit risk that arise from derivatives or accounts receivable.

### ***Fair value***

The estimated fair value of the Group's financial instruments held or issued to finance the Group's operations is summarized below. Certain estimates and judgments were required to develop the fair value amounts. The fair value amounts shown below are not necessarily indicative of the amounts that the Group would realize upon disposition nor do they indicate the Group's intent or ability to dispose of the financial instrument.

	2008		2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	\$m		\$m		\$m	
Assets:						
Derivative financial instruments .....	11.5	11.5	8.3	8.3	3.5	3.5
Liabilities:						
Borrowings .....	(416.3)	(416.3)	(385.5)	(385.5)	(16.4)	(16.4)
Derivative financial instruments .....	–	–	(0.8)	(0.8)	–	–

The following methods and assumptions were used by the Group in estimating its fair value disclosure for financial instruments:

The carrying amounts of cash and cash equivalents, accounts receivable, other receivables, accounts payable and accrued liabilities approximate fair value because of the short term maturity of these amounts.

The fair value of derivative financial instruments has been determined based on market value equivalents at the balance sheet date, taking into account the current interest rate environment or current foreign currency forward rates.

### ***Derivatives***

The Group operates in both the US and the UK and therefore is exposed to foreign exchange risk arising from various currency exposures. The Group enters into forward foreign currency exchange purchase contracts, principally in US dollars, in order to limit the impact of movements in foreign exchange rates on its forecast foreign currency purchases. It is the policy of the Group to ensure identified foreign currency exposures are hedged to at least the following levels:

Less than 3 months	100.0 per cent
3 – 6 months	75.0 per cent
6 – 12 months	50.0 per cent

The Group also enters into forward purchase contracts for commodities in order that values of assets should not be unnecessarily exposed to significant movements in the price of the underlying precious metal raw material.

	Fair values as at 2 February 2008		Fair values as at 3 February 2007		Fair values as at 28 January 2006	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	\$m	\$m	\$m	\$m	\$m	\$m
Cash flow hedges:						
Forward foreign currency contracts .....	1.9	–	–	(0.8)	0.9	–
Forward commodity contracts .....	9.6	–	8.3	–	2.6	–
	<u>11.5</u>	<u>–</u>	<u>8.3</u>	<u>(0.8)</u>	<u>3.5</u>	<u>–</u>

Foreign currency exchange contracts not designated as cash flow hedges are used to hedge currency flows through the Group's bank accounts to ensure the Group is not exposed to foreign currency exchange risk in its cash and borrowings. As at 2 February 2008 the fair value of outstanding cross currency swaps was a liability of \$1.6 million (2007: asset of \$0.2 million; 2006: \$0.9 million).

The fair values of all derivative financial instruments shown above are based on market value equivalents at the balance sheet date and are held as assets and liabilities within other receivables and other payables, and all contracts have a maturity of less than one year.

Gains of \$10.2 million (2006/07: loss of \$1.5 million; 2005/06: \$nil) have been transferred to cost of sales in respect of contracts that matured during the period. Changes in the fair value of non-hedging foreign currency financial instruments amounting to \$1.3 million (2006/07: \$0.2 million; 2005/06: \$nil) have been credited to the income statement during the period. The ineffective portion of hedging instruments taken to net other operating income was \$1.0 million (2006/07: \$nil; 2005/06: \$nil).

## 18. Pension Schemes

The Group Scheme, which ceased to admit new employees from April 2004, is a funded scheme with assets, held in a separate trustee administered fund which is independently managed. A 2 February 2008 and 3 February 2007 measurement date was used in determining the Group's scheme benefit obligation and fair value of plan assets. Contributions to the Group Scheme were assessed as at 5 April 2006.

The following schedules provide information concerning the Group Scheme as of and for the fiscal years ended:

	<u>2007/08</u>	<u>2006/07</u>	<u>2005/06</u>
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
Change in scheme assets:			
Fair value at beginning of year .....	261.6	223.6	201.3
Actual return on Scheme assets .....	(11.8)	12.7	34.9
Employer contributions .....	7.2	6.8	7.7
Members' contributions .....	0.9	0.9	0.9
Benefits paid .....	(9.9)	(8.1)	(7.9)
Foreign currency changes .....	<u>0.1</u>	<u>25.7</u>	<u>(13.3)</u>
Fair value of Scheme assets at end of year .....	<u>248.1</u>	<u>261.6</u>	<u>223.6</u>
Change in benefit obligation:			
Benefit obligation at beginning of year .....	257.9	251.0	204.9
Service cost .....	8.0	7.5	6.5
Past service cost .....	-	0.2	-
Interest cost .....	13.4	12.5	10.1
Members' contributions .....	0.9	0.9	0.9
Actuarial (gain)/loss .....	(16.6)	(33.4)	50.6
Benefits paid .....	(9.9)	(8.1)	(7.9)
Foreign currency changes .....	<u>-</u>	<u>27.3</u>	<u>(14.1)</u>
Benefit obligation at end of year .....	<u>253.7</u>	<u>257.9</u>	<u>251.0</u>
Funded status at end of year: Scheme assets less benefit obligation .....	<u>(5.6)</u>	<u>3.7</u>	<u>(27.4)</u>
Amounts recognized in the balance sheet consist of:			
Non current assets .....	-	3.7	-
Non current liabilities .....	<u>(5.6)</u>	<u>-</u>	<u>(1.9)</u>
Net (liability)/asset recognized .....	<u>(5.6)</u>	<u>3.7</u>	<u>(1.9)</u>

Amounts recognized in accumulated other comprehensive income/(loss) consists of:

	<u>2007/08</u>	<u>2006/07</u>	<u>2005/06</u>
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
Minimum pension liability .....	-	-	(35.5)
Net actuarial loss .....	(36.0)	(26.6)	-
Net prior service cost .....	(5.7)	(6.5)	-

The estimated actuarial loss, and prior service cost for the Group Scheme that will be amortized from accumulated other comprehensive income/(loss) into net periodic benefit cost over the next fiscal year are \$2.0 million and \$1.2 million, respectively.

The accumulated benefit obligation for the Group Scheme was \$240.4 million, \$246.9 million and \$235.0 million at 2 February 2008, 3 February 2007 and 28 January 2006 respectively.

The components of net periodic pension cost and other amounts recognized in other comprehensive income/(loss) for the Group Scheme are as follows:

	<u>2007/08</u>	<u>2006/07</u>	<u>2005/06</u>
	\$m	\$m	\$m
Components of net periodic benefit cost:			
Service cost .....	8.0	7.5	6.5
Interest cost .....	13.4	12.5	10.1
Expected return on Group Scheme assets .....	(19.1)	(15.4)	(13.1)
Amortization of unrecognized prior service cost .....	1.2	1.1	1.1
Amortization of unrecognized actuarial loss .....	<u>0.9</u>	<u>3.3</u>	<u>1.6</u>
Net periodic benefit cost .....	4.4	9.0	6.2
Other changes in scheme assets and benefit obligations recognized in other comprehensive loss/(income) .....	<u>12.3</u>	<u>(53.0)</u>	<u>50.8</u>
Total recognized in net periodic benefit cost and other comprehensive loss/(income) .....	<u>16.7</u>	<u>(44.0)</u>	<u>57.0</u>

Amount recognized in the balance sheet upon application of SFAS 158:

	<u>2007 before adoption of SFAS 158</u>	<u>Incremental effect of SFAS 158</u>	<u>2007 after adoption of SFAS 158</u>
	\$m	\$m	\$m
Prepaid benefit cost .....	51.0	(51.0)	–
Pension asset—funded status .....	<u>–</u>	<u>3.7</u>	<u>3.7</u>
	51.0	(47.3)	3.7
Deferred income taxes .....	<u>(15.3)</u>	<u>14.2</u>	<u>(1.1)</u>
	<u>35.7</u>	<u>(33.1)</u>	<u>2.6</u>

	<u>2007/08</u>	<u>2006/07</u>	<u>2005/06</u>
Assumptions used to determine benefit obligations (at the end of the year):			
Discount rate .....	5.90%	5.20%	4.75%
Salary increases .....	5.00%	4.60%	4.30%
Assumptions used to determine net periodic pension costs (at the start of the year):			
Discount rate .....	5.20%	4.75%	5.30%
Expected return on Group Scheme assets .....	7.20%	6.50%	6.80%
Salary increases .....	4.60%	4.30%	4.30%

The discount rate is based upon published rates for high-quality fixed-income investments that produce cash flows that approximate the timing and amount of expected future benefit payments.

The expected return on the Group Scheme assets assumption, is based upon the historical return and future expected returns for each asset class, as well as the target asset allocation of the portfolio of Group Scheme assets. The expected return is adjusted for an allowance for Group Scheme expenses.

The composition of the assets in the Group Scheme was as follows:

	<u>2007/08</u>	<u>2006/07</u>	<u>2005/06</u>
Equities .....	65%	74%	71%
Bonds .....	29%	24%	25%
Property .....	5%	–	–
Cash .....	<u>1%</u>	<u>2%</u>	<u>4%</u>
Total .....	<u>100%</u>	<u>100%</u>	<u>100%</u>

The long term target allocation for the Group Scheme's assets is equities 68 per cent, bonds 27 per cent and property 5 per cent.

The Group's overall investment strategy is guided by an objective of achieving a return on the investments, which is consistent with the long term return assumptions to ensure the Group Scheme obligations are met. There is no investment by the Group Scheme in the shares of the Company or in property occupied by or other assets used by the Group. The Group expects to contribute a minimum of \$7.4 million to the Group Scheme in 2008/09.

The following benefit payments, which reflect expected future service, as appropriate, are estimated to be paid by the Group Scheme:

	<u>\$m</u>
2008/09 .....	10.3
2009/10 .....	11.3
2010/11 .....	11.7
2011/12 .....	12.0
2012/13 .....	13.8
2013/14 to 2017/18 .....	72.8

In June 2004, the Group introduced a defined contribution plan which replaced the Group Scheme for new UK employees. The contributions to this scheme in the period were \$0.2 million (2006/07: \$0.2 million; 2005/06: \$0.1 million).

In the US, the Group sponsors a defined contribution 401(k) retirement savings plan for all eligible employees who meet minimum age and service requirements. The assets of this plan are held in a separate trust and the Group matches 25 per cent of up to the first 6 per cent of employee elective salary deferrals. The Group's contributions to this plan in the 52 weeks 2 February 2008 were \$4.8 million (2006/07: \$4.1 million, 2005/06: \$4.1 million). The Group has also established, in the US, an unfunded, non-qualified deferred compensation plan ("DCP") which permits certain management employees to elect annually to defer all or a portion of their remuneration and earn interest on the deferred amounts. The DCP also provides for a Group matching contribution based on each participant's annual remuneration deferral. In connection with this plan, the Group has invested in trust-owned life insurance policies. The cost recognized in connection with the DCP in the year were \$1.7 million (2006/07: \$1.6 million, 2005/06: \$1.5 million).

## 19. Common Stock, Deferred Stock and Reserves

### *Common stock*

As discussed in Note 1(a) on 5 February 2007 the Company redenominated its common stock from pounds sterling into US dollars. This was accomplished by a cancellation of the outstanding pound sterling shares and issuance of an equal amount of US dollar denominated shares. The par value of each US dollar common share is 0.9 cents and each shareholder received one dollar common share in exchange for one pound sterling common share. The US dollar common shares have the same rights and restrictions as the previous pound sterling common shares. This share transaction was approved by shareholders on 12 December 2006 and received court approval on 31 January 2007.

The consideration received in respect of common shares issued during the year in respect of stock options was \$6.0 million (2006/07: \$6.4 million; 2005/06: \$4.0 million). During the year, 12,205,000 shares were purchased by the Company for a consideration of \$29.0 million.

### *Deferred stock*

UK legal requirements mandate that £50,000 of share capital is held by the Company and denominated in pounds sterling. To satisfy this requirement, 50,000 deferred shares of £1 each were issued and were held by the Company Secretary of the Company on 5 February 2007. These shares do not have voting rights and do not participate in earnings of the Group.

### *Own stock held*

Own stock held represents the cost of shares in the Company purchased in the market and held by the Employee Stock Ownership Trust ("ESOT") to satisfy options under the Group's share option schemes. In 2007/08 the trustee transferred 913,957 shares to the holders of executive share and LTIP options granted to UK employees. The trustee held 1,719,951 shares at 2 February 2008, 1,719,951 shares at 8 April 2008 and 2,633,908 shares at 3 February 2007.

In 2007/08 the trustee of the ESOT subscribed in cash for a total of 3,804,241 shares in order to provide shares to satisfy the exercise of executive share options granted to US employees. In aggregate the subscription monies amounted to \$5.4 million at option prices between \$0.545 and \$2.05. The subscription prices were the market prices on the last business days before the dates on which the respective terms of issue were fixed, and varied between 82p and 126.75p per share.

On various dates during 2007/08 a total of 357,416 shares were subscribed for in cash by holders of options. In aggregate the option proceeds amounted to \$0.6 million at option prices between 79.6p and 94p per share.

The option proceeds were the market prices at the various times at which the options were granted. The market prices on the dates of issue varied between 64.75p and 126.5p per share. Details of options in respect of shares are shown in note 21.

### ***Other reserves***

Other reserves consist of special reserves and a capital redemption reserve established in accordance with the laws of England and Wales.

Following a capital reduction in 1997, the Company is permitted to make distributions including dividends, share buy-backs and other transactions classed as distributions out of income earned after 2 August 1997. Amounts paid by subsidiary undertakings in the form of a dividend from earnings prior to 2 August 1997 are recorded as a special reserve. The special reserve is, for as long as the Company is a public company, treated as a non-distributable reserve for the purposes of section 264 of the Companies Act 1985. In addition to the above special reserve, the Company established a special reserve prior to 1997 in connection with reductions in additional paid-in capital which can only be used to write off existing goodwill resulting from acquisitions and otherwise only for purposes permitted for the share premium accounts

The capital redemption reserve has arisen on the cancellation of previously issued common stock and represents the nominal value of those shares cancelled.

## **20. Commitments and Contingencies**

### ***Operating leases***

The Group occupies certain properties and holds plant, machinery and vehicles under operating leases. The Group does not have any capital leases. Rental expense for operating leases are as follows:

	<u>2007/08</u>	<u>2006/07</u>	<u>2005/06</u>
	\$m	\$m	\$m
Minimum rentals .....	316.0	283.1	275.1
Contingent rent .....	10.1	14.6	12.0
Sublease income .....	<u>(7.0)</u>	<u>(6.5)</u>	<u>(6.4)</u>
Total .....	<u>319.1</u>	<u>291.2</u>	<u>280.7</u>

The future minimum operating lease payments for operating leases having initial or non-cancellable terms in excess of one year as follows:

	<u>\$m</u>
For fiscal years ending:	
2008/09 .....	299.0
2009/10 .....	280.8
2010/11 .....	260.4
2011/12 .....	241.2
2012/13 .....	219.2
Thereafter .....	<u>1,227.8</u>
Total .....	<u>2,528.4</u>

The Group entered into certain sale and leaseback transactions of freehold and long leasehold properties. Under these transactions the Group continues to occupy the space in the normal course of business. Gains on the transactions are recognized as a reduction of rent expense over the life of the operating lease.

### ***Capital commitments***

At 2 February 2008 the Group has committed to spend \$37.4 million in respect of capital commitments. These commitments relate to the expansion and renovation of stores.

### ***Litigation***

The Group is not party to any legal proceedings considered to be material to the consolidated financial statements. Furthermore, no director, officer or affiliate of the Group or any associate of any such director has been party to any agreement that is adverse to the Group or any of its subsidiaries or has a material interest adverse to the Group or any of its subsidiaries.

A class lawsuit for an unspecified amount has been filed against Sterling Jewelers Inc., a subsidiary of the Company, in the New York federal court. The lawsuit alleges that US store-level employment practices are discriminatory as to compensation and promotional activities. The Group denies these allegations and intends to defend them vigorously.

## 21. Share Options

The Group operates several share option plans which can be categorized as “Saving Share Plans”, “Executive Plans”, and “Long-Term Incentive Plans”.

### *Saving Share Plans*

Three all-employee share option schemes comprising a savings related share option scheme for UK employees (the “**Sharesave Scheme**”), a US Section 423 Plan (the “**Employee Share Savings Plan**”) and a savings related share option scheme for Republic of Ireland employees (the “**Irish Sharesave Scheme**”) are together referred to as “Saving Share Plans”. The Saving Share Plans allow eligible employees to purchase shares of common stock at a discount of approximately 20 per cent (for the Sharesave Scheme and the Irish Sharesave Scheme) and 15 per cent (for the Employee Share Savings Plan) of the middle market price on the date of invitation, in the case of the Sharesave Scheme and the Irish Sharesave Scheme and the date of grant, in the case of the Employee Share Savings Plan. Options granted under the Sharesave Scheme and the Irish Sharesave Scheme vest after 36 months and are generally only exercisable after the offering period, which is between 36 and 42 months from commencement of the related savings contract. Options granted under the Employee Stock Savings Plan vest after 24 months and are generally only exercisable after the offering period, which is a date between 24 and 27 months after the grant date. The Saving Share Plans are compensatory and compensation expense is recognized over the requisite service period. In any 10 year period not more than 10 per cent of the issued common stock of the Company from time to time may, in aggregate, be issued or be issuable pursuant to options granted under the Saving Share Plans or any other employees’ share plans adopted by the Group.

### *Executive Plans*

The Group operates two executive share option plans comprising a “1993 executive share scheme” (the “**1993 Plan**”) and a “2003 executive share scheme” (the “**2003 Plan**”), together referred to as the “Executive Plans”. Option awards under the Executive Plans are generally granted with an exercise price equal to the market price of the Company’s stock at the date of grant.

The Executive Plans provide for options to be exercisable if any performance tests which may be set are satisfied. Where performance tests have been set, performance will be measured over a three year period from the start of the fiscal year in which the award is granted and will be based on the Group achieving an annual rate of compound growth in earnings per share under IFRS above the respective US and UK inflation measure. Whilst all option grants were subject to such performance tests before 2007/08, options granted since then have only been subject to a performance test where it has been made to an executive director. All awards up to and including the awards made in April 2006 under the 2003 Plan were eligible for retesting at the end of the fourth or fifth anniversary of grant, but retesting ceased to apply after that date. The Group’s Executive Plans, which are shareholder approved, permit the grant of share options to employees, together with any other discretionary share option plan adopted by the Company of up to 5 per cent of the issued common stock. A maximum of 171,376,839 shares may be issued pursuant to incentive options granted to US participants in the Executive Plans.

### *Long-Term Incentive Plans*

The Long-Term Incentive Plan 2000 which was replaced by the Long Term Incentive Plan 2005 are together referred to as (“**Long-Term Incentive Plans**”) or (“**LTIPs**”). LTIPs are subject to certain internal performance criteria and cannot be exercised unless achievement of an annual rate of compound growth in profit before tax at constant exchange rates of the Group, for Group executives, or, growth in divisional operating profit, for divisional executives, and in return on capital employed (“**ROCE**”) of the Group or related division as appropriate. To the extent that the performance criteria are satisfied, the participant will receive a combination of shares and cash in equal value. Compensation expense is recognized over the three year performance period for all schemes and options granted have 10 year contractual terms. The Company’s LTIPs permit the grant of share options to employees, together with any other discretionary share option plan adopted by the Company of up to 5 per cent of the Company’s issued common stock.

Upon adoption of SFAS 123(R), the liabilities for LTIPs and Executive Plans were recognized at fair value. This resulted in the recognition of a cumulative effect of change in accounting principle by \$6.0 million at 29 January 2006.

The Group recognized total share-based payment credit of \$3.4 million in the financial period ending 2 February 2008 (2006/07: \$17.2 million expense; 2005/06: \$0.2 million expense). The related tax benefit

on the share-based compensation expense was \$1.5 million, \$0.2 million and \$0.2 million, respectively. The total remaining unrecognized compensation cost related to non-vested share options under all Group plans amounted to \$5.0 million, \$11.8 million and \$8.4 million relating to 2007/08, 2006/07 and 2005/06 respectively, which will be amortized over the weighted average periods of 2.0 years, 1.9 years and 1.8 years, respectively.

The Company either issues new shares or utilizes own stock to satisfy share option exercises under its plans. The Company does not expect to repurchase any shares during 2008/09 to satisfy share option exercises. Cash received from the exercise of share options granted under the Group's plans during 2007/08, 2006/07 and 2005/06 was \$6.0 million, \$6.4 million and \$4.0 million, respectively.

### Option scheme status

	Saving Share Plans		Executive Plans		LTIPs	
	No. of shares	WAEP <sup>(1)</sup>	No. of shares	WAEP <sup>(1)</sup>	No. of shares	WAEP <sup>(1)</sup>
	millions	pence	millions	pence	millions	pence
Outstanding at 29 January 2005	7.1	78	35.5	85	3.3	–
Movements in period						
Granted	3.1	81	9.7	112	0.9	–
Exercised	(2.6)	68	(3.3)	61	(0.2)	–
Lapsed	(0.9)	82	(1.1)	103	(0.2)	–
Outstanding at 28 January 2006	6.7	84	40.8	97	3.8	–
Movements in period						
Granted	2.2	95	9.8	112	1.8	–
Exercised	(1.6)	84	(4.3)	88	(1.6)	–
Lapsed	(1.0)	84	(1.6)	103	(0.4)	–
Outstanding at 3 February 2007	6.3	86	44.7	103	3.6	–
Movements in period						
Granted	3.8	76	8.6	124	1.5	–
Exercised	(0.4)	85	(5.4)	86	(0.5)	–
Lapsed	(2.0)	84	(0.8)	117	(0.4)	–
Outstanding at 2 February 2008	7.7	82	47.1	109	4.2	–
Exercisable at 28 January 2006	0.6	76	11.3	80	1.2	–
Exercisable at 3 February 2007	0.3	88	6.8	90	0.2	–
Exercisable at 2 February 2008	1.0	86	20.3	99	0.1	–

(1) Weighted Average Exercise Price

The weighted average share price at the date of exercise for share options exercised during 2007/08 was 119p (2006/07: 114p).

The following tables summarize the information about share options outstanding and exercisable at 2 February 2008, and the inputs used in a binomial model for Saving Share Plans and Executive Plans, and in a Black-Scholes model for LTIP plans, for the calculation of the fair value of options granted in the 2005/06, 2006/07 and 2007/08 financial years:

	Saving Share Plans			Executive Plans			LTIPs		
	Shares	WACL <sup>(2)</sup>	WAEP <sup>(1)</sup>	Shares	WACL <sup>(2)</sup>	WAEP <sup>(1)</sup>	Shares	WACL <sup>(2)</sup>	WAEP <sup>(1)</sup>
	millions	years	pence	millions	years	pence	millions	years	pence
Outstanding	7.7	1.2	82	47.1	6.9	109	4.2	8.3	–
Exercisable	1.0	0.3	86	20.3	5.1	99	0.1	3.8	–

	Saving Share Plans			Executive Plans			LTIPs		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Share price <sup>(3)</sup>	90p	120p	99p	122p	110p	112p	122p	110p	114p
Exercise price <sup>(3)</sup>	76p	95p	81p	124p	112p	112p	nil	nil	nil
Risk free interest rate	4.49%	4.91%	4.00%	4.56%	4.72%	4.15%	4.61%	4.80%	4.10%
Expected life of options	2.8 years	2.6 years	2.7 years	4.3 years	4.3 years	4.3 years	3.5 years	3.5 years	3.5 years
Expected volatility	26%	31%	38%	28%	34%	38%	28%	34%	38%
Dividend yield	3.3%	3.2%	2.2%	2.9%	2.8%	2.3%	2.9%	2.8%	2.3%
Fair value <sup>(3)</sup>	45c	68c	59c	53c	55c	63c	220c	188c	190c

(1) Weighted Average Exercise Price

(2) Weighted Average Remaining Contractual Life

(3) Weighted average

The expected volatility is determined by calculating the historical volatility of the Group's share price over the previous five years. The expected life used in the model is based on the historical exercise behavior of the main categories of option recipients.

The total intrinsic value of options outstanding and exercisable as of 2 February 2008 was \$0.6 million and \$0.6 million, respectively, and the aggregate intrinsic value for share options exercised during the years 2007/08 and 2006/07 was \$6.6 million and \$7.6 million respectively.

The following table illustrates the effect on net income and earnings per share if the Group had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation for the period prior to the adoption of SFAS No. 123R.

<u>Year end 28 January 2006</u>	<u>2006</u>
	<u>\$m</u> <u>expect</u> <u>per share</u> <u>data</u>
Net income, as reported .....	238.0
Add: Share-based payment expense included in reported net income, net of related tax effects ....	0.2
Deduct: Total share-based payment expense determined using the fair value-based method for all awards, net of related tax effects .....	<u>(8.1)</u>
Pro forma net income .....	<u>230.1</u>
Earnings per share:	
Basic and diluted—as reported .....	13.7c
Basic and diluted—proforma .....	13.2c

## 22. Related Party Transactions

There are no related party transactions which require disclosure in these accounts.

## 23. Subsequent Events

On 26 June 2008, Signet entered into a \$520 million unsecured multi-currency five year revolving credit facility agreement. This replaced a similar \$390 million facility that had been entered into on 28 September 2004.