

Key performance indicators

Choice of key performance indicators

The key performance indicators, set out over are judged by the Board to be those performance measures that are most useful in measuring the delivery of the Group's strategy and the effective management of the business. They measure the increase in sales from the current store base, net change in new store space, total sales and operating profit growth, efficiency of the Group in its use of capital to generate operating profit and movement in net debt. The Board believe it is important to have a balance of key performance indicators which measure both operating and capital aspects of performance.

Total sales growth and operating profit growth are calculated using constant exchange rates to reflect the performance of the business rather than movements in the US dollar to pound sterling exchange rate. See table on page 28 for reconciliation to Adopted IFRS numbers. Similarly, the movement in net debt excludes exchange adjustments.

Performance targets

The management structure of the Group consists of a small corporate function and significant delegation to the US and UK divisional executive committees that are responsible for matters such as retail operations, merchandising, marketing, real estate and human resource management. The Board measures the divisional performance using the same key performance indicators as for the Group.

The Group targets largely reflect the goals and market position of each division rather than being driven by corporate-wide priorities. For example the performance target for new store space reflects the individual targets for the US and UK divisions.

The performance targets used are measured over an economic cycle as the general retail trading environments in the US and UK are determined by factors outside the Group's control. Furthermore the investment appraisal of store investment is carried out over a five year period.

Performance record

A five year record for each key performance indicator is given as the performance targets are set over an economic cycle and to provide a context in which to evaluate the most recent results. Whilst it is recognised that five years is unlikely to be a full economic cycle, that period of time normally reflects a variety of macro-economic conditions.

Other performance data

While performance data is collected by management for many purposes, including training, customer service, employment, environmental monitoring, and supply chain performance none were selected as a key performance indicator as they are reflected in the overall operating results. These and other statistical indicators are widely used in this document, in the management of the business, and in the performance appraisal of individuals.

Key performance indicators (continued)

Like for like sales growth

Like for like sales growth is key in determining store profitability. Over time, above industry like for like sales growth drives superior sales per store, central to achieving above average operating margins. Like for like sales growth is driven by factors external to the Group such as the:

- level of consumer confidence, which is significantly influenced by changes in the employment market;
- size and growth of the jewellery market;
- competition within the sector;

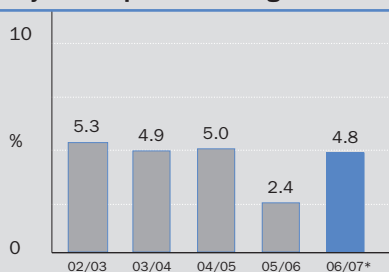
and the execution of the basic retail disciplines of:

- store operations, in particular customer service;
- merchandising and supply chain management;
- marketing;
- real estate management; and
- in the US, provision of credit.

Target: Like for like per annum sales growth of mid-single digits over the economic cycle.

Definition: Annual percentage increase in sales from stores that have been opened for more than 12 months.

5 year compound annual growth 4.5%



Performance: The five year compound growth in like for like sales of 4.5% was in line with the target. In 2006/07 the UK division saw a return to stability (+1.2%) and the US business continued to achieve strong like for like sales growth of +6.2%. The growth in 2005/06 was below target and reflected a disappointing UK performance.

*53 week year

Net new store space growth

The growth in new store space provides the potential for future profit growth and is a driver of the Group's investment in fixed and working capital.

In the US, there is the long term potential to double store space in existing formats. The constraint on growth is the availability of staff trained to the Group's standards and the ability to secure real estate leases that satisfy the Group's operating and financial investment criteria. It is anticipated that the majority of new store space over the next five years will consist of Jared locations.

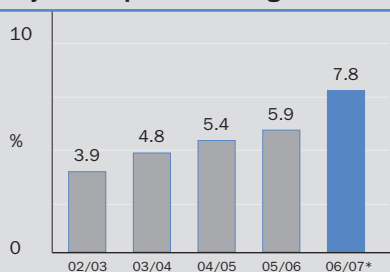
In the UK, it is anticipated that the number of H.Samuel stores will decrease while those of Ernest Jones will increase.

While the expansion in store space is expected to increase shareholder value in the long term, it has an adverse impact on operating profit margin and return on capital employed in the short term.

Target: An increase in Group store selling space of between 5% and 7% per annum.

Definition: Percentage increase in store selling space over the prior year as at the year end.

5 year compound annual growth 5.6%



Performance: The annual net new store space increase of 5.5% over the five years was in the target range. This reflected a steady acceleration in new space growth in the US and a decline in UK store numbers. In 2006/07 US new space growth was 11% and in the UK there was a 2% reduction.

Total sales growth at constant exchange rates

Total sales growth gives the Group the ability to leverage central overhead expenditures. In addition, it brings the opportunities to achieve supply chain and marketing efficiencies. Total sales growth is also an important factor in the level of working capital utilised as it is a key influence on the level of inventory and US customer receivables held by the Group.

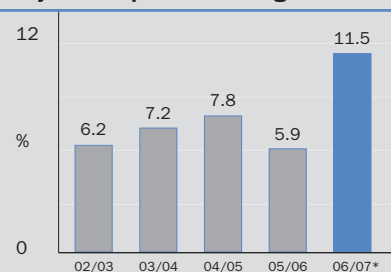
Total sales growth is dependent on the level of like for like sales growth and the sales generated by net new store space opened.

The proportion of sales derived from the US is anticipated to rise due to the level of new store space growth in the US division. The geographic mix of sales is also influenced by exchange rate movements.

Target: 7% to 10% per annum growth in Group total sales at constant exchange rates over the economic cycle.

Definition: Annual percentage increase in total sales at constant exchange rates (see page 28).

5 year compound annual growth 7.7%



Performance: The 7.7% annual growth in total sales over the five years at constant exchange rates was within the target range. In 2006/07 the 53rd week contributed 1.6% to sales growth. In 2005/06 a sharp deterioration in the UK trading environment held back the increase. During the five year period acceleration in US space growth has been beneficial.

Operating profit growth at constant exchange rates

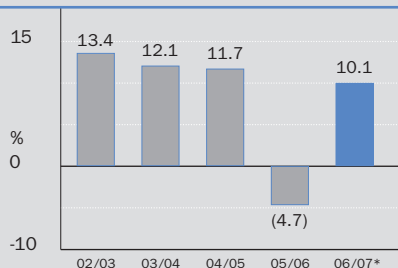
Operating profit measures the surplus that the Group makes from selling jewellery, watches and other products and services. It depends on the cost of goods sold, the level of operating costs and other operating income. The most significant operating cost categories are staff, property operating lease rentals and marketing.

As many of the Group's costs are comparatively fixed, sales per store is important in determining operating profit. To at least maintain its operating profit, the Group needs total sales growth sufficient to offset any adverse movement in gross margin and increases in operating expenses from both existing operations and new store selling space. The impact of changes in sales (either adverse or favourable) on operating profit is less in the US division than in the UK business, as certain expenses, such as staff costs and property rentals are more related to sales in the US.

Target: 7% to 9% per annum growth in Group operating profit at constant exchange rates over the economic cycle.

Definition: Group sales less cost of goods sold and administrative expenses; plus other operating income all at constant exchange rates (see page 28).

5 year compound annual growth 8.3%



Performance: The 8.3% compound growth in operating profit at constant exchange rates was on target. In 2006/07 growth of 10.1% was achieved, with the 53rd week contributing some 0.9%. The reduction in operating profit in 2005/06 reflected the decline in like for like sales in the UK division and will constrain the compound growth rate for a number of years.

*53 week year

Return on capital employed

Return on capital employed ("ROCE") measures the efficiency of the Group in using capital to generate operating profit. Variation in operating profit and assets employed are the drivers of ROCE.

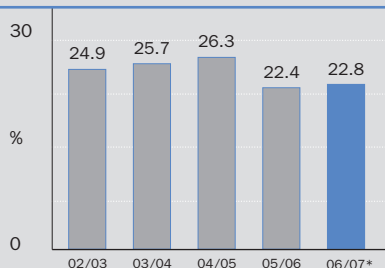
As the Group operates mainly leasehold stores, inventories, US customer receivables and shop fixtures are the largest elements in the Group's capital employed.

In the US, ROCE is adversely impacted by new store space, which in the first year of trading requires investment in inventory and receivables but normally makes only a small contribution to operating profit. In the UK, the strategy to improve store productivity should increase ROCE as little additional inventory is required.

Target: A Group ROCE of over 20% assuming the current target for new store space growth.

Definition: Annual Group operating profit divided by the average monthly Group capital employed for that year, expressed as a percentage.

5 year average 24.4%



Performance: The five year average ROCE of 24.4% was above target. In 2006/07 the ROCE was 22.8%; the US division achieved a return of 21.5% (2005/06: 22.4%) and the UK business 32.7% (2005/06: 26.6%). The decline in ROCE in 2005/06 reflected the 36% fall in UK profitability. ROCE has also been constrained by the increase in the rate of space growth.

Movement in net debt excluding exchange adjustments and net changes in equity

The movement in the net debt position reflects the cash generated by operations, investment activities, payments to governments, interest and dividends. It depends on the:

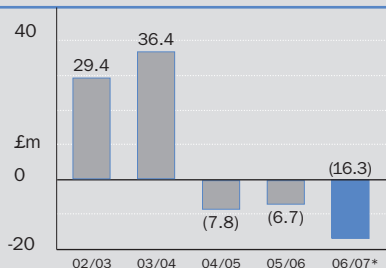
- operating performance of the business;
- level of inventory investment;
- proportion of sales made on the in-house credit card and the average monthly collection rate of the credit balances;
- timing of payments to creditors;
- rate of space expansion;
- level of store refurbishment and relocations, and the purchases or disposals of other assets;
- level of tax payments made;
- interest paid; and
- dividends paid.

Due to a faster rate of US new store space growth, the cash outflow is expected to be greater in future years.

Target: Historically, for debt to be stable. In the future, for debt to increase by £35 million to £55 million per annum.

Definition: Movement in net debt excluding exchange adjustments and changes in equity.

5 year average £7.0 million



Performance: The average movement in net debt over the last five years was in line with the target. However there was a movement from a cash inflow of around £30 million in 2002/03 and 2003/04 to a cash outflow of £16.3 million in 2006/07. This primarily reflected growth of 11% in US new store space in 2006/07, compared to 6% in 2002/03 and 7% in 2003/04.

Key performance indicators (continued)

Below are the definitions of the key performance indicators:

Like for like sales growth

Like for like sales growth is determined by comparison of sales in stores that were open in both the current and the prior year. Sales from stores that have been open for less than 12 months are excluded from the comparison until their 12 month anniversary. Sales from the 12 month anniversary onwards are compared against the equivalent prior period sales within the like for like sales comparison. Stores closed in the current financial period are included up to the date of closure and the comparative period is correspondingly adjusted. Stores that have been relocated or expanded, but remain within the same local geographic market, are included within the comparison with no adjustment to either the current or comparative period. Stores that have been refurbished are also included within the comparison except for the period when the refurbishment is taking place, when those stores are excluded from the comparison both for the current year and for the comparative period. Comparisons at divisional level are made in local currency and consolidated Group comparisons are made at constant exchange rates and exclude the effect of exchange rate movements by recalculating the prior period results as if they had been generated at the weighted average exchange rate for the current period.

Net new store space growth

Net new store space growth is the percentage increase in store selling space over the prior year measured as at the year end. Store selling space is the area that is open to the consumer and excludes staff rest areas, storage areas and unused space. All stores open on the last day of the financial year are included in the calculation.

Total sales growth

Total sales growth is the annual percentage increase in sales at constant exchange rates. See Principal accounting policies (d)

Impact of constant exchange rates

	At reported exchange rates £m	At 2006/07 exchange rates (non-GAAP) £m	Growth at reported exchange rates %	Impact of exchange rate movement %	Growth at constant exchange rates (non-GAAP) %
Sales:					
2001/02	1,570.1	1,307.4			
2002/03	1,598.5	1,387.9	1.8	4.4	6.2
2003/04	1,605.5	1,487.3	0.4	6.8	7.2
2004/05	1,615.5	1,603.7	0.6	7.2	7.8
2005/06	1,752.3	1,697.7	8.5	(2.6)	5.9
2006/07	1,893.2	1,893.2	8.0	3.5	11.5
<i>5 year compound annual growth</i>			<i>3.8</i>		<i>7.7</i>
Operating profit:					
2001/02	177.9	148.6			
2002/03	193.9	168.5	9.0	4.4	13.4
2003/04	203.1	188.9	4.7	7.4	12.1
2004/05	212.5	211.0	4.6	7.1	11.7
2005/06	208.2	201.1	(2.0)	(2.7)	(4.7)
2006/07	221.4	221.4	6.3	3.8	10.1
<i>5 year compound annual growth</i>			<i>4.5</i>		<i>8.3</i>

Revenue recognition on page 80 for definition of sales. The Group comparison is made at constant exchange rates and excludes the effect of exchange rate movements by recalculating the prior period results as if they had been generated at the weighted average exchange rate for the current period. See below for a reconciliation between the reported amounts and the growth at constant exchange rates.

Operating profit growth

Operating profit growth is the annual percentage increase in operating profit at constant exchange rates. Operating profit being total Group sales less cost of sales and administrative expenses; plus other operating income, all at constant exchange rates. See Principal accounting policies (e) Cost of sales and administrative expenses on page 81 for definition. See below for a reconciliation between the reported amounts and the growth at constant exchange rates.

Return on capital employed

ROCE is calculated by dividing the annual operating profit by the average monthly capital employed for that year, expressed as a percentage. The monthly values are extracted from the monthly management accounts. See above for definition of operating profit. Capital employed includes intangible assets, property, plant and equipment, other non-current receivables, inventories, trade and other receivables; less trade and other payables, deferred income and retirement benefit obligations.

Movement in net debt

Movement in net debt is defined as the difference between net debt at the end of the period and that at the beginning of the period excluding exchange adjustments, and the net movement in equity capital (proceeds from issue of shares less purchase of own shares).