SIGNET GROUP PLC
Form 20-F
April 22, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended January 31, 2004

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

Commission file number 0-16945

SIGNET GROUP plc

(Exact name of Registrant as specified in its charter)

ENGLAND

(Jurisdiction of incorporation or organization)

Zenith House
The Hyde
London NW9 6EW
England

(Address of principal executive offices)

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

None

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

American Depositary Shares
Ordinary Shares of 0.5 pence each

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares of 0.5 pence each	**1,726,190,848**
Class A Dollar Deferred Shares of $0.01 each	**0**

Class B Dollar Deferred Shares of $1.00 each 0

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Item 17 Item 18

EXPLANATORY NOTE

This document comprises the annual report on Form 20-F and the annual report to shareholders for the year ended 31 January 2004 of Signet Group plc (the "2003/04 Form 20-F"). Reference is made to the Cross reference to Form 20-F table beginning on page 124 hereof (the "Cross reference to Form 20-F table"). Only (i) the information in this document that is referenced in the Cross reference to Form 20-F table, (ii) the cautionary statement concerning forward-looking statements on page 1 and (iii) the Exhibits, shall be deemed to be filed with the Securities and Exchange Commission for any purpose, including incorporation by reference into the Registration Statements on Form S-8 (No. 333-8764, 333-9634 and 333-12304) of Signet Group plc, and any other documents, including documents filed by Signet Group plc pursuant to the Securities Act of 1933, as amended, which purport to incorporate by reference the 2003/04 Form 20-F. Any information herein which is not referenced in the Cross reference to Form 20-F table, or the Exhibits themselves, shall not be deemed to be so incorporated by reference.

2003/04
Group highlights

	reported basis	at constant exchange rates(1)
• Sales: £1,617.2m	up 0.6%	up 7.3%
• Operating profit: £222.3m	up 3.9%(2)	up 11.2%
• Profit before tax: £211.9m	up 6.0%(2)	up 13.0%
• Earnings per share(3): 8.0p	up 6.7%(2)	up 12.7%
• Dividend per share: 2.501p	up 18.5%	

• Return on capital employed(3) up from 24.1%(2) to 24.8%

• Gearing(3) down from 20.7%(2) to 11.0%

(1) See page 25 for reconciliation to Generally Accepted Accounting Principles figures.
(2) 1999/00 to 2002/03 restated for the implementation of FRS 17 – "Retirement Benefits".
(3) Earnings per share, return on capital employed and gearing are defined on page 118.
(4) 53 week year.

Annual Report & Accounts
Year ended 31 January 2004

Signet Group plc is an English public limited company, whose shares are listed on the London Stock Exchange (under the symbol “SIG”) and whose American Depositary Shares are quoted on the Nasdaq National Market (under the symbol “SIGY”).

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

In this Annual Report, “1999/00”, “2000/01”, “2001/02”, “2002/03”, “2003/04” and “2004/05”, refer to, as appropriate, th weeks ended 29 January 2000, the 52 weeks ended 27 January 2001, the 53 weeks ended 2 February 2002, the 52 weeks ended 1 February 2003, the 52 weeks ended 31 January 2004 and the 52 weeks ending 29 January 2005.

This Annual Report contains translations of certain pound sterling amounts into US dollars at a rate of $1.82 = £1, which was the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the “Noon Buying Rate”) on 30 January 2004. These translations should not be construed as representations that the pound sterling amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated. On 24 March 2004 the Noon Buying Rate was $1.84 = £1.

Cautionary statement regarding forward-looking statements

The Company desires to take advantage of the “safe harbor” provisions of the United States Private Securities Litigation Reform Act of 1995 with respect to the forward-looking statements about its financial performance and objectives in this Annual Report. Readers are referred to “Risk and other factors” on pages 29 to 33.

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Chairman's statement

Group results

In the year to 31 January 2004 the Group continued to build on its well established growth record. On a reported basis profit before tax rose to £211.9 million (2002/03: £199.9 million restated for FRS 17 – "Retirement Benefits") reflecting an underlying increase of 13.0% at constant exchange rates. Earnings per share were 8.0p (2002/03: 7.5p restated), up 6.7% on a reported basis and 12.7% at constant exchange rates. Like for like sales advanced by 4.9% with total sales at £1,617.2 million (2002/03: £1,608.0 million), up 7.3% at constant exchange rates.

The strong underlying performance of the Group and the proven success of its strategies should not be obscured by the effect of the significant weakening in the average US dollar exchange rate from $1.53/£1 to $1.68/£1. This adversely impacted the translation of the US division's sales and operating profit into pounds sterling, thereby depressing Group results as reported.

In 2003/04 the US started well with a strong performance during the Valentine's Day period. However trading during the rest of the first half was adversely affected by the Iraq War. The second half year saw a marked improvement in the retail environment culminating in a particularly strong outcome in the fourth quarter, when like for like sales rose by 7.2%. The division again outperformed the speciality jewellery sector and gained further market share.

The UK business similarly had a good start to the year but was also affected by the geo-political situation in the first half. The division consistently outperformed the general retail sector and enjoyed an excellent Christmas season when like for like sales increased by 6.7%. Ernest Jones continued to outperform with like for like sales for the year up 8.4%.

The Group invested £109.8 million in fixed and working capital during the year. The cash inflow was £42.7 million (2002/03: £33.7 million) and net debt fell to £79.9 million at the year end (1 February 2003: £140.1 million). £17.5 million of the improvement was accounted for by exchange translation. Gearing (net debt to shareholders' funds) at 31 January 2004 was 11.0% (1 February 2003: 20.7% restated).

Dividend

The Board is pleased to recommend a 20.0% increase in the final dividend to 2.16p per share (2002/03: 1.80p), the total for the year being 2.501p per share (2002/03: 2.11p). See note 8 regarding dividends to US holders of ordinary shares and ADSs. The dividend cover is 3.2 times (2002/03: 3.6 times). Future dividend policy will continue to take into account earnings, cash flow, gearing and the needs of the business.

People

I would like to thank management and staff for their invaluable contribution to the Group's success during the past year.

Dale Hilpert joined the Group as a non-executive director in September 2003 and was appointed to the Audit Committee in January 2004. He has wide experience of US retailing and I am sure will make a significant contribution.

Lee Abraham, who joined the Group in 1994 as a non-executive director, retired in January 2004. On behalf of the Board I thank him for his invaluable contribution during his tenure of office and wish him a long and happy retirement.

Current trading

The Group has had a very encouraging start to the current year, including a particularly strong performance over the Valentine□s Day period. However account must be taken of soft sales comparatives in the early part of last year and the present weakness of the US dollar.

James McAdam, Chairman,
24 March 2004

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Group Chief Executives review

Introduction

Group operating profit rose to £222.3 million from £213.9 million (restated), an increase of 11.2% at constant exchange rates (3.9% on a reported basis). The operating margin increased to 13.7% (2002/03: 13.3% restated), and the return on capital employed (ROCE) was 24.8% (2002/03: 24.1% restated).

At constant exchange rates the US divisions operating profit rose 7.1% but, on a reported basis, the weaker US dollar resulted in a 2.4% decline to £151.4 million (2002/03: £155.2 million). The compound annual growth in reported operating profit during the last five years has been 14.3%. The continued introduction of well tested initiatives in all areas has enabled the business to build further on its competitive strengths.

In 2003/04 like for like sales rose by 4.6% and total dollar sales by 8.0%. Over the last five years like for like sales have increased at a compound annual growth rate of 5.5% and total dollar sales by 12.1%. Underpinning this has been the strong performance by both mall stores and Jared, the Groups off-mall destination concept which now accounts for over 15% of the US divisions sales. Jared is still relatively immature and should make an increasing contribution to the like for like sales growth in the future.

Selling space has increased over the last five years by some 66% (including the acquisition of 137 Marks & Morgan stores in 2000/01), with just over half accounted for by Jared. In 2003/04 space rose by 7%. This year growth is expected to be some 8%, the majority again being attributed to Jared. The longer term target is for space to increase by 6% 8% per annum and this would result in an approximate doubling of US space over a ten year period.

The US divisions market share of the speciality jewellery sector has increased to some 7.0% (2002/03: circa 6.9%) and there are further opportunities for growth. Supply chain efficiencies continue to be identified enabling the division to offer consumers better value than that provided by our main competitors. Training and motivation of staff remain central to achieving superior customer service and therefore resources devoted to staff development continue to be increased. Kay national television advertising continues to be increased and within two years Jared is expected to have sufficient scale to use this medium. Increasing like for like sales and additional space will provide the opportunity to leverage both central overhead costs and marketing expenditure, benefiting results as well as reinforcing the divisions competitive position.

The UK business achieved an increase of 18.4% in operating profit and 5.5% in like for like sales. Over the last five years

compound annual growth in operating profit was 19.9% and 6.7% in like for like sales.

The UK strategy of driving sales by increasing the average transaction value, predominantly through greater diamond participation continues to prove successful. Diamond jewellery now accounts for 26% of the divisions sales mix compared with 18% in 1998/99. During that period diamond sales grew 50% faster than the UK diamond market. Further major initiatives to support this strategy are at an early stage of implementation. When developing such initiatives the UK business benefits from its ability to draw on the US divisions best practices particularly in the selling of diamonds. For example the new store format, which is based on US experience, enables greater interaction between the salesperson and the customer. The concept was implemented in a further 35 locations (24 H.Samuel and 11 Ernest Jones) in 2003/04, bringing the total to just under 10% of the portfolio. The performance of the refurbished stores continues to be encouraging and the increase in diamond sales is significant. It is intended to roll out the new design across the store base as part of the normal investment cycle.

US (69% of Group sales)

Details of the US divisions performance are set out below:

	2003/04	2002/03	Change	Like for like change
	£m	£m	%	%
Sales	**1,116.2**	1,134.4	-1.6(1)	+4.6
Operating profit	**151.4**	155.2	-2.4(2)	
Operating margin	**13.6%**	13.7%		
ROCE	**20.5%**	21.5%		

(1) At constant exchange rates US total sales increased by 8.0%.

(2) At constant exchange rates US operating profit increased by 7.1%.

The operating margin was broadly in line with last year, reflecting leverage of like for like sales growth which has largely compensated for the adverse impact of an increase in immature store space and the slightly lower gross margin. The gross margin movement reflects the impact of the anticipated changes in sales mix and the increase in gold prices offset by a range of management initiatives. A similar movement in gross margin is anticipated in 2004/05. The proportion of sales through the in-house credit card was broadly similar at 49.3% (2002/03: 49.5%). The bad debt charge was at the bottom of the range of the last eight years at 2.8% of total sales (2002/03: 3.0%).

The quality of customer service continued to be a critical factor behind the strong performance, particularly in the fourth quarter. The number of staff benefiting from the central training programmes increased, and in-store training was also expanded.

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Group Chief Executive's review (continued)

Increased staff productivity was achieved through the multi-year programme aimed at reducing and simplifying in-store administrative functions.

In mall stores the successful development of major merchandising programmes such as the Leo Diamond® range, three-stone jewellery and solitaire diamonds continued; new initiatives included the "right hand ring" and fashion products featuring gold and multi-colour gemstones; all these will be further expanded in 2004/05. In Jared the development of the Leo Diamond range and luxury watches including Rolex, Tag Heuer and Omega continued to prove successful; new product tests of branded and designer merchandise such as Hearts On Fire Diamonds and Scott Kay jewellery were encouraging. The Leo Diamond is exclusive to Signet in both the US and the UK. It has a patented cut resulting in greater brilliance than a conventionally cut diamond of equal quality. The capability to direct source loose diamonds and to utilise contract manufacturing for some 55% of the diamond jewellery merchandise remains a significant competitive advantage across the division. Initiatives to increase further the efficiency of the supply chain are being explored.

Television advertising was further expanded and Kay impressions were increased by 7% over the Christmas period, with the Leo Diamond range featured strongly. Both research and customer feedback about the advertising theme, "Every kiss begins with Kay", continued to be very positive. Television advertising for Jared was expanded from ten markets to 22 markets, covering about 75% of its sales, and this was reflected in the strong sales performance. The annual gross marketing spend amounted to 6.4% of sales (2002/03: 6.4%).

Jared now has sales of over $300 million and a portfolio of 79 stores, equivalent in space terms to about 340 mall stores. The Jared concept is the primary vehicle for US space growth and in the period a further 12 stores were opened. The chain is still relatively immature with some 45% of stores opened in the last 30 months. The 15 Jared stores that have reached maturity in aggregate achieved the target level of sales and store contribution (set at the time of investment) in their fifth year of trading. During 2004/05 it is intended to increase the level of central support so that openings in future years can be increased to 15 – 20 stores per annum.

In 2003/04 total fixed and working capital investment in the US business was $138.3 million (2002/03: $146.6 million). The increase in space of 7% by the year end was as planned, including the trial of ten Kay stores in off-mall locations. This test showed some encouraging results and will be extended to ten additional sites in 2004/05. The programme of refurbishment and relocation further enhanced the quality of the store portfolio.

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

	Total	Kay	Regional	Jared
1 February 2003	**1,050**	676	307	67
Openings	**69**	49(1)	8	12
Closures	**(16)**	(8)	(8)	–
31 January 2004	**1,103**	717(1)	307	79

(1) Includes ten off-mall stores.

In 2004/05 it is planned to continue with the consistent programme of real estate investment, with the refurbishment or relocation of approximately 90 stores and an increase in selling space of about 8%. A further 15 new Jared stores are expected to account for some two-thirds of the increase, the remainder comprising up to 25 net mall store openings and the additional ten Kay stores in off-mall locations. Total US capital expenditure is expected to be some $80 – $85 million in 2004/05.

UK (31% of Group sales)

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

	2003/04	2002/03(1)	Change	Like for like change
	£m	£m	%	%
Sales				
H.Samuel	**285.8**	279.1	+2.4	+3.5
Ernest Jones	**209.4**	188.0	+11.4	+8.4
Other	**5.8**	6.5		
Total	**501.0**	473.6	+5.8	+5.5
Operating profit	**76.6**	64.7	+18.4	
Operating margin	**15.3%**	13.7%		
ROCE	**47.1%**	41.2%		

(1) Restated for the implementation of FRS 17 – 'Retirement Benefits'.

The gross margin rate was ahead of last year, which together with increased store productivity contributed to the improved operating margin and ROCE. H.Samuel average sales per store rose by 4.4% to £707,000 (2002/03: £677,000) and Ernest Jones (including Leslie Davis) by 6.9% to £1,101,000 (2002/03: £1,030,000).

The average retail price of items sold increased by 6.4% to £35.00 (2002/03: £32.91) in H.Samuel and by 6.9% to £139.24 (2002/03: £130.27) in Ernest Jones. Diamond assortments were further enhanced; three-stone jewellery performed well, the Leo Diamond range was expanded in Ernest Jones and the number of H.Samuel's stores stocking the Forever Diamond increased from 50 to 120. Diamond sales continued to achieve an above average increase and outpaced the growth in the UK diamond market; they now account for 26% of the division's sales mix

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(19% in H.Samuel and 36% in Ernest Jones). This represents an increase in diamond sales of nearly 100% since 1998/99 when the present strategy was launched.

The quality of customer service, as monitored by a mystery shopper programme, continues to improve and is critical to success in selling diamonds. Training systems were further improved with the implementation of a progressive multi-year programme which has drawn on the experience of the US division and nearly all UK staff were involved in this programme in 2003/04. Further steps were taken to simplify and reduce administrative tasks being carried out in the stores.

Additional improvements took place in the design and distribution of catalogues. While they presently remain the major marketing support, television advertising was tested for both H.Samuel and Ernest Jones and will be further developed in 2004/05.

In 2003/04 total fixed and working capital investment in the UK business was £27.5 million (2002/03: £25.5 million). Ernest Jones saw five openings and 11 H.Samuel stores were closed. At the year end there were 604 stores (407 H.Samuel and 197 Ernest Jones). A similar pattern of store openings and closures is planned for 2004/05. It is intended to refurbish up to 80 stores in the new store format during 2004/05, and a similar number the following year. Primarily as a result of the increased programme of refurbishment, total capital expenditure in the UK is expected to increase from £18 million to some £30 – £35 million in 2004/05.

Terry Burman, Group Chief Executive,
24 March 2004

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Five year financial summary

	2003/04 £m	2003/04(1) $m	2002/03 as(2) restated £m	2001/02 as(2)(3) restated £m	2000/01 as(2)(4) restated £m	1999/00 as(2)(4) restated £m
Sales	**1,617.2**	**2,943.3**	1,608.0	1,578.1	1,387.3	1,136.5
Operating profit	**222.3**	**404.6**	213.9	198.8	176.8	137.3
Net interest payable	**(10.4)**	**(18.9)**	(14.0)	(15.0)	(12.7)	(8.7)
Profit before tax	**211.9**	**385.7**	199.9	183.8	164.1	128.6
Taxation	**(74.7)**	**(136.0)**	(70.8)	(63.4)	(52.5)	(38.6)
Profit for the period	**137.2**	**249.7**	129.1	120.4	111.6	90.0
Earnings per share(5)	**8.0p**	**$0.15**	7.5p	7.1p	6.7p	5.4p
Dividend per share (£)	**2.501p**		2.110p	1.789p	1.625p	1.450p
Dividend per share ($)	**$0.0420**		$0.0323	$0.0258	$0.0242	$0.0235
Capital expenditure	**50.9**	**92.6**	49.5	59.8	56.2	39.3
Investment in fixed and working capital	**109.8**	**199.8**	121.3	108.1	132.0	83.2
Depreciation and amortisation	**40.4**	**73.5**	37.8	34.7	30.6	27.8
Net debt	**79.9**	**145.4**	140.1	201.7	229.1	91.6
Shareholders funds	**727.6**	**1,324.2**	678.4	683.7	583.0	470.4
Shares in issue(million)	**1,726.2**		1,713.8	1,706.0	1,685.7	1,679.9
Gearing(5)	**11.0%**		20.7%	29.5%	39.3%	19.5%
Return on capital employed(5)	**24.8%**		24.1%	23.6%	25.7%	24.6%
Store numbers (at end of period):						
US	**1,103**		1,050	1,025	999	827
UK	**604**		610	606	605	606
Percentage increase in like for like sales:						
US	**5%**		5%	1%	6%	11%
UK	**6%**		5%	9%	9%	5%
Average sales per store (£000s)(6):						
US	**1,040**		1,088	1,125	1,117	939
UK	**824**		747	735	665	613
Number of employees (full-time equivalents)	**14,502**		14,160	13,525	12,520	11,450

(1) Amounts in pounds sterling are translated into US dollars solely for the convenience of the reader, at a rate of £1.00 to $1.82, the Noon Buying Rate on 30 January 2004.
(2) During 2003/04 the Group adopted FRS17 Retirement Benefits. The adoption of the standard resulted in a prior year adjustment (see note 17 on page 75).
(3)

53 week year. The impact of the additional week on sales was £22.4 million, operating profit £4.0 million, net interest payable £0.4 million and profit before tax £3.6 million

(4) During 2001/02 the Group adopted FRS19   Deferred Tax . The adoption of the standard resulted in a prior year adjustment (see note 17 on page 75).

(5) Earnings per share, gearing and return on capital employed are defined on page 118.

(6) Including only stores operated for the full financial period.

The financial data included in the Five year financial summary above has been derived, in part, from the consolidated accounts for such periods included elsewhere in this Annual Report. The financial data should be read in conjunction with the accounts, including the notes thereto, and the Financial review included on pages 21 to 28.

Further selected financial data is shown on pages 115 and 116. The accounts of the Group have been prepared in accordance with UK GAAP, which differ in certain respects from US GAAP. See pages 94 to 102 for information on the material differences between UK GAAP and US GAAP that affect the Group s profit and shareholders funds.

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US operating review

Overview

Signets US division is the second largest speciality retail jeweller in the United States with an approximate market share of 7.0%. Total US sales in the year to 31 January 2004 were $1,875 million (2002/03: $1,736 million). At the year end the division had 1,103 stores comprising 1,014 mall jewellery stores as well as 79 destination superstores and ten stores being trialled in off-mall shopping centres. Its mall stores trade nationwide as Kay Jewelers (Kay), and regionally under a number of well established and recognised names. The destination superstores trade as Jared The Galleria Of Jewelry (Jared), the nations largest and fastest growing chain of off-mall destination jewellery stores.

In the longer term it is planned to grow like for like sales, and to increase US space by about 6% 8% per annum, with Jared accounting for a majority of the planned space growth.

Competitive advantages

Management attributes the divisions success in the US speciality retail jewellery market to a range of competitive advantages in merchandising, store operations, marketing and real estate. These are reflected in the average sales per store and operating profit margin, both of which are higher than that of other quoted mid-market mall-based speciality retail jewellers operating stores of similar size. The principal competitive advantages are summarised below, and all are explained in greater detail on pages 8 to 13.

- Merchandising

Management believes that in comparison to its competitors Signet has greater capacity and expertise to direct source diamonds (i.e. to purchase loose polished diamonds which are supplied to contract manufacturers who produce finished merchandise), and this facility allows the Group to provide superior value and quality to the consumer. Diamond jewellery accounts for approximately 70% of total annual merchandise sales. The divisions sophisticated merchandising systems track, forecast and respond to consumer preferences and provide competitive advantage by ensuring high in-stock positions of key merchandise assortments and faster moving items.

- Store operations

The sales associates ability to communicate and explain the value and quality of the merchandise plays a significant part in a retail jewellery purchase. Therefore, the US division has developed specialised training for its retail personnel, and its size provides leverage of training resources and systems.

- Marketing

Kay is one of a very limited number of US speciality retail jewellery brands with a presence large enough to justify national network television advertising, the most cost effective way to attract customers, enter new markets and increase brand recognition.
Following successful trials in 2002/03, the number of Jared TV markets during Christmas 2003 was doubled, from ten markets covering about 35% of the chains sales to 22 markets supporting about 75% of its sales.

- Real estate

Strict criteria are followed when evaluating real estate investment, and management believes that the quality of its store portfolio is superior to that of its competitors.

Initiatives in 2003/04

Specific initiatives to strengthen the Groups competitive position included:

- expansion of the Leo Diamond range,
- expansion of the Jared luxury watch range,
- record level of training,
- further development of systems for greater operational efficiency,
- increased national TV advertising for Kay,
- expansion of Jared TV advertising programme,
- space increase of 7%, and
- test of Kay off-mall store format.

Market place

Total US jewellery sales, including watches and fashion jewellery, are estimated by the US Department of Commerce to have been

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US operating review (continued)

$54 billion in 2003 (2002: $51 billion) and have risen at a compound annual growth rate of 5.8% over the last 20 years. In 2003 the market grew by about 6%. Management believes that major contributors to the relatively steady market growth include the bridal, fashion accessory and gift giving nature of the majority of US jewellery sales to the middle mass market, with the bridal category including engagement rings, wedding rings and anniversary jewellery. Signet has an approximate 3.5% share of the total US jewellery market.

The US speciality retail market is approximately $27 billion (2002: $25 billion). Speciality retail jewellery sales have risen at a compound annual growth rate of 4.5% from 1998 to 2003 (see graph below), outperforming other comparable sectors, and over the last three more challenging years performing in line with the general retail sector. Over the same period Signet’s total US sales (excluding the acquisition of Marks & Morgan) rose at a compound annual growth rate of 10.3%.

Growth of US Retail Sales

Management believes that the longer term outlook for jewellery sales is encouraging given the growth in disposable income and the increasing numbers of women in the work force.

The US retail jewellery industry is very competitive and highly fragmented. Management believes that the five largest speciality jewellery retailers account for approximately 22% of speciality jewellery sales, and collectively have gained market share over the past five years. This trend provides significant opportunity for the more competitive businesses in the sector, and it is believed

that Signet is well positioned to gain further market share. In the broader total US retail jewellery market Signet competes against other formats such as department stores, discount outlets, television home shopping and Internet shopping. Management believes that the business also competes with non-jewellery retailers for consumers’ discretionary spending.

The US division’s largest speciality jewellery competitor is Zale Corporation, which has a speciality market share of about 7.8%. Competition is also encountered from a limited number of large regional retail jewellery chains and smaller regional chains (those operating fewer than 100 stores) as well as independent retail jewellery stores, which account for over 70% of the speciality market.

Store operations

Signet’s US stores offer a selection of jewellery lines at popular price points with an emphasis on fine diamond jewellery, which account for some 70% of merchandise sales. In 2003/04 the average retail price of all merchandise sold was approximately $288 (2002/03: $267).

Signet conducts its US retail operations through three marketing divisions: Kay, regional chains and Jared. Kay and the regional chains are predominantly located in regional and super-regional enclosed malls, with approximately 75% of the stores being in prime locations. The average mall store contains approximately 1,154 square feet of selling space and 1,442 square feet of total space. The design and appearance of stores is standardised within each chain.

Details of recent investment in the store portfolio are set out below:

	Number of stores		
	2003/04	2002/03	2001/02
Store refurbishments and relocations	**61**	71	91
New mall stores	**47**	36	41

New off-mall stores			
Jared stores	**12**	12	12
Kay off-mall stores	**10**		
Fixed capital expenditure	**$42m**	$38m	$51m
Total investment[(1)]	**$98m**	$92m	$96m

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

Management believes that the US divisions prime real estate portfolio, together with its regular investment in mall store refurbishments and relocations, are competitive advantages that help build store traffic. Superior like for like sales growth is normally achieved for a number of years following such investment. The typical benefits from refurbishments, which

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normally occur on a ten year cycle, include an increase in linear footage of display cases positioned on the store frontage, improved lighting and better access to the store.

Criteria for investment in real estate remains stringent. Signet seeks sites in superior malls, in particularly units located on busy centre court locations.

Jared locations are typically free-standing sites in shopping complexes with high visibility and traffic flow, and positioned close to the highway. The retail centres in which Jared stores operate normally contain strong retail cotenancies, including other destination stores such as Borders Books, Best Buy, Home Depot, Toys R Us and Bed, Bath & Beyond. This type of shopping centre is known as a power strip mall.

In 2003/04 there was a net increase in US division total selling space of approximately 7%, in line with the target of 6% 8% growth per year.

In 2004/05 it is planned to open about 15 Jared stores. Some 45 mall stores, the majority of which will be Kay in the enclosed mall format, and up to ten additional off-mall Kay locations will

also be opened. Approximately 20 mall stores are planned for closure. The programme should result in a net increase in retail space of approximately 8% by the end of 2004/05.

Signet may consider selective purchases of mall stores that meet its acquisition criteria regarding location, quality of real estate, customer base and return on investment.

Kay

The expansion of Kay as a nationwide chain is an important element of the US growth strategy. Kay, with 717 primarily mall stores in 50 states at 31 January 2004 (1 February 2003: 676 stores), is targeted at the middle income consumer. It is believed that in the longer term there is potential to expand the Kay chain by around 200 mall stores (net of closures). The average retail price of merchandise sold in the Kay chain during 2003/04 was $257 (2002/03: $242) and average sales per Kay store were $1,548,000 (2002/03: $1,490,000).

A test of Kay stores in off-mall shopping centres was commenced in 2003/04 with the opening of ten stores, and it is intended that a further ten will be opened in 2004/05. Kay stores in this format are expected to have a lower capital expenditure and lower

The following table sets out information concerning the US stores operated by Signet during the period indicated:

	2003/04	2002/03	2001/02
Number of stores:			
Total opened during the year(1)	**69**	48	53
Kay(2)	**49**	22	29
Regional chains	**8**	14	12
Jared	**12**	12	12
Total closed during the year	**(16)**	(23)	(27)
Kay	**(8)**	(13)	(12)
Regional chains	**(8)**	(10)	(15)
Jared			

Total open at the end of the year	**1,103**	1,050	1,025
Kay(2)	**717**	676	667
Regional chains	**307**	307	303
Jared	**79**	67	55
Increase in space	**7%**	6%	6%
Percentage increase in like for like sales	**4.6%**	5.4%	0.6%
Average sales per store in thousands (total)(3)	**$1,747**	$1,665	$1,597
Average sales per store in thousands (excluding Jared)(3)	**$1,549**	$1,511	$1,475

(1) Figures for stores opened during the year are adjusted for the impact of conversions of format between Kay and regional chains.
(2) Includes test of Kay stores in off-mall shopping centres.
(3) Based upon stores operated for the full financial year.

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US operating review (continued)

sales per store at maturity than that of the Kay chain average. Management believes that the off-mall Kay format may present a potential opportunity to grow the chain in new shopping centres that have not been considered previously.

Regional chains

Signet also operates US mall stores under a variety of established regional trade names (see Description of property, page 20). The leading brands include JB Robinson Jewelers, Marks & Morgan Jewelers and Belden Jewelers. At 31 January 2004 307 regional stores operated in 31 states (1 February 2003: 307 stores). The opening of new regional chain stores is considered if real estate satisfying the investment criteria becomes available in their respective trading areas or in adjacent areas where marketing support can be cost effective. The average retail price of merchandise sold in the regional chains during 2003/04 was

$281 (2002/03: $265). The average sales per store in the regional chains were $1,550,000 (2002/03: $1,558,000).

Jared

Jared is the leading off-mall destination speciality retail jewellery chain in its sector of the market. Its main competitors are independent operators, with the next largest chain having 22 stores. If Jared were a stand-alone operation it would be the seventh largest US speciality jewellery company by sales.

Jared targets an underserved sector at the upper end of the middle market. The customer profile is of a more mature, higher income customer than that of Signet's US mall stores. An important advantage of a destination store is that the potential customer visits the store with the intention of making a jewellery purchase, whereas in a mall there is a greater possibility of the intended spend being diverted to non-jewellery purchases.

The following map shows the number and locations of Kay, regional and Jared stores at 31 January 2004:

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The typical Jared store has about 4,700 square feet of selling space and 5,900 square feet of total space. Its size permits significantly expanded product ranges and enhanced customer services, including in-store repair and custom design facilities. A private viewing room is available for customers when required. There are also complimentary refreshments and a children's play area.

There were 79 Jared stores at 31 January 2004 (1 February 2003: 67 stores). The average retail price of merchandise sold in Jared stores during 2003/04 was $586 (2002/03: $558), which was more than double that of a Signet US mall store. The average sales per Jared store were $4,603,000 (2002/03: $4,310,000).

In the first five years of trading a Jared store is projected to have a faster rate of like for like sales growth than that of a mall store at maturity. At the end of this period the projected operating margin is expected to have risen to around that of the mall store at maturity, with a greater return on capital employed. At 31 January 2004 some 45% of the Jared stores had been open for less than 30 months and only 15 had been open for more than five years.

Since the first Jared store opened in 1993, the concept has been continually evaluated, developed and refined. Management believes that the chain enjoys a number of competitive advantages, including leveraging the division's established infrastructure, access to a pool of experienced store management, and availability of capital required to develop and grow the brand.

Management believes that the Jared concept has considerable growth potential and over 100 suitable markets have been identified for future expansion, with many of these markets able to support multiple locations. Accordingly, in the longer term, the chain has the potential to expand nationwide to over 200 stores, generating annual sales of over $1 billion based on the current performance of existing Jared stores.

Management, personnel, training and incentives

A retail jewellery sale normally requires face-to-face interaction between the customer and the sales associate, during which the items being considered are removed from the display cases and presented one at a time while their qualities are explained to the customer. Consumer surveys indicate that a key factor in the retail purchase of jewellery is the customer's confidence in the sales associate. In order to allow staff more time for selling and customer service, a series of "World Class Store Systems" initiatives were taken. These have resulted in further

improvements in special orders capabilities and upgrades to point of sale computers to enable improvements in store administration.

It is believed that highly trained store sales staff with the necessary product knowledge to communicate the competitive value of the merchandise are critical to the success of the business. The US division's substantial training and incentive programmes for all levels of store staff are designed to play an important role in recruiting, educating and retaining qualified store staff. The preferred practice is to promote managers of all levels from within the organisation in order to maintain continuity and familiarity with company practice.

Retail sales personnel are encouraged to become Certified Diamontologists by graduating from a comprehensive diamond correspondence course provided by the Diamond Council of America. Approximately 63% of full time sales staff who have completed their probationary period are Certified Diamontologists or are training to become certified. Employees often continue their professional development through completion of correspondence courses on gemstones.

All store personnel are required to meet daily performance standards and commit to goals. After completion of basic training, sales staff are paid a commission based on their individual sales performance and on meeting monthly store sales targets. Sales contests and incentive programmes also reward achievement of specific goals with travel or additional cash awards. In addition to sales based incentives, bonuses are paid to store managers and district managers based on the achievement of key performance objectives. In 2003/04 approximately 23% (2002/03: 22%) of store personnel remuneration was incentive-based.

Management believes that the retention and recruitment of highly qualified and well-trained staff in the US head office in Akron, Ohio are essential to supporting the stores. A comprehensive in-house curriculum supplements specific job training and emphasises the importance of the working partnership between stores and headquarters.

US head office bonuses are mainly based on the performance of the division against predetermined annual profit targets. Promotion decisions for all non-management head office personnel are based on performance against service level and production goals; for managers they are based on annual objectives and performance against individual job requirements.

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US operating review (continued)

Merchandising and purchasing

It is believed that selection, availability and value for money of merchandise are all factors that are critical to success. The range of merchandise offered and the high level of stock availability are supported in the US business by extensive and continuous research and testing. Best-selling products are identified and their rapid replenishment ensured through analysis of product trials. This approach, along with the direct sourcing of loose polished diamonds, enables the division to deliver a focused assortment of merchandise to maximise sales, minimise discounting and accelerate inventory turn.

Sophisticated inventory management systems for merchandise testing, assortment planning, allocation and replenishment have been developed and implemented. Approximately two-thirds of the merchandise is common to all US division mall stores, with the remainder allocated to reflect demand in particular markets. It is believed that the merchandising and inventory management systems, as well as improvements in the productivity of the centralised distribution centre, have allowed the division to achieve inventory turns comparable to those of most of its quoted competitors although it has a more immature store base.

Programmes have been developed in conjunction with certain vendors for the provision of branded jewellery merchandise. For example, the Leo Diamond range is sold exclusively by Signet in the US and the UK. Management believes that the US divisions merchandising process, market share and relationship with suppliers position the business as an ideal partner to launch new branding initiatives.

Other merchandising initiatives offer a distinctive product selection. For example, in Jared an opportunity to increase watch sales and thereby also attract additional customer traffic has been identified. Therefore a major ongoing initiative has been taken to increase the number of Jared stores that stock premium watch brands, including Rolex, Tag Heuer, Omega and Tissot. Another example is the promotion of right hand rings, diamond fashion rings intended to be worn on the right hand rather than as bridal jewellery, which is traditionally worn on the left ring finger. De Beers specifically marketed this product in its nationwide print advertising throughout 2003/04, and is expected to continue to do so in 2004/05.

In 2003/04 the bridal category accounted for approximately 44% of merchandise sold, continuing the steady growth over the past five years.

The table below sets out Signets US merchandise sales mix as a percentage of sales:

Merchandise mix

	Percentage of sales		
	2003/04 %	2002/03 %	2001/02 %
Diamonds and diamond jewellery	**70**	69	67
Gold jewellery	**8**	8	10
Gemstone jewellery	**10**	10	10
Watches	**6**	6	6
Repairs	**6**	7	7
	100	100	100

Approximately 55% of US diamond merchandise sold is sourced through contract manufacturing; Signet purchases loose polished diamonds on the world market and outsources the casting, assembly and finishing operations to third parties. It is believed that this approach results in a competitive cost and quality advantage. Contract casting and the setting of loose diamonds are generally utilised on basic items or programmes with proven non-volatile historical sales patterns that represent a lower risk of over or under purchasing. This purchasing strategy also allows the buyers to gain a detailed understanding of the manufacturing cost structure and improves the prospects of negotiating better pricing for the supply of finished products.

Merchandise considered likely to have less predictable sales patterns is purchased complete as finished product. This strategy provides the opportunity to reserve stock held by vendors and to make supplier returns or exchanges, thereby reducing the risk of over or under purchasing.

Merchandise held on consignment is used to enhance product selection and test new designs. This minimises exposure to changes in fashion trends and obsolescence and provides the flexibility to return non-performing merchandise. At 31 January 2004 the US division held approximately \$144 million (1 February 2003: \$116 million) of merchandise on consignment (see note 12 on page 72).

In 2003/04 the five largest suppliers collectively accounted for approximately 26% (2002/03: 29%) of total US purchases, with the largest supplier accounting for approximately 10% (2002/03: 13%).

Marketing and advertising

Store brand name recognition by consumers is believed to be an important factor in jewellery retailing, as the products themselves are predominantly unbranded. Signet continues to strengthen and promote its US brands and build store brand name recognition

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through a range of media advertising including television, radio, print, catalogues, direct mail, point of sale signage, in-store displays and the Internet. Gross advertising and marketing expenditure was increased by 8.6% to $119.9 million in 2003/04 (2002/03: $110.4 million), primarily to support total mall sales growth and the continued expansion of the Jared concept. Gross expenditure as a percentage of sales was 6.4% (2002/03: 6.4%). The total expenditure for advertising and marketing support for Kay and each of the regional brands was approximately 6% of their respective total sales for the year.

Advertising activities are concentrated on periods when customers are expected to be most receptive to the marketing message. During the 2003 Christmas trading period the number of Kay television impressions increased by 7%. The proportion of television advertising expenditure to sales has increased, and the cost of network television advertising is leveraged as the number of stores increases. The romance and appreciation based theme of its advertising programme continues to utilise the tag line Every kiss begins with Kay, which has improved name recognition of the chain.

Promotional campaigns for Jared and regional chains use cost-effective regional radio advertising as the primary medium to support and enhance name recognition. For the regional chains the campaigns are supported by direct mail. For Jared a regional television advertising programme was expanded to 22 selected markets. Management believes that when the Jared chain reaches the critical mass to justify national network television advertising, the most efficient and cost-effective form of marketing, brand name recognition will be enhanced nationwide, thus providing improved access to prime store real estate sites in large, high cost advertising markets and increased marketing leverage.

Each year the US division produces 11 catalogues that feature a wide selection of merchandise and are prominently displayed in stores. Catalogues are also mailed direct to targeted customers.

Statistical and technology based systems are employed to support a direct marketing programme that uses a proprietary database of over 19 million names to strengthen the relationship with customers. The programme targets current customers with special savings and merchandise offers during the key trading periods. In addition, invitations to special promotional in-store events are extended throughout the year.

Each of the US brands now has an informational web site and during 2003/04 the Jared site was enhanced. The expanded web sites for Kay, JB Robinson and Jared display a selection of merchandise assortments, provide store locations, and allow for customer registration and credit application on-line.

Credit operations

Management regards the provision of an in-house credit programme as a competitive advantage for a number of reasons. It allows management to establish and implement customer service standards in the context of the business. It also provides a database of regular customers and their spending patterns. Investment in systems and management of credit offerings appropriate for the business can also be facilitated in a more cost-efficient manner than if managed by a third party provider. Furthermore it is believed that the various credit programmes offered help to establish long-term relationships with customers and complement the marketing strategy by encouraging additional purchases and higher unit sales.

The table below presents data related to the in-house credit business for the past three financial years. Since the credit accounts were centralised in 1994 the credit offer and performance have been consistent, and despite the more recent challenging environment there has been a steady improvement in performance over the economic cycle. The average outstanding balance at year end was $729 (2002/03: $688).

The credit portfolio turns approximately every seven months and the monthly collection rate has increased to approximately 14.8%.

	2003/04	2002/03	2001/02

Credit sales ($m)	**924.3**	859.6	817.2
Credit sales as % of total sales	**49.3%**	49.5%	50.4%
Number of active credit accounts at year end	**807,272**	798,761	799,043
Average outstanding account balance ($)	**729**	688	660
Average monthly collection rates	**14.8%**	14.5%	13.9%
Bad debt as % of total sales	**2.8%**	3.0%(1)	3.2%
Bad debt as % of credit sales	**5.6%**	6.0%(1)	6.3%

(1) Before a $2.2 million benefit from the better than anticipated performance of the residue of the acquired Marks & Morgan receivables portfolio.

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US operating review (continued)

The bad debt charge for the year, at 5.6% of credit sales, was at the bottom end of the range over the last eight years. In-house credit sales represented 49.3% of total US sales in 2003/04 (2002/03: 49.5%). Certain programmes offer interest-free financing, subject to certain conditions. In most states customers are offered optional third party credit insurance.

Authorisation and collections are all performed centrally at the US headquarters on an automated basis, rather than by store staff. The majority of credit applications can be processed and approved in less than two minutes; they can be made via in-store terminals, through a toll-free phone number or on-line through the marketing web sites. All applications are evaluated by the scoring of credit data and data obtained through third party credit bureaux. Improved scoring models that use statistical methods and support credit decision systems and strategies have been implemented in 2003/04. In addition to the in-house credit card, the US stores accept major credit cards. Credit card sales are treated as cash sales and accounted for approximately 36% of total US sales during the year.

Investment in staff, training and systems to maintain or improve the quality of the credit portfolio continued throughout 2003/04. Collection strategies and efforts continued to include increased emphasis on contacting credit accounts at early stages of delinquency.

Management tools and communications

The US division’s highly integrated and comprehensive information systems provide detailed, timely information to monitor and evaluate virtually every aspect of the business and are designed to decrease the time sales staff spend on administrative tasks and increase time spent on sales activities. They also support merchandise testing, loss prevention and inventory control.

All stores are supported by the internally developed Store Information System, which includes electronic point of sale (“EPOS”) processing, in-house credit authorisation and support, a district manager information system and a satellite-based communications system that supports data transmissions and company-wide e-mail. The EPOS system updates sales, in-house credit and perpetual inventory replenishment systems from data captured throughout the day for each store.

Regulation

Signet US is required to comply with numerous US federal and state laws and regulations covering areas such as consumer protection, consumer privacy, consumer credit, consumer credit insurance, truth in advertising and employment legislation. Management endeavours to monitor changes in these laws to ensure that its practices comply with appropriate requirements.

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UK operating review

Overview

Signet is the largest speciality retailer of fine jewellery in the UK, with 604 stores and a total market share of approximately 17%. It trades as H.Samuel (17.7% of Group sales), targeting the middle market, and Ernest Jones (12.9% of Group sales), positioned at the upper end of the middle market. Total sales during 2003/04 were £501.0 million (2002/03: £473.6 million).

At 31 January 2004 there were 407 H.Samuel stores and 197 Ernest Jones stores (including 16 Leslie Davis stores). Approximately 49% of these are found in prime High Street locations (main shopping streets with high pedestrian traffic) and 51% are located in covered or enclosed shopping malls. High Street stores accounted for 42% of total UK sales and shopping mall stores for 58%. H.Samuel is the largest chain of speciality retail jewellers in the UK and its stores are located in virtually every medium and large retail centre. Ernest Jones, the second largest speciality retail jewellery chain, is represented in most large retail centres.

The UK strategy is to increase the average transaction value by focusing on fast growing product categories, particularly diamond jewellery, thereby improving store productivity and achieving operational leverage.

Competitive advantages

Signet attributes its leading position in the UK speciality retail market to a range of competitive advantages in merchandising, store operations, marketing and real estate, which are summarised below and explained in greater detail on pages 16 to 19.

- Merchandising

Management believes that the divisions capacity to contract with jewellery manufacturers to assemble products utilising directly sourced loose polished diamonds and gold allows for delivery of better value to the customer.

- Store operations

The sale of diamond jewellery requires increased standards of product knowledge and customer service from sales associates. The division develops and invests in training procedures and materials tailored to its own requirements to help achieve this. In addition it can take advantage of economies of scale in recruitment and store administration.

- Marketing

The UK division has strong and well established brands and leverages them with print and television advertising and marketing catalogues.

- Real estate

The competitive advantage of national coverage for both brands and the prime locations of stores is being enhanced by the rollout of a new format designed to increase the sale of diamonds and fine jewellery, thereby increasing sales per store.
The UK business also enjoys a competitive advantage due to its close relationship with Signets US operations. Synergies are gained by sharing knowledge in merchandising, marketing, operations, best practice procedures and systems.

Initiatives in 2003/04

Specific initiatives taken to strengthen the division's competitive position include:

- development of branded diamonds,
- improvement in visual merchandising,
- test television advertising for H.Samuel and Ernest Jones,
- further development of catalogue design and distribution,
- enhancement of selection and training processes for sales associates and management,
- introduction of enhanced computer systems accessible from all stores, which help automate and standardise processes, facilitate training and improve communication, and
- extension of new store design to an additional 35 stores.

Market place

Although reliable figures on the size of the UK jewellery market are difficult to obtain, management believes that in calendar year 2003 the size of the total UK market for fine jewellery, costume jewellery and watches was approximately £3.5 billion ($5.9 billion) (including VAT of 17.5%). The market includes speciality retail jewellers and non speciality jewellery retailers such as mail order catalogues, catalogue showrooms and jewellery departments in department stores.

The UK retail jewellery industry is very fragmented and competitive, with a substantial number of independent speciality jewellery retailers. Management believes there are approximately 7,000 speciality retail jewellery stores in the UK.

In the middle market H.Samuel competes with a large number of independent jewellers, the only competitor of significant size being F Hinds (108 stores). Competition at the lower end of the H.Samuel product range also comes from catalogue showroom outlets such as Argos and discount jewellery retailers such as Warren James.

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UK operating review (continued)

In the upper middle market Ernest Jones competition is from independent speciality retailers and a limited number of other upper middle market jewellery groups such as Goldsmiths Group (165 stores); Beaverbrooks (52 stores); and MW Group (35 stores).

Based on exit surveys introduced during the year, management believes that customers are attracted to H.Samuel because it is perceived to be friendly, approachable and relaxed, whilst delivering a knowledgeable and efficient service with a wide product range. Ernest Jones is perceived to offer a personalised service with high standards of expertise, integrity and professionalism.

Store operations

As part of the programme to increase sales and store productivity by focusing on the fast growing diamond category, a new store design better suited to the sale of diamonds and fine jewellery has been developed to allow greater interaction between sales associates and customers.

The new format features open frontages which are intended to make the store more accessible and inviting to the customer, as well as improved presentation of the merchandise. The design draws on the Group's mall store experience in the US, and for mall locations includes display cases on the frontage with the concourse rather than the traditional window presentation. High Street stores have wide floor-to-ceiling windows which provide views directly into the store. The merchandise is displayed in low level units and wall display cases that serve as both counter and display case, and allow the sales associate to present an assortment of merchandise to the customer without having to break away to select additional merchandise from the window displays.

The performance of the new format has continued to be encouraging. The reformatted stores outperformed their peer groups and achieved a rise in both diamond sales and average ticket price. An additional 35 stores, primarily H.Samuel, were trading in the new format at 31 January 2004, bringing the total to 52. A multi-year rollout plan for the new format is being implemented as part of the normal refurbishment cycle. It is planned to refurbish 75 – 85 stores in 2004, the majority being H.Samuel.

Details of recent investment in the store portfolio are set out below:

	Number of stores		
	2003/04	2002/03	2001/02
Store refurbishments and relocations	**32**	42	93
New H.Samuel stores	–	4	10
New Ernest Jones stores	**5**	8	9
Fixed capital expenditure	**£13m**	£14m	£15m

A dedicated store operations management team for each of the H.Samuel and Ernest Jones chains supports and manages their development.

H.Samuel

H.Samuel, accounting for 17.7% of Group sales in 2003/04 (2002/03: 17.4%), offers a range of jewellery, gold, watches and gifts (see page 18, Merchandise mix). At 31 January 2004 the chain had average selling space of 1,125 square feet per store.

The average retail price of items sold in 2003/04 was £35, reflecting the proportion of gifts in the sales mix, which has been declining over time. This is planned to continue as the percentage of diamond jewellery sales increases. The average retail price has increased at a compound annual growth rate of 7.0% over the last five years. Average sales per store in 2003/04 were £707,000 having increased at a compound annual growth rate of 4.7% over the last five years. The number of H.Samuel stores is likely to be broadly stable, as there are limited opportunities to open new sites and the number of markets with multiple units continues to be rationalised.

H.Samuel store data

	2003/04	2002/03	2001/02
Number of stores			
Opened during year	–	4	10
Closed during year	(11)	(8)	(16)
Open at end of year	**407**	418	422
Percentage increase in like for like sales	**3.5%**	2.6%	6.4%
Average retail price of items sold(1)	**£35**	£33	£31
Average sales per store in thousand (exc. VAT)(2)	**£707**	£677	£667

(1) Excluding accessories, repairs and warranties.
(2) Including only stores operated for the full financial year.

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Ernest Jones (including Leslie Davis)

Ernest Jones sales accounted for 12.9% of Group sales in 2003/04 (2002/03: 11.7%). Where market size permits the Ernest Jones chain follows a two-site strategy, using the trade names Ernest Jones and Leslie Davis.

The principal product categories are diamonds, branded watches and gold jewellery, which are all merchandised and marketed to appeal to the more affluent upper middle market customer (see page 18, Merchandise mix). Ernest Jones retails an extensive range of diamond and gold jewellery and prestige watches such as Rolex, Cartier, Gucci, Raymond Weil, Tag Heuer, Omega and Rado; contemporary fashion watches such as Emporio Armani, Hugo Boss, DKNY and Calvin Klein; and a range of traditional watches including Rotary, Seiko and Tissot.

At 31 January 2004 the chain had an average selling space of 849 square feet per store. The average retail price of items sold in 2003/04 was £139, and has increased at a compound annual growth rate of 5.0% over the last five years. Over the same period average sales per store increased at an annual compound growth rate of 12.0% and reached £1,101,000 at 31 January 2004. Management considers that there is potential to increase the number of Ernest Jones stores to approximately 225 as suitable sites and watch agencies become available.

Ernest Jones store data(1)

	2003/04	2002/03	2001/02
Number of stores			
Opened during year	**5**	8	9
Closed during year	****		(2)
Open at end of year	**197**	192	184
Percentage increase in like for like sales	**8.4%**	9.4%	14.6%
Average retail price of items sold(2)	**£139**	£130	£119
Average sales per store in thousand (exc. VAT)(3)	**£1,101**	£1,030	£919

(1) Including Leslie Davis stores.
(2) Excluding accessories, repairs and warranties.
(3) Including only stores operated for the full financial year.

Management, personnel, training and incentives

Management believes that customer service is one of the essential elements in the success of its business. During 2003/04 initiatives to improve customer service and raise store standards continued. Training programmes and enhanced incentive schemes have contributed to the improvement in the quality and performance of the UK staff, which has helped to increase sales.

Recruitment procedures have been enhanced to ensure that store personnel meet key basic requirements and are motivated to work within the store environment. Field and human resources management personnel play an active role in the recruitment, performance review, training and development of sales staff,

thereby ensuring consistency in operating standards and procedures throughout the business. All new store personnel must complete a selling skills learning programme during their probationary period and thereafter undertake additional training in selling, product knowledge and customer care.

During 2003/04 a training programme and framework for measuring standards of capability, the Signet Jewellery Academy, was introduced for all store staff. Upon completion of each of the five levels of the Academy, the sales associate normally takes on increasing responsibilities. Personnel are also encouraged to pursue further education through courses such as the National Association of Goldsmiths Jewellers Training Programme, a two year course leading to certification by examination.

In conjunction with the Signet Jewellery Academy, training for all tiers of store operations management was also restructured and enhanced to support the initiative to improve customer service. The preferred policy is to promote store managers from within the business. At any given time each chain has a number of sales staff who are qualified to advance to store manager level, thus assuring the availability of newly trained managers familiar with operating standards and procedures.

Various incentive schemes are operated to motivate and reward performance in the stores, and sales-based bonuses are paid to sales associates. The bonus system for store managers and area managers is based on key performance targets. Performance-based remuneration tests are being carried out and could result in an increase in the proportion of performance-related payments over time.

In order to increase staff selling time and to improve efficiency, operating procedures are routinely reviewed to identify opportunities to enhance customer service and reduce in-store administrative tasks. The Signet Intranet, introduced in all stores during the year, provides a computer based platform for improved communication between stores and head office, with sales floor and back office administrative functions being simplified and standardised through this medium.

Management also believes that successful recruitment, training and retention of head office staff are essential means of supporting the stores and enhancing sales performance. Comprehensive recruitment, training and incentive programmes for head office staff are in place in the Colindale and Birmingham offices. Programmes to provide employees with structured development plans, training and career paths have been implemented. Career advancement is encouraged through the advertisement of all internal vacancies and is supported by

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UK operating review (continued)

a succession planning process. Teamwork and service to the stores are encouraged through a performance bonus plan for head office staff, which is based on the divisions results.

Opportunities for improving employment practices were identified through a Staff Opinion Survey in 2003. It is believed that the results provide a basis for further improvement in the motivation and retention of staff.

Merchandising and purchasing

The division retails an extensive range of merchandise including gold and silver jewellery, watches, diamond and gemstone set jewellery and gifts. As with other UK speciality retail jewellers, most gold jewellery sold is 9 carat. However, sales of 18 carat gold jewellery, particularly white gold, have been increasing in line with a rising demand for aspirational products.

The merchandise mix of H.Samuel, Ernest Jones and the UK division as a whole, is given below. In 2003/04 diamond jewellery sales accounted for 26% of total Signet UK sales versus 20% five years ago. In line with the strategy of the UK division to increase the percentage of diamonds in the merchandise mix, the compound annual growth rate of Signet UK diamond sales was 14.1% over the period, while the compound annual growth rate of all UK diamond sales was 9.1% over the same period (De Beers).

Merchandise mix

	Percentage of sales		
	2003/04	**2002/03**	**2001/02**
	%	**%**	**%**
Gold and silver jewellery			
H.Samuel	**37**	36	36
Ernest Jones	**26**	26	27
Signet UK	**33**	32	33
Watches			
H.Samuel	**23**	24	24
Ernest Jones	**31**	32	34
Signet UK	**26**	27	28
Diamond jewellery			
H.Samuel	**19**	18	17
Ernest Jones	**36**	35	33
Signet UK	**26**	25	23
Gifts			
H.Samuel	**14**	14	15
Ernest Jones	**3**	3	3

Signet UK	**9**	10	10
Repairs and accessories			
H.Samuel	**7**	8	8
Ernest Jones	**4**	4	3
Signet UK	**6**	6	6

Merchandise is purchased from a range of suppliers and manufacturers. In 2003/04 the five largest of these (all watch

suppliers) together accounted for approximately 21% of total UK division purchases, with the largest accounting for approximately 6%. Only a small percentage of merchandise is purchased on consignment (see note 12 on page 72).

Economies of scale are achieved by combining the volume of purchases for H.Samuel and Ernest Jones. Some 24% of the UK business gold jewellery is manufactured on a contract basis in Italy through a buying office in Vicenza, thereby eliminating the costs associated with intermediaries.

Signet UK also employs contract casting for approximately 30% of the diamond merchandise sold, thereby achieving cost savings. Both H.Samuel and Ernest Jones employ experienced buyers who concentrate on product development, sourcing and supplier management appropriate to their particular needs.

Merchandising teams work in conjunction with the buyers and focus on assortment planning, branch grading, repeat orders, inventory levels and margin management. Product category reviews are regularly carried out with a focus on increasing potential gross margin return on investment. Rigorous test marketing procedures are used to trial products, and their subsequent distribution is made strictly against rates of sale.

In recent years steps have been taken to strengthen the merchandising and purchasing functions, especially for diamonds. The diamond ranges have been rationalised, with greater focus on key items, and a wider choice in the most popular categories is offered whilst peripheral merchandising is reduced. Branded diamonds exclusive to Signet have been introduced in recent years. The Leo Diamond is now available in all Ernest Jones stores, and the Forever Diamonds range continues to be rolled out in H.Samuel; it was available in 50 stores in 2002/03, 120 in 2003/04 and will be in 200 by the end of 2004/05.

Each store is assigned a range of merchandise that reflects local buying patterns. Display equipment and layouts are constantly reviewed and updated, and new display formats that draw upon the US division s experience are being implemented.

Marketing and advertising

Gross expenditure on marketing and advertising amounted to 2.5% of sales in 2003/04 (2002/03: 2.2% and 2001/02: 2.1%). Marketing campaigns have been tailored to reinforce and develop further the distinct brand identities of H.Samuel as a middle market jewellery chain and Ernest Jones as a more upmarket diamond and watch specialist. Both campaigns aim to expand the overall customer base and improve customer loyalty.

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The primary marketing and advertising medium employed in 2003/04 consisted of a series of catalogues for each brand, distributed as inserts in newspapers and magazines and available in all stores. The quality of catalogues was improved and their distribution was better targeted. Ernest Jones also benefited from increased catalogue quantities.

Television advertising was tested for both chains during Christmas 2003. It was the first time television advertising had been tested for Ernest Jones, with advertisements running in the London area, comprising about 25% of its store base. For H.Samuel, it was the first large-scale test and ran in the Midlands and northern England, representing about 40% of its store base. It is planned to continue the advertising trial in 2004.

Public relations support was increased for both brands, resulting in greater coverage by national and consumer lifestyle media titles. Targeted marketing was increased to publicise special promotional events such as design days at Ernest Jones and collectors events at H.Samuel.

During 2003/04 the content and interactivity of the UK marketing web sites (*www.hsamuel.co.uk*, *www.ernestjones.co.uk* and *www.lesliedavis.co.uk*) continued to be developed. The sites have seen a substantial increase in visitor traffic.

Insurance loss replacement business

Management believes that Signet is the leading UK jewellery retailer in the insurance loss replacement business, which involves the settlement of insurance claims by product replacement through jewellery stores rather than by cash settlements from the insurance company. Given its nationwide store portfolio, breadth of product range and ability to invest in systems to support the business, the division is well positioned to benefit from insurance companies increasingly settling claims in this manner. H.Samuel and Ernest Jones also benefit from the resulting higher customer traffic in the stores and the opportunity to create and build relationships with new customers. During the year software systems were improved and a new insurance call centre was opened in February 2004, facilitating further expansion of this sector of the UK business.

Credit operations

Whilst the division does not have an in-house credit operation, it does accept major credit cards. Credit card sales are treated as cash transactions and accounted for approximately 31% of sales during 2003/04 (2002/03: 33%). During the period approximately 3% (2002/03: 2%) of sales in the UK were made pursuant to interest-free programmes available for purchases above a particular price. The receivables for the interest-free programmes are sold at a discount on a limited recourse basis and administered by an unaffiliated company.

Management tools and communications

The administration centre at Colindale in North London is the head office for UK store operations and houses the divisions core finance, human resources, information technology, payroll, and buying and merchandising functions. The distribution facility, insurance replacement business, call centre, customer services facility and some finance and information technology operations are located in Birmingham.

EPOS equipment, retail management systems, purchase order management systems and merchandise planning processes are in place to support financial management, inventory planning and control, purchasing, merchandising, replenishment and distribution and can enable replacement within 24 hours of any merchandise sold. A perpetual inventory process allows store managers to check stock by product category. During the year, hand held terminals were introduced to all stores to improve significantly the accuracy and speed of the stock counting process. Enhancements to all these systems have improved control of shrinkage, fraud prevention, financial analysis of retail operations, merchandising and inventory control.

Regulation

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

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Description of property

Signet attributes great importance to the location and appearance of its stores. Accordingly, in both Signets US and UK operations, investment decisions on selecting sites and refurbishing stores are made centrally, and strict real estate criteria are applied.

The Company has sufficient distribution capacity to meet its current requirements in the US. It is planned to increase this capacity in 2004 to support future sales growth. In the UK investment is being made to reflect the increase in diamonds in the sales mix.

US

Substantially all of Signets US stores are leased. In addition to a minimum annual rental, a significant number of stores will pay additional rent based on sales above a specified base level. Under the terms of the typical lease, the US business is required to conform and maintain its usage to agreed standards, including meeting required advertising expenditures as a percentage of sales, and is responsible for its proportionate share of expenses associated with common area maintenance, utilities and taxes of the mall. The initial term of a mall store lease is generally ten years. At 31 January 2004 the average unexpired lease term of US leased premises was six years and some 43% of leases had terms expiring within five years. The Jared stores are normally on 20 year leases and rents are not turnover related.

During the past five financial years the US business has been generally successful in renewing its store leases as they expire and has not experienced difficulty in securing suitable locations for its stores. It is not believed that any of the store leases are individually material to the Groups US operations.

A 337,000 square foot head office facility is leased in Akron, Ohio.

UK

At 31 January 2004 Signet UK held ten freehold premises, 15 premises where the lease had a remaining term in excess of 25 years and 671 other leasehold premises. As is typically the case in retailing in the UK, the divisions stores are leased for

terms of up to 25 years, generally under full repairing and insuring leases (equivalent to triple net leases in the US). Wherever possible Signet is shortening the length of new leases that it enters into in order to improve the flexibility of its lease commitments. Rents are usually subject to upward review every five years if market conditions so warrant. An increasing proportion of rents are related to sales of the store, subject to a minimum annual value. At the end of the lease period, subject to certain limited exceptions, leaseholders generally have statutory rights to enter into a new lease of the premises on negotiated terms. At 31 January 2004 the average unexpired lease term of Signets leased premises in the UK was 13 years. As current leases expire, Signet believes that it will be able to renew leases, if desired, for present store locations or to obtain leases in equivalent or improved locations in the same general areas. Signet has not experienced difficulty in securing leases for suitable locations for its UK stores. It is not believed that any of the store leases are individually material to the Groups UK operations.

Signet owns a 255,000 square foot warehouse and distribution centre in Birmingham and a 120,000 square foot administration centre at Colindale in North London.

Trademarks and trade names

Signet is not dependent on any material patents or licenses in either the US or the UK; however, it does have several well established trademarks and trade names which are significant in maintaining its reputation and competitive position in the jewellery retailing industry in both the US and the UK. These registered trademarks and trade names include the following in Signets US operations: Kay Jewelers; Jared The Galleria Of Jewelry; JB Robinson Jewelers; Marks & Morgan Jewelers; Belden Jewelers; Weisfield Jewelers; Osterman Jewelers; Shaws Jewelers; Rogers Jewelers; LeRoys Jewelers; Goodman Jewelers; Friedlanders Jewelers; Every kiss begins with Kay; and Perfect Partner. These trademarks and trade names include the following in Signets UK operations: H.Samuel;

Ernest Jones; Leslie Davis; and Forever Diamonds.

Group employees

In 2003/04 the average number of full-time equivalent persons employed (including directors) was 14,502 (UK: 4,562; US: 9,940). The Company usually employs a limited number of temporary employees during each Christmas season.

None of Signet's employees in the UK and less than 1% of Signet's employees in the US are covered by collective bargaining agreements. Signet considers its relationship with its employees to be excellent.

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Financial review

for the 52 weeks ended 31 January 2004

	2003/04		2002/03(1)		2001/02(1)	
	£m	**%**	£m	%	£m	%
Sales:						
US	**1,116.2**	**69.0**	1,134.4	70.5	1,126.0	71.4
UK	**501.0**	**31.0**	473.6	29.5	452.1	28.6
Total	**1,617.2**	**100.0**	1,608.0	100.0	1,578.1	100.0
Operating profit:						
US	**151.4**	**71.4**	155.2	77.6	145.1	79.0
UK	**76.6**	**36.2**	64.7	32.4	58.8	32.0
Group central costs	**(5.7)**	**(2.7)**	(6.0)	(3.0)	(5.1)	(2.8)
	222.3	**104.9**	213.9	107.0	198.8	108.2
Net interest payable	**(10.4)**	**(4.9)**	(14.0)	(7.0)	(15.0)	(8.2)
Profit before tax	**211.9**	**100.0**	199.9	100.0	183.8	100.0

(1) Restated for the implementation of FRS 17   Retirement Benefits .

Introduction

The key drivers of operating profitability are the:

- rate of sales growth,
- balance between like for like sales growth and sales from new space,
- achieved gross margin,
- level of cost increases experienced by the Group,
- level of net bad debt charge relating to the in-house credit card in the US, and
- movements in the US dollar to pound sterling exchange rate, since the majority of the Group s profits are generated in the US and the Group reports in pounds sterling.

Gross margins in retail jewellery are above the average for speciality retailers reflecting the slow inventory turn. Gross margins depend on Signet s pricing policy and movements in its costs of goods sold. In general, gross margins on gold jewellery are above the Group s average, while diamond jewellery margins are broadly in line with the Group s average. The gross margin on watches and gift products is normally below that of diamonds. In addition, the gross margin in a Jared store is slightly below that of a mall store, although at maturity the operating margin for a Jared store is expected to be similar to that of a mall store.

In the US, the growth of the Jared concept and anticipated changes in mix within the diamond category, result in a small downward pressure on the gross margin achieved by the US business each year. In the UK the strategy to increase diamonds has a broadly neutral impact on gross margins.

To maintain the operating profit margin the Group needs to achieve like for like sales growth sufficient to offset any adverse movement in gross margin, the increase in operating costs and the impact of immature selling space. Like for like sales growth above this level allows the Group to achieve leverage of its fixed cost base and improve operating margins; slower sales growth results in reduced operating margins.

Signet□s longer term strategy of 6% □ 8% space growth in the US, with minimal net new space in the UK, means lower like for like sales growth is required in the UK than in the US to maintain operating margins.

The impact on operating profits of sales variances (either adverse or favourable) is less in the US division than the UK as certain expense items are more related to sales volumes in the US.

A key factor in driving operating margin is the level of average sales per store, with higher productivity allowing leverage of expenses both in store and in central office functions.

Movements in the US dollar to pound sterling exchange rate impact the reported results of the Group as the US division□s results are translated into pounds sterling. The Board believes it is inappropriate to hedge this exposure as the US division□s sales and costs are dollar denominated and the cash flow from the US division is largely reinvested in the US space expansion or used to pay down US dollar denominated borrowings. The Group therefore would be putting in place a cash exposure to hedge a translation risk.

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Financial review (continued)

52 weeks ended 31 January 2004

Total Group sales rose to £1,617.2 million (2002/03: £1,608.0 million), up 0.6% on a reported basis and 7.3% at constant exchange rates. Group like for like sales were up 4.9% and new space contributed 2.4% (see table below).

Group operating margin increased to 13.7% (2002/03: 13.3% restated), leverage from like for like sales growth more than offsetting the impact of immature space growth with gross margin little changed. The growth in total sales and the increased operating margin resulted in Group operating profit advancing to £222.3 million (2002/03: £213.9 million restated), up 3.9% on a reported basis and 11.2% at constant exchange rates.

Net interest payable decreased to £10.4 million (2002/03: £14.0 million). £1.5 million of the reduction was due to exchange translation, the balance attributable to lower levels of net debt which more than offset the decrease in net interest credit on the UK defined benefit pension scheme.

Group profit before tax increased to £211.9 million (2002/03: £199.9 million restated), up 6.0% on a reported basis and 13.0% at constant exchange rates. After a tax charge of 35.3% (2002/03: 35.4%) profit for the financial period rose to £137.2 million (2002/03: £129.1 million restated). It is anticipated that the tax charge for 2004/05 will be marginally lower than that for 2003/04. Earnings per share was 8.0p (2002/03: 7.5p restated), up 6.7% on a reported basis and 12.7% at constant exchange rates.

Sales

2003/04 sales growth	US %	UK %	Group %
Like for like	4.6	5.5	4.9
New space	3.4	0.3	2.4
Exchange translation	(9.6)	—	(6.7)
Total sales growth	(1.6)	5.8	0.6

US

Like for like sales for the US division increased by 4.6% and total US dollar sales by 8.0%. Trading in the first half was adversely affected by the geo-political situation, however the second half saw a marked improvement in the retail environment culminating in a particularly strong fourth quarter when like for like sales rose by 7.2%. The contribution from new space and the impact of exchange rate movements is shown in the table above.

UK

As in the US, trading in the first half of the year in the UK was also affected by geo-political factors, but the second half saw improved trading with a strong Christmas season when like for like sales rose by 6.7%. For the year as a whole like for like sales increased by 5.5% and total sales by 5.8%.

Operating profit

Operating margin movement

	US %	UK %	Group %
2002/03 margin	13.7	13.7(1)	13.3(1)
Gross margin	(0.4)	0.8	–
Expenses	0.7	0.8	0.7
New space	(0.4)	–	(0.3)
2003/04 margin	13.6	15.3	13.7

(1) Restated for the implementation of FRS 17 – 'Retirement Benefits'.

US

The operating margin in the US division was little changed at 13.6% (2002/03: 13.7%), with the leverage from like for like sales growth offsetting the impact of slightly lower gross margins and immature store space (see table above). The ratio of net bad debt to sales decreased to 2.8% (2002/03: 3.0%). Operating profit was £151.4 million (2002/03: £155.2 million), down 2.4% on a reported basis but up 7.1% at constant exchange rates reflecting the movement in sales.

UK

An increase in gross margin and leverage from improved store productivity meant that the UK operating margin increased to 15.3% (2002/03: 13.7% restated). Operating profit grew by 18.4% to £76.6 million (2002/03: £64.7 million restated).

Group costs

Group costs amounted to £5.7 million (2002/03: £6.0 million which included a property provision of £0.5 million).

Prior year adjustment

The Group has adopted FRS 17 – 'Retirement Benefits' in 2003/04. Under the market-based approach of FRS 17 there was a £6.7 million Group Scheme deficit at 1 February 2003 in comparison to a balance sheet asset of £19.1 million under SSAP 24. Consequently a non-cash charge of £18.1 million, net of deferred tax, has been accounted for by way of a prior year adjustment charged directly to reserves to reflect this change, representing 2.7% of shareholders' funds at 1 February 2003.

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Return on capital employed

The Groups ROCE increased to 24.8% (2002/03: 24.1% restated). In the US the ROCE was 20.5% (2002/03: 21.5%) reflecting the impact of an increased proportion of immature space largely from new Jared stores. In the UK there was an increase to 47.1% (2002/03: 41.2% restated) due to improved store productivity. US capital employed included in-house credit card debtors of £292.6 million at 31 January 2004 (2002/03: £299.2 million at 1 February 2003).

Depreciation and capital expenditure

Depreciation charges were £39.3 million (2002/03: £36.6 million): £23.6 million (2002/03: £24.1 million) in the US and £15.7 million (2002/03: £12.5 million) in the UK. Capital expenditure in the US was £33.1 million (2002/03: £33.1 million) and in the UK was £17.8 million (2002/03: £16.4 million).

Dividends

In November 2003 an interim dividend of 0.341p per share was paid (2002/03: 0.310p). The Board is recommending to shareholders a final dividend of 2.16p (2002/03: 1.80p) per share for 2003/04, which, subject to shareholder approval, is to be paid on 2 July 2004 to those shareholders on the register of members at close of business on 4 June 2004. Future dividends will continue to take account of earnings, cash flow, gearing and the needs of the business.

Liquidity and capital resources

It is the objective of the Group to be broadly cash flow neutral annually, subject to timing differences, after implementing its established 6% 8% space growth strategy in the US together with the continuing programme of store refurbishments and relocations. Factors which could impact this objective would be if a business was acquired or the Groups distribution policy to shareholders changed.

The cash flow performance of the Group depends on a number of factors such as the:

- operating performance of the business,
- rate of space expansion which influences both fixed and working capital investment,
- level of store refurbishment and relocations,
- level of inventory investment,
- proportion of sales made on the in-house credit card and the average monthly collection rate of the credit balances.

Investment in new space requires significant investment in working capital, as well as fixed capital investment, due to the slow inventory turn, and the proportion of sales in the US that are made utilising the in-house credit card.

In years when the rate of space expansion in the US is towards the lower end of the planned 6% 8% range, or the level of store refurbishment and relocation are lower than the normal cycle, the Group will have a reduced levels of investment in fixed and working capital. In the last three years, when the level of investment has been lower than normal, and the trading performance has continued to grow, the Group has reduced its level of net debt.

The Groups working capital requirements fluctuate during the year as a result of the seasonal nature of its business. As inventory is purchased for the Christmas season there is a working capital outflow which reaches its highest levels in the late autumn. This position then reverses over the key selling period of November and December. The working capital needs of the business are then relatively stable from January to August. The timing of the payment of the final dividend, normally in July, is also material.

The Board considers that the capital resources currently available are sufficient for both its present and near term requirements. The primary borrowing facilities are a $251 million securitisation against the US customer receivables which amortises between December 2005 and October 2006 and a $410 million unsecured multi-currency revolving credit facility which expires in August 2006. Further details of these and other facilities are given below.

Cash generated from operating activities increased to £203.8 million (2002/03: £182.2 million), reflecting the funding of working capital investment from the increase in operating profit. It is anticipated that in 2004/05 there will be a further increase in working capital due to planned store openings. Net financing costs of £11.0 million (2002/03: £16.5 million) and tax of £69.0 million (2002/03: £57.3 million) were paid. Cash flow before investing activities was £123.8 million (2002/03: £108.5 million).

Group capital expenditure was £50.9 million (2002/03: £49.5 million). Disposal proceeds were £0.2 million (2002/03: £1.3 million). The level of capital expenditure was some 1.3 times the depreciation charge. Capital expenditure in 2004/05 is expected to be approximately £80 million, most of which will be store related. Equity dividends of £36.7 million (2002/03: £30.8 million) were paid.

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Financial review (continued)

Net debt

Net debt at 31 January 2004 was £79.9 million (1 February 2003: £140.1 million, £122.6 million restated at constant exchange rates). Group gearing (net debt to shareholders funds) at the year end was 11.0% (1 February 2003: 20.7%). Under UK GAAP, bank loans and overdrafts at 31 January 2004 include a $251.0 million borrowing secured against the Groups US customer receivables (1 February 2003: $251.0 million)Excluding this $251.0 million facility net cash was £58.0 million (1 February 2003: net cash £12.9 million).

The Company funds part of its private label credit card receivables programme through a privately placed receivables securitisation. Under this securitisation, interests in the US receivables portfolio held by a trust were sold principally to institutional investors in the form of fixed-rate Class A, Class B and Class C investor certificates. The aggregate outstanding principal amount of the certificates totalled $251.0 million at 31 January 2004 and 24 March 2004. The certificates have a weighted average interest rate of 5.42% and interest is paid monthly in arrears from the finance charges collections generated by the receivables portfolio. The revolving period of the securitisation ends in December 2005, with a final expected principal payment date in November 2006.

In January 2002 the Group entered into a $70 million Conduit securitisation facility (the Conduit). Under this securitisation, interests in the US receivables portfolio held by a trust could be sold to Sheffield Receivables Corporation (a US subsidiary of Barclays Capital Inc.) in the form of an unsecured revolving variable rate certificate. The Conduit bears interest at a margin of 0.375% above the cost of funds paid by Sheffield Receivables Corporation. At 31 January 2004 and 24 March 2004 the amount outstanding under the Conduit was $nil.

In August 2001 the Group and certain of its subsidiaries entered into a $410 million unsecured multi-currency five year revolving credit facility agreement (the Facility Agreement) under which a syndicate of banks made facilities available to the Group in the form of multi-currency cash advances and sterling acceptance credits on, inter alia, the following terms:

 the Facility Agreement bears a maximum margin of 0.85% above LIBOR, though the margin may be lower dependent upon the performance of the Group. Since the commencement of the facility the margin has been 0.65% above LIBOR; and

 the Facility Agreement is guaranteed by the Groups principal holding and operating subsidiaries.

The continued availability of the Facility Agreement is conditional upon the Group achieving certain financial performance criteria (see note 16 on page 74). It also has certain provisions which are customary for this type of agreement, including standard negative pledge and pari passu clauses. At 31 January 2004 and 24 March 2004 the amount outstanding under the Facility Agreement was $nil.

In July 1998 the Group entered into a $60 million unsecured seven year senior note issue (Loan Note), bearing a 7.25% fixed coupon. The Loan Note is also guaranteed by the Groups principal holding and operating subsidiaries. The continued availability of the Loan Note is conditional upon the Group achieving certain financial performance criteria (see note 16 on page 74). The Loan Note also has certain provisions which are customary to this type of agreement, including standard negative pledge and pari passu clauses. At 31 January 2004 and 24 March 2004 the amount outstanding under the Loan Note was $30 million (1 February 2003: $45 million).

The principal financial covenants on each of these facilities are set out in note 16 on page 74.

It is the policy of the Group to enter into interest rate protection agreements in respect of at least 75% of its forecast US dollar borrowings. At 31 January 2004 the interest rate of forecast US dollar borrowings for 2004/05 was capped effectively at 5.66%.

Pensions

An actuarial valuation of the UK defined benefit pension scheme (the Group Scheme) was carried out at 5 April

2003. The market value of the Group Scheme's assets at that date was £82.2 million, a deficit of £6.7 million on the Group Scheme's accrued liabilities. As a result of the valuation the Group has recommenced contributions to the Group Scheme and in 2003/04 this amounted to £1.2 million. In 2004/05 contributions are expected to be £3.7 million. The Group has adopted FRS 17 – "Retirement Benefits" and the FRS 17 valuation at 31 January 2004 showed a surplus in the Group Scheme of £1.8 million.

Contingent property liabilities

Approximately 150 UK property leases had been assigned by the Group up to 31 January 2004 (and remained unexpired and occupied by assignees at that date) and approximately 40 additional properties were sub-let at that date. Should the assignees or sub-tenants fail to fulfil any obligations in respect of those leases or any other leases which have at any other time been assigned or sub-let, the Group or one of its UK subsidiaries may be liable for those defaults. The number of such claims arising to date has been small, and the liability, which is charged to the profit and loss account as it arises, has not been material.

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Contractual obligations

Long term debt comprises borrowings with an original maturity of greater than one year. Purchase obligations comprise contracts entered into for the forward purchase of gold and US dollars with an original maturity of greater than one year. These contracts are

taken out to manage market risks. It is expected that operating commitments will be funded from future operating cash flows and no additional facilities will be required to meet these obligations.

As at 31 January 2004	**Less than one year**	**Between one and three years**	**Between three and five years**	**More than five years**	**Total**
	£m	£m	£m	£m	£m
Long-term debt obligations	8.2	146.2			154.4
Finance lease obligations	2.4				2.4
Operating lease obligations	120.4	224.9	203.2	563.9	1,112.4
Purchase obligations	19.3	4.1			23.4
Creditors falling due after one year				11.1	11.1
Total	150.3	375.2	203.2	575.0	1,303.7

Impact of constant exchange rates

The Group has historically used constant exchange rates to compare period to period changes in certain financial data. This is referred to as at constant exchange rates throughout these accounts. The Group considers this to be a useful measure for analysing and explaining changes and trends in the Groups

results. The impact of the recalculation of sales, operating profit, profit before tax, earnings per share and net debt at constant exchange rates, including a reconciliation to the Groups GAAP results, is analysed below.

	2003/04	2002/03 as restated(1)	Growth at actual exchange rates	Impact of exchange rate movement	2002/03 at constant exchange rates (nonGAAP)	Growth at constant exchange rates (nonGAAP)
	£m	£m	%	£m	£m	%
Sales by origin and destination						
UK	**501.0**	473.6	5.8		473.6	5.8
US	**1,116.2**	1,134.4	(1.6)	(101.2)	1,033.2	8.0

	1,617.2	1,608.0	0.6	(101.2)	1,506.8	7.3
Operating profit:						
UK – Trading	**76.6**	64.7	18.4	–	64.7	18.4
– Group central costs	**(5.7)**	(6.0)	n/a	–	(6.0)	n/a
	70.9	58.7	n/a	–	58.7	n/a
US	**151.4**	155.2	(2.4)	(13.9)	141.3	7.1
	222.3	213.9	3.9	(13.9)	200.0	11.2
Profit before tax	**211.9**	199.9	6.0	(12.4)	187.5	13.0
Earnings per share	**8.0p**	7.5p	6.7	(0.4)p	7.1p	12.7

	31 January 2004	1 February 2003	Impact of exchange rate movement	At constant exchange rates (non–GAAP)
	£m	£m	£m	£m
Net debt	**(79.9)**	(140.1)	17.5	(122.6)

(1) Restated for the implementation of FRS 17 – 'Retirement Benefits' (see note 17).

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Financial review (continued)

Critical accounting policies

Critical accounting policies covering areas of greater complexity or those particularly subject to the exercise of judgement are listed below. There are no material off-balance sheet structures under UK GAAP. The principal accounting policies are set out in note 1 on pages 62 to 64.

UK retirement benefits

In 2003/04 the Group implemented FRS 17, resulting in a charge of £18.1 million that has been accounted for as a prior year adjustment charged directly to shareholders' funds. Full details are given in note 17 on page 75. The surplus or deficit on the Group Scheme that is charged to shareholders' funds through the Statement of Recognised Gains and Losses is subject to a number of assumptions and uncertainties. A qualified actuary is engaged to calculate the expected liabilities of the Group Scheme based on assumptions regarding salary and pension increases, inflation rates, discount rates and the long term rate of return expected on the Group Scheme's assets. Details of these assumptions are given in note 22 on page 80. The value of the assets of the Group Scheme is measured as at the balance sheet date, this being particularly dependent on the value of equity investments held by the Group Scheme at that date.

Revenue recognition

Sales represent sales to customers outside the Group, exclusive of VAT and sales tax. Repair revenues are recognised when the service is complete and the merchandise is delivered to the customer. The revenue from the sale of warranties in the US, such as extended service plans on products, is recognised at the date of sale with provision being made for the estimated cost of future claims arising.

Stock valuation

Stock is valued on a first-in, first-out basis and includes appropriate overheads. Where necessary provision is made for obsolete, slow-moving and damaged stock. This provision represents the difference between the cost of the stock and its estimated market value, based upon stock turn rates, market conditions and trends in consumer demand. In the US stock losses are recognised at the mid-year and fiscal year end based on complete physical inventories. In the UK stock losses are estimated for the period from the last stock count date to the end of the financial year on a store by store basis. These estimates are based on the overall divisional stock loss experience since the last stock count.

Foreign currency translation

The results of overseas subsidiary undertakings are translated into pounds sterling at the weighted average rates of exchange,

based on US sales, during the period and their balance sheets and attributable goodwill at the rates at the balance sheet date. Exchange differences arising from the translation of the net assets and attributable goodwill of overseas subsidiary undertakings and matched foreign currency borrowings less deposits are charged or credited to reserves. Other exchange differences arising from foreign currency transactions are included in profit before taxation.

Depreciation and impairment

Depreciation is provided on freehold and long leasehold premises over a useful life not exceeding 50 years. Freehold land is not depreciated. Depreciation is provided on other fixed assets at rates between 10% and $33\frac{1}{3}$%. Shopfit depreciation rates have been set based on the refit cycle for each store fascia and the useful lives of each individual element of the shopfit. Tills and other IT equipment have separately determined depreciation rates.

Where appropriate, provision is made on assets that have a lower economic value than net book value. Additionally, provision is made against tangible fixed assets relating to stores planned for closure where the stores' return on capital is below the level required. These impairment provisions are made on a store by store basis and updated annually based on actual closures and a review of individual store performance.

Lease costs and incentives

Operating lease costs are charged to the profit and loss account as incurred and amounts payable in respect of turnover leases are charged in the period to which the turnover relates. Premiums paid to acquire short leasehold properties are amortised over their lease period and incentives received relating to leased properties are amortised over the period to the next rent review.

In accordance with FRS 12, where the Group has onerous lease obligations, provision is made for the discounted cash outflow that is expected to arise under the lease. This will take account of any sublet income received or reasonably expected, incentives to be received or paid and the time to lease expiry or reversal of the net cash outflow, whichever is the later.

Receivables

Full provision is made for debts that are 90 days past their due date on a recency basis. A provision is also made based on the historic performance of the receivables portfolio. The bad debt experience of the Group has been relatively stable over the past five years at between 2.8% and 3.4% of sales.

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Goodwill

Purchased goodwill reflects the acquisition of Marks & Morgan in July 2000. The amortisation period of 20 years is in line with guidance in FRS 10 on the useful economic life of purchased goodwill. Although there is no requirement under FRS 11 for annual impairment reviews where the amortisation period does not exceed 20 years, such a review is performed annually as this is required under US GAAP in place of an amortisation charge. For 2003/04, this review indicated that no impairment charge was required.

Advertising and promotional costs

Advertising costs are expensed as incurred. In accordance with the guidance issued in the US under EITF 02-16, where vendor contributions are received in respect of identifiable promotional events, these are matched against the costs of these promotions. Vendor contributions that are received as general contributions and not against specific promotional events are allocated against stock.

International Accounting Standards

The Group will be required to adopt International Accounting Standards for the first time in 2005/06, the process and disclosures required having been specified in IFRS 1. The Group is actively considering the impact that the initial adoption of International Accounting Standards will have on the format and content of its published accounts.

Prior year review of the 52 weeks ended 1 February 2003

Total Group sales for 2002/03 rose by 1.9% to £1,608.0 million compared with £1,578.1 million in 2001/02 (7.9% on a comparable 52 week basis at constant exchange rates).

Group profit before tax for the year was £199.9 million (2001/02: £183.8 million), which represented a 15.7% increase on a comparable 52 week basis at constant exchange rates. After a tax charge of 35.4% (2001/02: 34.5%) earnings per share were 7.5p (2001/02: 7.1p), an increase of 5.6%. Operating profit increased by 7.6% to £213.9 million (2001/02: £198.8 million), a 14.8% increase on a comparable 52 week basis.

Sales

US

Like for like sales grew by 5.4%. Significant benefit was obtained from a number of management initiatives in merchandising, staff training, marketing and real estate. During the Christmas season consumer spending was more restrained and like for like sales increased by 4.3% in the fourth quarter, significantly ahead of the main competition. Jared continued to perform particularly well. Total sales for the year grew by 0.7%

to £1,134.4 million (8.6% on a comparable 52 week basis at constant exchange rates).

UK

The UK division had a good year. Particular advantage was derived from the focus on increasing diamond sales. Like for like sales were up by 5.2% and total sales rose to £473.6 million (2001/02: £452.1 million), a 6.1% increase on a comparable 52 week basis. Sales in H.Samuel were £279.1 million (2001/02: £277.3 million), with a like for like increase of 2.6%. Ernest Jones sales rose to £188.0 million (2001/02: £168.5 million) the like for like sales increase being 9.4%. This was a particularly good result given the strong comparatives. Against a background of a slowing in the growth in consumer expenditure, like for like sales increased by 3.1% in the fourth quarter (H.Samuel up by 1.0% and Ernest Jones up by 6.7%).

Operating profit

US

The trading environment in 2002/03 was very challenging. Tight control of costs, margins and inventory was maintained. Operating profit rose by 7.0% to £155.2 million (2001/02: £145.1 million). On a comparable 52 week basis at constant exchange rates the increase was 15.6%. Goodwill amortisation of £1.2 million was charged (2001/02: £1.3 million). Operating profit as a percentage of sales increased to 13.7% (2001/02: 12.9%), reflecting leverage from like for like sales growth which more than offset the adverse impact of immature store space. The gross margin rate was slightly down on last year's level, due to anticipated changes in the sales mix. The increase in the price of gold bullion had limited adverse impact on the year but could have a greater impact in 2003/04. The ratio of bad debts to total sales decreased to 3.0% (2001/02: 3.2%) before a $2.2 million benefit from the better than anticipated performance of the residue of the acquired Marks & Morgan receivables portfolio.

UK

In the UK the strong like for like sales growth underpinned an improvement in operating profit, which increased to 13.7% of sales (2001/02: 13.0%). Operating profit grew to £64.7 million (2001/02: £58.8 million), an increase of 10.0%, equivalent to 12.9% on a comparable 52 week basis. This resulted from further leverage of the divisional cost base, with gross margin slightly ahead of last year.

Net income

Net income for the year increased by 7.2% to £129.1 million (2001/02: £120.4 million), 14.0% on a comparable 52 week basis at constant exchange rates.

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Financial review (continued)

Return on capital employed

The Group’s ROCE increased to 24.1% (2001/02: 23.6). In the US the ROCE rose to 21.5% (2001/02: 20.4%) and in the UK there was a slight fall to 41.2% (2001/02: 43.6%). US capital employed included US in-house credit card debtors amounting to £299.2 million at 1 February 2003 (2 February 2002: £327.0 million).

Depreciation and capital expenditure

Depreciation charges were £36.6 million (2001/02: £33.4 million): £24.1 million in the US (2001/02: £23.0 million) and £12.5 million in the UK (2001/02: £10.4 million). Capital expenditure in the US was £33.1 million (2001/02: £41.0 million) and in the UK was £16.4 million (2001/02: £18.8 million).

Group costs

Group central costs amounted to £6.0 million (2001/02: £5.1 million) including a charge of £0.5 million relating to an increase in the provision against an onerous lease of a dormant Group property (2001/02: £nil).

Net interest payable

Net interest payable and similar charges amounted to £14.0 million (2001/02: £15.0 million).

Taxation

The tax charge of £70.8 million (2001/02: £63.4 million) represents an effective tax rate of 35.4% (2001/02: 34.5%).

Dividends

In November 2002 an interim dividend of 0.310p per share was paid (2001/02: 0.289p). Additionally, a final dividend of 1.80p (2001/02: 1.50p) per share for 2002/03, was paid on 14 July 2003 to those shareholders on the register of members at close of business on 6 June 2003.

Impact of 53rd week

2001/02 was a 53 week financial year. The extra week increased total sales by £22.4 million (£16.5 million in the US and £5.9 million in the UK) and contributed £4.0 million to operating profit (£2.5 million in the US and £1.5 million in the UK). Net of additional interest costs of £0.4 million, profit before tax benefited by £3.6 million in 2001/02.

Impact of constant exchange rates

The Group has historically used constant exchange rates to compare period to period changes in certain financial data. This is referred to as “at constant exchange rates” throughout these accounts. The Group considers this a useful measure for analysing and explaining changes and trends in the Group’s results. The impact of the recalculation of sales, operating profit, profit before tax and net income at constant exchange rates, including a reconciliation to the Group’s GAAP results, is analysed below.

All figures for 2001/02 are stated on a comparable 52 week basis. The impact of the 53rd week is described in the paragraph above.

	2001/02[1] comparable	Growth at	Impact of	2001/02 at constant	Growth at constant

	2002/03 as restated(1)	52 week basis	actual exchange rates	exchange rate movement	exchange rates (non–GAAP)	exchange rates (non–GAAP)
	£m	£m	%	£m	£m	%
Sales by origin and destination						
UK	473.6	446.2	6.1	—	446.2	6.1
US	1,134.4	1,109.5	2.2	(65.3)	1,044.2	8.6
	1,608.0	1,555.7	3.4	(65.3)	1,490.4	7.9
Operating profit:						
UK – Trading	64.7	57.3	12.9	—	57.3	12.9
– Group central costs	(6.0)	(5.1)	n/a	—	(5.1)	n/a
	58.7	52.2	n/a	—	52.2	n/a
US	155.2	142.6	8.8	(8.4)	134.2	15.6
	213.9	194.8	9.8	(8.4)	186.4	14.8
Profit before tax	199.9	180.2	10.9	(7.4)	172.8	15.7
Net income	129.1	118.1	9.3	(4.9)	113.2	14.0

(1) Restated for the implementation of FRS 17 – "Retirement Benefits" (see note 17).

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Risk and other factors

Forward-looking statements

All statements, other than statements of historical fact included in this document, are or may be deemed to be forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. These statements, based upon managements beliefs as well as on assumptions made by and data currently available to management, appear in a number of places throughout this document. These forward-looking statements are not guarantees of future performance and are subject to a number of risks. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include:

- adverse trends in the general economy which may impact negatively on discretionary consumer spending, including unemployment levels, the level of consumers disposable income, consumer confidence, business conditions, interest rates, consumer debt levels, availability of credit and levels of taxation;
- the Groups ability to anticipate consumer preferences and the merchandising, pricing and inventory policies it follows;
- the reputation of the Group and its trading names, together with the success of the Groups marketing and promotional programmes;
- the ability to recruit, train and retain staff;
- the extent and results of the Groups net store expansion and refurbishment strategy together with the availability of suitable real estate;
- the level of competition in the selling of jewellery and the development of new distribution channels in competition with the Group;
- the level of dependence on particular suppliers of merchandise;
- fluctuations in the supply, price and availability of diamonds, gold and other precious and semi-precious metals and stones as well as the consumer attitude to those and other products;
- the seasonality of the Groups business, the risk of disruption during the Christmas trading period, and the availability of inventory during the three months leading up to the Christmas season;
- social, ethical and environmental risks;
- the suitability and reliability of the Groups systems and procedures, including its information technology, warehousing and distribution systems;
- the cost and availability of borrowings and equity capital; and
- financial market risk, including fluctuations in exchange rates between the pound sterling and the US dollar which may affect reported revenues, costs, the value of the Groups consolidated borrowings, and the cost of capital.

Impact of general economic conditions

Jewellery purchases are discretionary and may be particularly affected by adverse trends in the general economy.

The success of the Groups operations depends to a significant extent upon a number of factors relating to discretionary consumer spending. These include economic conditions and perceptions of such conditions by consumers, employment, the rate of change in employment, the level of consumers disposable income, business conditions, interest rates, consumer debt levels, availability of credit and levels of taxation for the economy as a whole and in regional and local markets where the Group operates. There can be no assurance that consumer spending on jewellery will not be adversely affected by changes in general economic conditions. However, due to the limited seasonality in the product mix the risk of having to discount inventory in order to be correctly stocked for the next selling season is more limited than for some other retail sectors.

As a substantial proportion of the Groups US sales are made on credit, any significant deterioration in general economic conditions or consumer debt levels may inhibit consumers use of credit and cause a material adverse effect on the Groups revenues and profitability. Furthermore, any downturn in general or local economic conditions in the markets in which the Group operates may adversely affect its collection of outstanding credit accounts receivable and hence the net bad debt charge. Currently there are all-time high levels of consumer debt in the US however the level of net bad debt charge as a percentage of credit sales in the Groups US division in 2003/04 was the lowest for the last eight years.

Merchandise selection, pricing, inventory and purchasing

The Group depends on consumer fashions, preferences for jewellery in general and the demand for particular products. Design trends in jewellery normally only change over relatively long periods and there is little seasonality in the merchandise mix. The ability to predict accurately future changes in taste, respond to changes in consumer preferences, carry the inventory demanded by customers, deliver the appropriate quality, price products correctly and implement effective purchasing procedures, all have an important influence on determining sales performance and achieved gross margin (see pages 12 and 18 for more details of the Groups merchandising and purchasing procedures).

Risk and other factors (continued)

The Group’s operating experience suggests that while the price of jewellery is a consideration for consumers it is not among the top three factors in determining where they buy jewellery. The Group believes these factors to be the level of service provided to the customer, the quality together with the selection of merchandise offered and the reputation of the retailer. Therefore while discounting price may increase sales, it may not increase profit.

Reputation and marketing

Primary factors in determining customer buying decisions in the jewellery sector include customer confidence in the retailer and the merchandise sold, together with the level and quality of customer service. The Group carries out quality control and staff training procedures and provides customer service facilities to help protect its reputation (see page 104 for details of the processes by which the Group obtains an understanding of customer attitudes).

The ability to differentiate the Group’s stores from competitors by its branding, marketing and advertising programmes is a factor in attracting consumers. Therefore these programmes are carefully tested and their success monitored by methods such as market research (see pages 12 and 18 for more details).

The Diamond Trading Company (“DTC”), a subsidiary of De Beers Consolidated Mines Limited (“De Beers”), promotes diamonds and diamond jewellery in the US and the UK. The level of support provided by the DTC and the success of the promotions influence the size of the total jewellery market in those countries.

The Group’s reputation in the financial markets can influence the availability of capital, the cost of capital and the share price.

Staff

In speciality jewellery retailing the level and quality of customer service is largely determined by the effectiveness of recruitment, training and retention of suitably qualified sales staff and this will help determine sales and profitability. The support provided to the Group’s store employees by staff at the divisional head offices and in the corporate functions will also influence the performance of the Group. Consequently the Group has in place comprehensive recruitment, training and incentive programmes, and employee attitude surveys (see pages 11 and 17 for more details).

Store portfolio

The future growth of sales is partly dependent on the extent and results of the Group’s net space expansion and refurbishment strategy. The Group has followed a steady programme of space expansion and refurbishment and has established capital expenditure procedures with investment criteria set by the Board.

The projections used for investment decisions are reviewed and adjusted based on experience and economic conditions.

In particular, the success of the Jared off-mall destination store concept, which accounts for the majority of the Group’s net increase in space, will influence the future performance of the Group. This concept has been tested and developed over a number of years and its performance against the investment model is regularly reviewed. The rate of development is dependent on a number of factors including obtaining suitable real estate, the capital resources of the Group and the availability of appropriate staff and management.

The Group’s results are dependent on a number of factors relating to its stores. These include the availability of property, the location of the mall or shopping centre, the availability of attractive locations within a mall or high street, the terms of leases agreed with landlords and the design and maintenance of the stores. In addition, the Group’s operations, particularly in the US, are dependent upon the continued popularity of malls as a shopping destination and the ability of malls, their tenants and other mall features to attract customers.

Competition

Competitive factors in the jewellery sector are discussed in the US and UK operating reviews (see pages 7 to 19).

If the Group falls behind competitors with respect to one or more of these factors, the Groups operating results or financial condition could be adversely affected. In the US the Group has an estimated 7% market share of the speciality jewellery sector and has only one major national competitor. While another major national brand could develop, the sector is highly fragmented. In the UK the Group has an estimated 17% share of the total jewellery sector and has only limited scope to increase sales by opening new stores.

The channels through which consumers buy jewellery continually evolve and a major non-speciality retailer could enter the wider jewellery market. In the US, for example, sales by discount retailers have increased, while those of the department stores have been in relative decline and catalogue retailers have withdrawn from the market. In the UK a number of fashion and general retailers, including a major supermarket chain, have introduced jewellery into their ranges whilst others have reduced their selection. In both the US and the UK Internet retailers sell jewellery and watches. The Group monitors the competitive environment and the development of possible new channels of distribution such as the Internet. As part of this process there are marketing web sites for each of the Groups major brands, and regular exercises to shop the competition take place.

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Supply chain

During 2003/04 the Group had one supplier that accounted for 8% of its merchandise. No other supplier accounted for more than 5% of its merchandise. Although the Group believes that alternative sources of supply are available, the abrupt loss of any significant supplier during the three month period (August to October) leading up to the Christmas season could result in a material adverse effect on the Group's business. The Group is therefore in regular dialogue with suppliers and uses its merchandising systems to test and predict its future inventory needs.

Raw materials

The jewellery industry generally is affected by fluctuations in the price and supply of diamonds, gold and, to a lesser extent, other precious and semi-precious metals and stones. The Group undertakes some hedging of its requirement for gold through the use of options, forward contracts and outright commodity purchasing. It does not hedge against fluctuations in the cost of diamonds. The Group does hedge the exposure of the UK division to the US dollar with regard to diamond and other costs of goods sold. The cost of raw materials is only part of the costs involved in the retail selling price of jewellery with labour costs also being a significant factor.

Diamonds are the largest product category sold by the Group. The supply and price of diamonds in the principal world markets are significantly influenced by a single entity. The DTC (and its predecessor, the Central Selling Organisation) has for many years controlled the marketing of a substantial majority of the world's supply of rough diamonds and sells diamonds to diamond cutters in quantities and at prices determined at its sole discretion. In 2000 De Beers announced a change in corporate strategy designed to improve the efficiency of the supply chain and increase the level of marketing support for diamonds.

The availability of diamonds to the DTC and the Group's suppliers is to some extent dependent on the political situation in diamond producing countries. Until alternative sources can be developed, any sustained interruption in the supply of diamonds from the significant producing countries could adversely affect the Group and the retail jewellery industry as a whole.

Consumer confidence in diamonds, gold and other metals and gemstones also influences the level of Group sales. Confidence could be affected by a variety of issues including the availability and consumer awareness of substitute products such as cubic zirconium, moisanite and the development of synthetic diamonds; labour conditions in the supply chain; and concern over the source of raw materials. The Group therefore has a Supplier Code of Conduct which sets out the Group's expectations of its suppliers.

An example of an issue that could affect confidence in this way is that of conflict diamonds, which is the term used for diamonds sold by rebel movements to raise funds for military campaigns. There have been a number of United Nations resolutions regarding conflict diamonds and an international agreement, known as the Kimberley Process, was signed in November 2002. This was designed to exclude conflict diamonds from the legitimate diamond trade. During 2003 legislation was passed in the European Union and the US implementing the Kimberley Process. The impact of the Kimberley Process and its associated legislation has not resulted in any disruption to the supply of rough diamonds to date and has helped to improve the integrity of the supply chain.

The Group reviewed its procedures and documentation for compliance with the Kimberley Process and made appropriate amendments. In addition, staff were briefed and suppliers have been contacted about the changes. During the year the Group's internal audit function checked for compliance with the new procedures. See page 104 for further information on the Supplier Code of Conduct, the Kimberley Process and the Group's policy on conflict diamonds.

Seasonality

The Group's business is highly seasonal, with a very significant proportion of its sales and operating profit generated during its fourth quarter, which includes the Christmas season. The Group expects to continue to experience a seasonal fluctuation in its sales and profit. Therefore the Group has limited ability to compensate for shortfalls in fourth quarter sales or earnings by changes in its operations and strategies in other quarters, or to recover from any extensive disruption due to inclement weather conditions. A significant shortfall in results for the fourth quarter of any financial year would thus be expected to have a material adverse effect on the Group's annual results of operations. However, due to the limited seasonality in the product mix, the risk of having to discount inventory in order to be correctly stocked for the next selling season is more limited than for some other retail sectors.

Social, ethical and environmental risks

Social, ethical and environmental (SEE) matters influence the Groups reputation, demand for merchandise by consumers, the ability to recruit staff, relations with suppliers and standing in the financial markets. Signet therefore is committed to managing the SEE risks and responsibilities facing the Group. This commitment stems from the understanding that Signets success is dependent on the strength and effectiveness of its relationships with its various stakeholders: shareholders, customers, employees and suppliers.

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Risk and other factors (continued)

In recent years stakeholder expectations of public companies have increased. Managing and responding as a business to these changing expectations, including with regard to SEE issues, is part of the normal responsibilities of corporate management.

The Group regularly carries out SEE risk reviews and benchmarking exercises with the assistance of an external adviser. Such reviews include an assessment of Group policies, procedures and controls in respect of SEE matters. Reports are regularly made to the Group's Risk Committee and to the Board.

On 21 October 2001 the Association of British Insurers published guidelines on Socially Responsible Investment. In line with that guidance the Board confirms that they have identified and assessed the Group's SEE risks and that these are being managed.

SEE matters are dealt with in more detail on pages 103 to 106 and in the corporate responsibility section on *www.signetgroupplc.com*.

Systems

The Group is dependent on the suitability and reliability of its systems and procedures, including its information technology, warehousing and distribution systems. The Group has emergency procedures and carries out rehearsals to test them. The Group carries out evaluation, planning and implementation analysis before updating or introducing new systems that have an impact on a function critical to the Group.

Equity and debt financing

The Group is dependent upon the availability of equity and debt financing to fund its operations and growth. Therefore it prepares annual budgets, medium term plans and headroom models which help to identify the future capital requirements so that appropriate facilities can be put in place on a timely basis. If these models are inaccurate adequate facilities may not be available.

Financial market risks

The Group publishes its consolidated annual accounts in pounds sterling. The Group held approximately 64% of its total assets in US dollars at 31 January 2004 and generated approximately 69% of its sales and 68% of its operating profit in US dollars for the financial year then ended. Thus, although the Group's US operations make substantially all of their sales and incur substantially all of their expenses in US dollars, in translating the results of its US operations, the Group's results are subject to fluctuations in the exchange rate between the pound sterling and the US dollar. Accordingly, depreciation in the weighted average value of the US dollar against the pound sterling could

decrease reported revenues and operating profit (as was the case in 2002/03 and 2003/04), and appreciation in the weighted average value of the US dollar against the pound sterling could increase reported revenues and operating profit (as was the case in 1999/00, 2000/01 and 2001/02). The Board has chosen not to hedge the translation effect of exchange rate movements on the results of the Group given that there is little movement of cash between the Group's two divisions.

As part of its long-term strategy, the Group seeks to finance its US net assets with borrowings denominated in US dollars as a hedge against the impact of exchange rate fluctuations on its US operating profit. Currently all of the Group's borrowings are denominated in US dollars. Therefore fluctuations in the exchange rate between the pound sterling and the US dollar affect the amount of the Group's consolidated borrowings.

In addition, the prices of materials and certain products bought on the international markets by the UK division are denominated in US dollars, and therefore the Group has an exposure to exchange rates on the cost of goods sold which will have an opposite effect to its exposure on US operating profit. The Group does use hedging operations in respect of purchases of US dollars by its UK operating division, within the treasury guidelines approved by the

Groups Board.

Cash dividends paid by the Group in respect of the shares will be in pounds sterling and fluctuations in the exchange rate between the pound sterling and the US dollar will affect the dollar amount received by holders of ADSs upon conversion of such dividends. Moreover, fluctuations in the exchange rate between the pound sterling and the US dollar will affect the US dollar equivalents of the pound sterling price of the shares on the London Stock Exchange and, as a result, are likely to affect the market price of the ADSs in the US.

The table on page 33 sets out, for the calendar years indicated, the average, high, low and period end exchange rates for the pound sterling expressed in US dollars per £1.

The Groups policy is to manage financial risk resulting from exposure to currency and interest rate fluctuations. Translation exposure relating to non-pound sterling denominated assets in the US is partially hedged by borrowing in US dollars. Interest rate exposure is managed through the use of swaps, caps and floors.

A committee of the Board is responsible for the implementation of treasury policies and guidelines which are considered to be

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Exchange rates between pound sterling and the US dollar(1)

	Average	High	Low	At period end
Calendar year				
1999	1.62	1.68	1.55	1.62
2000	1.51	1.65	1.40	1.50
2001	1.44	1.50	1.38	1.45
2002	1.51	1.61	1.41	1.61
2003	1.62	1.79	1.55	1.77
2004 (cumulative to 24 March)	1.81	1.91	1.78	1.84
Month				
September 2003	1.60	1.66	1.56	1.66
October 2003	1.67	1.71	1.65	1.70
November 2003	1.69	1.72	1.65	1.72
December 2003	1.74	1.79	1.72	1.77
January 2004	1.81	1.86	1.78	1.82
February 2004	1.85	1.91	1.81	1.87

(1) Based on unweighted data points sourced from Reuters.

appropriate by the Board for the management of financial risk. The Group's funding, liquidity and exposure to interest rate and exchange rate risks are managed by the Group's treasury department. The Group uses derivative instruments for risk management purposes only, and these are transacted by specialist treasury personnel.

For financial instruments held, the Group has used a sensitivity analysis technique that measures the change in the fair value of the Group's financial instruments from hypothetical changes in market rates and this is shown in the table below.

The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain adverse market conditions occur. Actual results in the future may differ materially from those projected due to changes in the portfolio of financial instruments held and actual developments in the global financial markets. These may cause fluctuations in interest and exchange rates to exceed the hypothetical amounts disclosed in the table below.

The analysis below should not be considered a projection of likely future events.

The example shown for changes in the fair values of borrowings and associated derivative financial instruments at 31 January 2004 is set out in the table below. The fair values of borrowings and derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the period end.

The estimated changes in fair values for interest rate movements are based on an instantaneous decrease of 1% (100 basis points) in the specific rate of interest applicable to each class of financial instruments from the levels effective at 31 January 2004 with all other variables remaining constant. The estimated changes in the fair value for foreign exchange rates are based on an instantaneous 10% weakening of the pound sterling against the US dollar from the levels applicable at 31 January 2004 with all other variables remaining constant.

Fair value changes arising from:

	Estimated fair value at 31 January 2004	1% decrease in interest rates (unfavourable)	10% weakening in £ against $ favourable/ (unfavourable)	Estimated fair value at 1 February 2003
	£m	£m	£m	£m
Borrowings	(207.9)	(6.8)	(17.2)	(229.4)
Foreign currency receivable	292.9	–	32.5	299.2
Foreign exchange contracts	(2.9)	–	4.1	(1.4)
Commodity hedging contracts	(2.1)	–	(2.1)	–

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Directors, officers and advisers

Directors

James McAdam CBE, 73, Chairman, appointed in 1992. He was also Group Chief Executive from 1992 until March 2000. From 31 March 2001, while continuing as Chairman, he ceased to be a full-time executive. Mr. McAdam is the non-executive Chairman of Bisley Office Equipment Company Limited, Chairman of the British Clothing Industry Association Limited and Chairman of the British Apparel & Textile Confederation; he devotes approximately 25% of his time to these roles collectively.

Robert Blanchard*, 59, appointed in 2000. He was a Group Vice President of Procter & Gamble and President of its Global Skin Care and Cosmetics business until his retirement in 1999. He is a non-executive director of Best Buy Co. Inc. and Bandag Inc. Mr. Blanchard also serves as President of Strategic and Marketing Services, a consulting company he founded upon his retirement from Procter & Gamble.

Walker Boyd, 51, appointed Group Finance Director in 1995. He is a member of the Institute of Chartered Accountants of Scotland. From 1992 he was Finance Director of the Group's UK division. Mr. Boyd was appointed a non-executive director of WH Smith PLC in March 2004.

Terry Burman, 58, appointed Group Chief Executive in March 2000. He is also Chief Executive Officer of the Group's US division. Mr. Burman was appointed to the Board in 1996. Prior to joining the Group in 1995 he was Chief Executive Officer of Barry's Jewelers, Inc.

Brook Land*, 55, appointed in 1995 and first elected to the Board in 1996. Until 1996 he was a senior partner of, and is now a consultant to, solicitors Nabarro Nathanson. He is also non-executive Chairman of RPS Group plc and Medal Entertainment & Media plc. Mr. Land was nominated as the senior independent director of Signet in June 2002.

Dale Hilpert*, 61, appointed in September 2003. He was Chief Executive of Williams-Sonoma, Inc. from April 2001 until his retirement in January 2003. Prior to this he was Chairman and Chief Executive of Foot Locker, Inc. (formerly the Venator Group, Inc.) which he joined as President and Chief Operating Officer in 1995.

* Non-executive directors, all of whom satisfied the definitions of independence in the revised Combined Code and are viewed as independent by the Board.

Russell Walls*, 60, appointed in August 2002. He was Group Finance Director at BAA plc until his retirement in August 2002 and was the senior independent director of Hilton Group plc until May 2003. Mr. Walls is the senior independent director of Stagecoach Group plc. He is a Fellow of the Association of Chartered Certified Accountants.

Lee Abraham* retired from the Board with effect from 8 January 2004.

Richard Miller served as an alternate director until his retirement on 30 April 2003.

Committees

Remuneration Robert Blanchard (Chairman), Russell Walls, Brook Land (until 31 March 2003 and from 7 January 2004) and Lee Abraham until 7 January 2004.

Audit Russell Walls (Chairman from 1 April 2003), Dale Hilpert (from 7 January 2004) and Brook Land (Chairman until 31 March 2003). Robert Blanchard was a member until 31 March 2003 and Lee Abraham was a member until 7 January 2004.

Nomination Brook Land (Chairman), Robert Blanchard and James McAdam. Russell Walls and Lee Abraham were members until 31 March 2003.

Under the Company's Articles of Association, directors appointed by the Board since the last annual general meeting, either to fill a vacancy or as an additional director, must retire at the next annual general meeting.

The Articles also specify that every director is required to retire at the annual general meeting in the third calendar year after he was last elected or re-elected, except for directors over the age of 70 who are required to retire at every annual general meeting, but such directors may, in either circumstance, seek re-election.

Messrs. Blanchard, Boyd, Hilpert and McAdam retire from the Board at the forthcoming annual general meeting. Following consideration by the Board of the recommendations of the Nomination Committee, they offer themselves for re-election.

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Officers

Mark Jenkins, 46, Company Secretary, appointed 1 March 2004. He is a barrister. Previously he was Company Secretary at COLT Telecom Group plc and at Peek plc.

Timothy Jackson, 45, Company Secretary and Investor Relations Director, appointed in 1998. He is a Fellow of the Association of Chartered Certified Accountants. On 1 March 2004 he resigned as Company Secretary to focus on his duties as Investor Relations Director.

Liam O'Sullivan, 32, Group Treasurer, appointed 2 June 2003. Previously he was Group Treasury Manager at Rank Group Plc. He is a member of the Institute of Chartered Accountants in England and Wales and a member of the Association of Corporate Treasurers.

Stephen Card was Group Treasurer until his resignation on 28 March 2003.

No director or officer has any family relationship with any other director or officer.

Advisers

Auditors
KPMG Audit Plc,
8 Salisbury Square, London EC4Y 8BB.

Financial advisers
Lazard Brothers & Co. Limited,
50 Stratton Street, London W1J 8LL.

Stockbrokers
Deutsche Bank AG,
Winchester House,
1 Great Winchester Street, London EC2N 2DB.

Cazenove & Co. Ltd,
20 Moorgate, London EC2R 6DA

UK lawyers
Herbert Smith,
Exchange House,
Primrose Street, London EC2A 2HS.

US lawyers
Weil, Gotshal & Manges,
One South Place, London EC2M 2WG.

Principal bankers
Barclays Bank PLC,
5 The North Colonnade, Canary Wharf, London E14 4BB.

HSBC Bank plc,
8 Canada Square, Canary Wharf, London E14 5HQ.

Royal Bank of Scotland plc,
135 Bishopsgate, London EC2M 3UR.

Registrars
Capita Registrars,
The Registry,
34 Beckenham Road, Beckenham, Kent BR3 4TU.

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Report of the directors

Business review

The principal activity of the Group is the retailing of jewellery, watches and gifts with branches throughout the UK and the US. A review of the Group's performance during the year, with comments on the financial results and likely future developments, is set out on pages 7 to 28 and forms part of this Report.

Going concern

On the basis of current financial projections and facilities available, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to continue to adopt the going concern basis in preparing its annual accounts.

Results and dividends

The results of the Group for the year appear on page 56. The directors recommend the payment of a final dividend of 2.16p per share, to be paid on 2 July 2004 to shareholders on the register of members at close of business on 4 June 2004. An interim dividend of 0.341p per share was paid in November 2003 making a total of 2.501p for the year (2002/03: 2.110p). See note 8 on page 69 for waiver of dividend by Signet Group QUEST Limited.

Directors and alternate director

The directors who served during the period were James McAdam (Chairman), Lee Abraham, Robert Blanchard, Walker Boyd, Terry Burman, Dale Hilpert, Brook Land and Russell Walls. Details of the current directors are shown on page 34. Richard Miller served as an alternate director.

Directors' remuneration, service contracts and share interests

Details of directors' remuneration, service contracts and the interests in the share capital of the Company of the directors and their immediate families at 31 January 2004 are given in the Directors' remuneration report on pages 42 to 53.

Allotment of equity securities

There were no equity securities allotted save in relation to the exercise of options as set out in note 27 on page 85.

Social, ethical and environmental matters

Matters relating to these issues, including employees, payment of creditors and charitable and political donations, are set out on pages 103 to 106.

Substantial shareholdings and control of the Company

Details of substantial shareholdings and control of the Company are as set out on pages 109 and 110.

Purchase of own shares

At 31 January 2004 there was outstanding an authority, granted by the shareholders at the annual general meeting in 2003, to purchase, in the market, up to 171,400,228 shares of 0.5p each in the Company at a minimum price of 0.5p per share and a maximum price of 105% of the average of the market values derived from the London Stock Exchange Daily Official List for the preceding five business days. During the financial year no purchases were made or proposed to be made and no purchases or options or contracts to make purchases have been made or entered into since the end of the financial year. The authority expires at the forthcoming annual general meeting and a resolution to renew it will be proposed at the meeting.

Pension funds

Information about the Group's pension schemes is set out in note 22 on page 79. Information about pension arrangements for executive directors is set out in the Directors' remuneration report on pages 42 to 53.

Auditor

The auditor, KPMG Audit Plc, is willing to continue in office and a resolution for its re-appointment as auditor of the Company will be submitted to the annual general meeting.

Annual general meeting

The annual general meeting is to be held at 12.00 noon on 9 June 2004 at The Café Royal, 68 Regent Street, London W1B 5EL. A description of the business to be transacted at the annual general meeting is included with the notice of the meeting.

By order of the Board
Mark Jenkins
Secretary
24 March 2004

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Corporate governance statement

The Board

The Board has as its prime objective the sustainable enhancement of business performance and shareholder value. It carries the responsibility for determining all major policies, for ensuring that effective strategies and management are in place, for assessing the performance of the Group and its senior management and for reviewing the system of internal control, including those relating to social, ethical and environmental matters (see pages 103 to 106). The Board also seeks to present to shareholders, potential investors and other interested parties a balanced and coherent assessment of the Company's strategy, financial position and prospects. The Board retains responsibility for a range of specific matters including approval of the annual report and other documents circulated to shareholders by the Company; quarterly and annual results announcements; other trading statements; distribution policy; acquisitions, disposals, material agreements and capital expenditures outside predetermined limits set by the Board; risk management; budgets; long range plans; senior executive appointments; succession planning and the setting of social, ethical and environmental policies.

The Board monitors all developments in corporate governance, including the revised Combined Code (the Financial Reporting Council's "Audit Committees: Combined Code of Governance", the "Smith Report") and changes due to the Sarbanes-Oxley Act of 2002 in the US. The Board reviews its performance and procedures in the light of changing expectations regarding best practice and makes amendments where it believes appropriate, to take account of them.

The formal schedule of matters reserved for the Board was updated in early 2004/05 and the division of responsibilities between the Chairman and the Group Chief Executive was set out in writing and agreed by the Board. In summary, the Chairman is responsible for:

- the effective running of the Board, including the evaluation of its performance and of the individual directors, the balance of the Board and compliance with corporate governance;
- the review, prior to their presentation to the Board by executive management, of strategy, medium term plans and annual budget;
- reviewing, prior to their presentation to the Remuneration Committee, the recommendations of the Group Chief Executive regarding the remuneration of senior executives and for making a recommendation regarding that of the Group Chief Executive;
- maintaining contact with major shareholders to understand directly their issues and concerns;
- keeping the non-executive directors appropriately informed of developments within the business and shareholders' attitude to the Group; and
- the reputation of the Group, and representing it both internally and externally.

The Chairman is also a member of the Nomination Committee.

In summary, the Group Chief Executive is responsible for:

- the executive leadership of the Group;
- the development, and presentation to the Chairman and the Board, of strategy, medium term plans and budgets;
- within this framework, for the performance of the business;
- compliance with legal and corporate governance requirements, together with the social, ethical and environmental principles of the Group; and
- making recommendations on the appointment and remuneration of senior executives and management development.

The Group Chief Executive is also Chief Executive of the US division.
The Board met nine times in 2003/04, including three extended sessions of more than one day. All directors attended all meetings of the Board with the sole exception of a meeting for which one director was unable to attend.

The Board currently consists of seven directors: the Chairman, two executive directors (the Group Chief Executive and the Group Finance Director), and four independent non-executive directors, one of whom is nominated as the senior independent director. Incumbents are identified on page 34. Directors are subject to election at the first annual general meeting after appointment and then to re-election by shareholders at no more than three yearly intervals. The Board is of the view that fixed term or age limits should not be set for non-executive directors as it considers it important that the particular contribution being made by individual directors be taken into account in deciding their tenure of office and that the performance of each director be reviewed annually. Any non-executive director who has served on the Board for nine years since first being elected as a non-executive director must stand for annual re-election; also any director over the age of 70 must stand annually for re-election.

The mix of skills and business experience of the directors is considered to be appropriate for the proper and efficient functioning of the Board. The terms of reference of the Nomination Committee include the regular review of the composition and balance of the Board. No one individual has unfettered powers of decision and no individual or grouping is in a position to unduly influence the Board's decision making.

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Corporate governance statement (continued)

At least once a year the non-executive directors meet without the executive directors being present. They also meet occasionally without the Chairman being present.

On appointment new directors take part in an induction programme and are given an opportunity to familiarise themselves with the Groups business, procedures and investor perceptions. In addition to meeting with management this process includes briefings from the Groups external auditors, lawyers, financial advisers and stockbrokers. Directors are kept informed of the latest developments and best practice in corporate governance and attend relevant courses or receive appropriate training to equip them to carry out their duties. The non-executive directors are given regular opportunities to see the operations of the business and to meet management and staff.

All directors receive written reports in a timely manner prior to each meeting which enables them to make informed decisions on the issues under consideration.

The performance of the Board, its Committees and individual members is rigorously monitored. The Board has agreed a formal written procedure for the evaluation process which is conducted by the Chairman, in conjunction with the senior independent director and the Company Secretary. The performance evaluation of the Chairman is led by the senior independent director and takes into account the views of both the non-executive and executive directors.

The Company Secretary is responsible, through the Chairman, for advising the Board on all governance matters and ensuring that Board procedures are followed. All directors have access to his advice and service. There is also a procedure for directors to take independent advice in the course of their duties, if considered appropriate, at the Groups expense.

Board committees

Certain matters are delegated to Board committees, each with defined terms of reference, procedures, responsibilities and powers. The principal committees are as follows:

The Audit Committee has a clear written charter which is available on request from the Company Secretary or on the Groups web site. The charter was updated during 2003/04.

The Audit Committees responsibilities include the review of the appropriateness and effectiveness of the Groups accounting policies and financial procedures and oversight of the external auditors work, including the scope and result of the audit. The Audit Committee also reviews the work of the internal auditors, the Disclosure Control Committee and the Groups whistleblowing procedures. The review of the whistleblowing procedures includes receiving reports on all matters raised and on actions taken. The Audit Committee reviews, discusses with management and approves for submission to the Board all Group audited accounts, trading statements and selected internal financial reports. It also reviews reports submitted to the Board by the Groups external auditor.

Following the introduction of the revised Combined Code, the Audit Committee will review the Groups internal control and risk management systems and will report to the Board on their effectiveness.

The external auditors objectivity and independence is safeguarded by the Audit Committee having primary responsibility for making a recommendation on the appointment of the external auditor, the determination of their fees and making an annual assessment of their independence (including consideration of a written disclosure by the external auditor of all relationships that they have with the Company). The planned rotation of partners and staff of the external auditor, together with a cooling off period before anyone from the external auditor joins the Group, also assist in maintaining the independence of the external auditor. The Audit Committee has reviewed and approved a policy for the provision of audit and non-audit services by the auditor. The policy requires that the Audit Committee approves in advance all audit and non-audit work carried out by the external auditor (subject to a de minimus amount, this being then reported to the Audit Committee on a quarterly basis). The approval process requires disclosure of the objectives and scope of services to be performed in addition to the fee structure. The Audit Committee also reviews all approved services and fees at subsequent meetings. See page 66 for details of fees paid to the external auditor.

The Audit Committee has an established channel of direct communication with the external auditor who normally attend meetings except in relation to certain aspects of their own appointment, assessment of their independence and determination of their fees. The Chairman, the Chief Executive, the Finance Director and others attend the meeting by invitation. The Audit Committee meets at least once a year with the external auditor without executive management being present.

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All members of the Audit Committee are independent, and the only remuneration members of the Audit Committee receive, from the Group, is as directors. Russell Walls succeeded Brook Land as chairman on 1 April 2003, and is an audit committee financial expert as defined by the applicable Securities and Exchange Commission regulations. From 7 January 2004 the Audit Committee consisted of Dale Hilpert, Brook Land and Russell Walls. From 1 April 2003 to 7 January 2004 it consisted of Lee Abraham, Brook Land and Russell Walls and from 2 February 2003 to 31 March 2003 Robert Blanchard was also a member. The Audit Committee met six times in 2003/04, including a meeting dedicated to the consideration of corporate governance matters. Two directors were each unable to attend one meeting.

The Nomination Committee charter was revised in early 2004/05 to reflect corporate governance developments in the UK and the US and is available on request from the Company Secretary or on the Groups web site. The Nomination Committee has responsibility for reviewing the composition and balance of the Board, as well as Board and senior management succession. It also makes recommendations to the Board on all new Board appointments and nominations for re-election as directors. Once the Nomination Committee has agreed a job specification the services of external recruitment agencies are used to identify suitable candidates for senior executive posts and for all Board appointments. The Nomination Committee carries out interviews with such individuals. The re-election procedures have been reviewed and formalised, particularly with regard to the performance evaluation procedures for individual directors. The review of any non-executive director, who is serving beyond six years from first being elected to the Board, is considered with particular care. No director is involved in any decision about his own re-appointment. The procedure for the election of directors is laid out on page 34.

When the role of the Group Chairman or any matter relating to succession to that role is discussed, the Chairman may be consulted, but the responsibility for preparing a job specification and making any recommendation to the Board rests solely with the independent non-executive directors of the Nomination Committee. The Nomination Committee also reviews a number of other senior appointments within the Group, such as the Company Secretary.

The senior independent director chairs the Nomination Committee. From 1 April 2003 the Nomination Committee consisted of Robert Blanchard, Brook Land and James McAdam and from 2 February 2003 to 31 March 2003 Lee Abraham and

Russell Walls were also members. The Nomination Committee met four times in 2003/04 and there was full attendance at all meetings.

The role of the **Remuneration Committee** is discussed in the Board report on remuneration on page 42.

Further details regarding the chairmen and members of these Committees are set out on page 34.

Executive management

The Group comprises two separate operating divisions, one in the US and one in the UK, each with a separate executive committee which meets regularly. The Group Chief Executive is also Chief Executive of the Groups US division. The Group Finance Director and the Chief Executive of the UK division report to the Group Chief Executive.

The executive management is responsible to the Board for the performance of the Group and its compliance with the internal policies and procedures set by the Board. As part of this responsibility the executive management regularly reports to the Board on the performance of the Group, its competitive environment and its relations with stakeholders.

Business strategies; long range plans; budgets; acquisitions, disposals, material agreements and capital expenditures outside predetermined limits set by the Board; internal policies and procedures are presented to the Board by executive management for consideration. Within this approved framework the executive management is responsible for the day to day running of the business including: merchandising; store operations; human resource management and planning; marketing; real estate; financial reporting; treasury management; risk management;

tax management; social, ethical and environmental matters; and communications with investors.

Code of Conduct and Code of Ethics

Signet strives to act in accordance with the laws and customs of each country in which it operates; to adopt proper standards of business practice and procedure; to operate with integrity; and to observe and respect the culture of each country in which it operates. To that end, the Group has adopted a Statement of Social, Ethical and Environmental Principles and supporting policies applicable to all officers and employees of the Group and substantially complies with the requirement of Nasdaq. In addition, it has a policy on business integrity, as well as more detailed guidance and regulations in the Group's staff induction, training and operational procedures. The Group is

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Corporate governance statement (continued)

currently reviewing these policies in order to meet the recently revised corporate governance requirements of the Nasdaq National Market, which require a code of business conduct and ethics. This Nasdaq requirement is not currently effective but will take effect after May 2004. A code of ethics meeting the requirements of the Sarbanes-Oxley Act covering the Group Chief Executive, the Group Finance Director and senior financial officers is also in place. These codes are available on request from the Company Secretary or on the Groups web site.

Relations with shareholders

The Board recognises the importance of relations with shareholders and communicates regularly with them about the Groups strategy, financial performance and prospects. It does this through documents distributed to shareholders, stock exchange announcements and in meetings. Presentations on quarterly and annual results and the Christmas trading statement are open to all interested parties, including private shareholders, through the use of teleconferences and web casting. Other presentations are available on the Group web site *(www.signetgroupplc.com)*.

The Board recognises that the prime opportunity for private investors to question the Board is at a general meeting of shareholders. At the annual general meeting the chairmen of the Audit, Nomination and Remuneration Committees, in addition to the Chairman of the Board, are expected to be available for questions relating to the function of their respective Committees.

The Group Chief Executive, the Group Finance Director and the Investor Relations Director carry out an extensive programme of meetings with institutional investors. The Chairman and the senior independent director also meet with investors from time to time. Following the appointment of a new non-executive director, major shareholders will in future be offered an opportunity to meet the individual.

The Board is kept informed of investment market attitudes to the Group by receiving regular reports on investor relations, copies of brokers research, press cuttings and third party surveys of investor perceptions.

Compliance statement and revised Combined Code

In June 1998 the London Stock Exchange published the Principles of Good Corporate Governance and the Code of Best Practice (the Combined Code). The Board considers that it has complied throughout the year with the provisions of the Combined Code required to be observed by companies. In July 2003 a revised Combined Code was issued that applies for reporting years starting on or after 1 November 2003. During

2003/04 the Board reviewed the revised Combined Code, the Smith Report and corporate governance developments in the US. Based on that review the Board agreed a programme of action that has largely been completed with any remaining actions being scheduled for later in 2004/05.

Internal control

The Combined Code requires that the directors review the effectiveness of the Groups system of internal control including the following areas:

- Financial
- Operational
- Compliance
- Risk management

Guidance for directors *Internal Control: Guidance for Directors on the Combined Code* (the Turnbull guidance) was published in September 1999. The Board of Directors considers that it has complied with the Turnbull guidance throughout the year and up to the date of approval of this Annual Report & Accounts. In addition, during 2003/04 the Board continued to review the implications of the Sarbanes-Oxley Act and took steps to ensure compliance.

The Board exercises ultimate responsibility for the Groups system of internal controls and for monitoring its effectiveness. The internal control system is designed to safeguard shareholders investment and the Groups assets, both tangible and intangible, including the reputation of the Group with its various stakeholders. Procedures are in place to ensure the maintenance of proper accounting records, the reliability of the financial information used within the business or for publication and the determination of disclosure obligations and of materiality. These procedures also cover disclosure on a timely basis of information to the investment markets. However, such procedures are designed to manage rather than wholly eliminate the risk of failure to achieve business objectives and can provide only reasonable, not absolute, assurance against material misstatement or loss.

Signets disclosure control procedures are designed to help ensure that processes and procedures for information management are in place at all levels of the Group. The disclosure control procedures aim to ensure that any information disclosed by the Group is recorded, processed, and summarised appropriately. The procedures are also designed to ensure that information is accumulated and communicated to management

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to allow timely decisions to be made regarding required disclosure. The Groups Disclosure Control Committee consists of the Group Finance Director, the Company Secretary, the Investor Relations Director and the Group Financial Controller who consult with the Groups external advisers and auditors as necessary. These procedures enable Signet to make timely and accurate public disclosures.

Key procedures designed to provide effective internal control are:

- **Control environment** control is exercised through an organisational structure with clearly defined levels of responsibility and authority together with appropriate reporting procedures, particularly with respect to financial information, capital expenditure, investment, granting of guarantees and the use of treasury products (see pages 32 and 33 for more detail) as well as health, safety, environmental and customer service issues.

- **Reporting and information systems** the Group has a comprehensive budgeting and five year strategic planning system with an annual budget and strategic plan approved by the Board. Monthly trading results and balance sheets when reported include the corresponding figures for the budget or revised forecast and the previous year. Any significant variances are examined by divisional operating management and discussed with Group management, with action being taken as appropriate. A forecast of the full years results is updated regularly, based on performance to date and any changes in outlook. The executive directors regularly report to the Board on the development of the business, the competitive environment and any material breaches of procedure. Through these mechanisms, the Groups performance is continually monitored, risks identified in a timely manner and their implications assessed, control procedures re-evaluated and corrective actions agreed and implemented. The Group issues both sales and financial results on a quarterly basis. The external auditor reviews the quarterly and half year statements, and Christmas Trading Statement and presents reports to the Audit Committee for consideration.

- **Risk management** the identification of major business risks is carried out in conjunction with operational management and appropriate steps are taken to monitor and mitigate risks. The Risk Management Committee, whose members include the Group Finance Director and senior divisional executives, meets on a regular basis, at least four times a year. Matters considered by the Risk Management Committee include reviews of the Groups risk register, emerging issues, new regulations and the activity of the internal audit function. The external auditors receive copies of the papers submitted to the committee. A report from each Risk Management Committee meeting, and any material non-compliance or emerging issue, is considered by the Board in a timely manner. From the start of 2004/05 the Audit Committee will review the effectiveness of the Groups internal control and risk management procedures and report to the Board on these matters.

- **Control procedures** each operating division maintains documented financial and operating controls as well as procedures appropriate to its own business environment and in conformity with Group guidelines. Each of the operating divisions has an internal audit function which primarily reviews the processes in the store operations but also reviews central service functions. The work of the internal audit function is monitored by senior divisional executives, Group management, the Risk Management Committee and the Audit Committee.

- **Reviews of effectiveness** the Board, in addition to receiving the Risk Management Committee reports, annually reviews the effectiveness of the internal control system on the basis of a report submitted to the Risk Management Committee. This report is based on annual written self-certification statements prepared by the operating divisions and head office departments which confirm the extent of their compliance with all material internal financial operating and disclosure controls. These statements are prepared by the divisional finance directors on behalf of each operating division and are reviewed by senior divisional executives, Group management and the Board. The Disclosure Control Committee reports to the Audit Committee on a quarterly basis as to the effectiveness of the disclosure control procedures.

Based on their review of the Group's disclosure controls and procedures, as of the end of the period covered by this Annual Report & Accounts, the Group Chief Executive and Group Finance Director have concluded that the Group's current disclosure controls and procedures are effective in achieving their objective of ensuring that information regarding the Group is recorded, processed, summarised and reported and that the information is accumulated and communicated to management to allow timely decisions regarding required disclosure. They concluded that there have not been any significant changes in the Group's internal controls over financial reporting during the period covered by this Annual Report that have materially affected, or are reasonably likely to materially affect those controls.

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Directors remuneration report

Information contained in sections and figures marked ß has been audited.

1. The role of the Remuneration Committee

The prime purpose of the Remuneration Committee is to set the remuneration policy for executive directors and senior managers and to ensure that they are fairly rewarded for their individual contribution to the Groups overall performance, having due regard to the interests of shareholders, to the financial and commercial health of the Group and to the relevant market place in which recruitment takes place.

All members of the Remuneration Committee are independent non-executive directors and do not have any personal financial interest (other than as shareholders) in matters decided by the Committee. No executive director or senior manager is involved in determining his or her own remuneration.

The Remuneration Committee sets the remuneration of the Chairman of the Board (James McAdam). It also sets that of the Group Chief Executive (Terry Burman) after consultation with the Chairman. The remuneration of the other executive director and certain senior managers is set by the Committee based on recommendations made by the Group Chief Executive after consultation with the Chairman of the Board. Performance targets are set by the Committee in consultation with the Chairman of the Board and, where appropriate, external professional consultants. Where executive directors are involved in advising and assisting the Remuneration Committee, care is taken to recognise and avoid possible conflicts of interest.

The Remuneration Committee draws on external professional advice on a regular basis and makes use of relevant and reliable independent market surveys. In 2002/03 the Committee appointed Towers Perrin as advisers to assist it. Towers Perrin are not retained in any other capacity within the Group. In addition Addleshaw Goddard (to 8 July 2003), Herbert Smith (from 8 July 2003) and Weil, Gotshal & Manges (on US aspects) advised the Remuneration Committee on legal matters. These firms also provided general legal advice to Signet.

The remuneration of the non-executive directors is not within the remit of the Remuneration Committee. Such remuneration is determined by the Chairman and the executive component of the Board following a recommendation by the Chairman after consideration of, among other factors, external comparisons and the time commitment and responsibility of the role.

From 2 February 2003 to 31 March 2003 the Remuneration Committee consisted of Lee Abraham, Brook Land, Robert

Blanchard (Chairman) and Russell Walls. From 1 April 2003 to 7 January 2004 the Committee consisted of Lee Abraham, Robert Blanchard (Chairman) and Russell Walls. Lee Abraham retired and Brook Land rejoined the Remuneration Committee on 7 January 2004. The Committee met nine times during 2003/04 and there was full attendance at all meetings.

2. Remuneration policy

The Remuneration Committee believes that the Groups remuneration policy must be based on sound, clearly stated principles which recognise the long term interests of the Group, its shareholders and employees. After careful consideration during 2002 and 2003, the Remuneration Committee formally adopted a set of six principles. Following a review by the Remuneration Committee in early 2004 these principles remain unaltered and they are set out below:

(i) Signets primary business objective should be to deliver results which should consistently outperform the average of the industry sector.

(ii) It is recognised that to deliver consistently above industry-average performance Signet will need to retain, and where necessary attract, executives of well above industry-average ability and leadership potential.

(iii) It is also recognised that retaining, and where necessary recruiting, senior executives of this calibre will require that the Group provide above industry-average total remuneration.

(iv) Therefore, Signet’s executive directors and other senior executives should be remunerated in a range beginning with the 51st and ending with the 75th percentiles of industry total remuneration, based on current surveys of relevant companies appropriate to the executive’s position and geographic location. The remuneration of each executive within this range will be based on performance (both of the Group and the individual executive), potential (i.e. the executive’s potential to grow in responsibility and performance), and scarcity (i.e. the availability of candidates to replace the executive should he/she leave the Group).

(v) Total remuneration for executive directors and other senior executives should be highly geared towards performance with the proportion of ‘at risk’ pay increasing disproportionately according to: a) the level of performance achieved, and b) the seniority of the executive and their ability to influence results. Excluding pensions there should

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be only one element of guaranteed remuneration; base salary. The performance related portion of total remuneration should reward short term and long term performance separately, with the potential level of payment being heavily weighted in favour of the latter. Short term achievement should be recognised through the annual bonus plan with long term achievement being rewarded through executive share option awards and participation in long term incentive plans.

(vi) Surveys will be undertaken on a regular basis to ensure that total remuneration packages remain in the percentile range described in (iv) above. Recognising that some 70% of Signet's sales and profits are generated in the US and that significant differences in remuneration practices exist between the US and the UK, separate surveys will be conducted in each country.

The components of total remuneration are:

(a) Base salary

The base pay of each senior executive is intended to reflect the size and scope of that executive's responsibilities. Base salary is reviewed annually, taking into account factors such as the level of individual performance, experience over time in the post, relevant external comparative data, the geographic location of the post and the general movement of base pay within the Group.

(b) Annual bonus plan

Individual annual bonus targets are set each year to take account of the role of the executive and current business plans. Annual bonus awards for executive directors are based on the achievement of growth in pre-tax profit in the year at a rate above inflation. There is a cap set each year on such awards and a threshold performance below which no payments are made. The bonus rate increases after an intermediate target rate of profit growth, which is set each year, is achieved.

From the start of 2004/05 the growth in pre-tax profits will be measured using constant exchange rates. The Remuneration Committee believes this change to be appropriate as it will avoid subsequent foreign exchange rate movements unjustly rewarding, or unfairly penalising, Group senior management. It will also bring Group senior management bonuses on to the same basis as divisional senior management, whose bonuses are unaffected by exchange rates.

(c) Share option plan

The Remuneration Committee believes that an executive share option plan is appropriate to execute the remuneration principles

set out on pages 42 and 43, and that a well constructed plan forms an important element in motivating executives to deliver the long term performance needed to generate strong returns to shareholders.

It is the policy of the Remuneration Committee that all employees, including directors, who satisfy certain qualifying conditions should have the opportunity to participate in the equity of the Company through a savings related share option plan, and annual invitations are normally made. Under the relevant legislation the exercise of these share options is not subject to performance criteria.

(d) Long term incentive plan ("LTIP")

The Remuneration Committee believes that, in addition to the provision of share options, it is appropriate to operate an LTIP to encourage executive directors, senior members of the divisional executive management committees and certain other senior executives with a similar level of responsibility, to meet long term strategic and financial objectives set by the Board. The policy is to make annual awards subject to the general principles explained in paragraphs 2(iv) and 2(v) above. Vesting is dependent on the achievement of challenging performance conditions set by the Committee at the time the awards are made and such awards do not normally vest within three years from the date the award is granted.

(e) Performance criteria

The Remuneration Committee believes that where performance criteria are used they should be:

- easily understood,
- able to be directly linked to the performance of the Group or relevant business unit and to be influenced by management's own actions,
- designed to motivate management to increase profitability significantly beyond the rate of inflation,
- designed to incentivise senior management to make efficient use of capital and to increase shareholder value,
- equity based for long term schemes, and
- consistent with the overall objectives of the Group.

The criteria used to measure performance are based on the results of the Group (subject to minor adjustments that are approved by the Remuneration Committee) so as to provide clarity and objectivity.

(f) Pensions for executive directors

UK based executive directors are normally members of the Group Scheme.

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Directors remuneration report (continued)

At the present time there is only one such director, the Group Finance Director. The Group Scheme is a funded, Inland Revenue approved, final salary, occupational pension scheme and has a separate category of membership for directors. Pensionable salary is the members base salary, excluding all bonuses. All Group Scheme benefits are subject to Inland Revenue limits. Where such limitation is due to the Inland Revenue earnings cap the Signet Group Funded Unapproved Retirement Benefit Scheme (the FURBS) is used to supplement pension benefits.

The main features of the Group Scheme are:

(i) a normal pension age of 60;

(ii) pension at normal pension age of two-thirds of final pensionable salary, subject to completion of 20 years service;

(iii) life assurance cover of four times pensionable salary; and

(iv) spouses pension on death.

The Group Chief Executive receives, proportionately to base salary, equivalent pension contributions to the UK based executive director. These pension benefits are provided through an unfunded, unqualified deferred compensation plan and the Sterling Jewelers Inc. 401(k) Retirement Savings Plan.

Apart from remuneration itself, there are certain other allied policy matters which are the concern of the Remuneration Committee. These are:

(i) Companies used for comparison

In assessing all aspects of pay and benefits, the Remuneration Committee takes account of the packages offered by a range of other retailers and, where appropriate, companies outside the retail sector. Different companies are used for comparison for executives in Group functions, and in the UK and the US divisions. These companies are chosen on the basis of turnover, market capitalisation, profits, number of employees and the nature and geographic spread of their operations. There have been no significant changes in the comparator companies used during the year.

(ii) Service contracts

It is the policy of the Remuneration Committee that an executive directors contract should be a one year rolling contract with the period of notice to terminate the contract to be given by either side not exceeding one year and that, if it is necessary to grant a longer period of notice when recruiting from outside the Group, this should reduce to a maximum of one year after an initial period. No director has a service contract of more than one year.

(iii) Early termination

The Remuneration Committee believes that the circumstances of early termination vary. Only in very exceptional circumstances will explicit terms for compensation for early termination be included in contracts for new directors. Where no explicit compensation terms are included, departing directors or senior managers are expected to mitigate their loss within the framework of individual circumstances.

(iv) Executive directors outside appointments

The Group recognises the benefits to the individual and to the Group when executive directors of the Company also act as non-executive directors of other companies not associated with Signet. Subject to certain conditions, executive directors are permitted to accept one appointment as a non-executive director of another company. The executive director is permitted to retain any fees paid for such service. Unless otherwise determined by the Board, executive directors may not normally accept more than one such non-executive directorship. During 2003/04 no executive director had an outside appointment. On 3 March 2004 Walker Boyd became a non-executive director of WH Smith PLC.

3. Directors remuneration

The remuneration package of the Group Chief Executive, the highest paid director, is determined with regard to the fact that he is a US citizen, based in the US and his remuneration is set in US dollars and not pounds sterling. Some 70% of Group sales and profits are generated in the US.

(a) Salary and benefits

The Remuneration Committee normally reviews the salary and benefits of executive directors annually. Details of the salaries received by executive directors are shown on page 45. Following the 2004 annual reviews the Remuneration Committee increased the Group Chief Executives salary from $1,210,000 to $1,283,000 and that of the Group Finance Director from £310,000 to £330,000. The Chairmans remuneration was increased from £300,000 to £327,000.

(b) Annual bonus plan

In 2003/04 an annual bonus of 23.0% (maximum 100%) of base salary was paid to the Group Chief Executive and 17.2% (maximum 75%) to the Group Finance Director, reflecting the 6.0% increase in reported pre-tax profit. At constant exchange rates the Group achieved a 13.0% increase in pre-tax profit, which would have earned a bonus of 80.0% of base salary for the Group Chief Executive and 60.0% for the Group Finance Director. As the Remuneration Committee believes that these

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Directors emoluments

Details of directors emoluments for the year to 31 January 2004 were as follows:

	Basic salary or fees		Benefits[1]		Short term bonuses		Termination payments[2]		Total	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000	**£000**	£000
Executive										
James McAdam *Chairman*	**296**	271	**23**	24					**319**	295
Walker Boyd *Group Finance Director*	**308**	291	**22**	21	**116**	131			**446**	443
Terry Burman(3) *Group Chief Executive*	**714**	743	**26**	30	**360**	444			**1,100**	1,217
Ian Dahl(4) *former Chief Executive of UK division*		184		15				304		503
Non-executive										
Lee Abraham(5)	**35**	35							**35**	35
Robert Blanchard	**38**	35							**38**	35
Brook Land	**38**	35							**38**	35
Dale Hilpert(6)	**17**								**17**	
Russell Walls(7)	**38**	18							**38**	18
David Wellings(8)		13								13
Total	**1,484**	1,625	**71**	90	**476**	575		304	**2,031**	2,594

(1) Benefits incorporate all benefits arising from employment by the Group, which in the main relate to the provision of a company car and private health insurance.

(2) On 30 September 2002 the former Chief Executive of the UK division, Ian Dahl resigned giving 12 months' notice. The Group opted to make his resignation effective immediately in accordance with the terms of his contract and made a payment in February 2003 of £280,000 in lieu of notice. Signet also agreed to continue providing certain benefits that would have been payable had Ian Dahl remained in employment during his notice period, which amounted to £23,887 in total. No payments were made in respect to pensions. In accordance with the rules of the schemes the Remuneration Committee exercised its discretion to allow 434,211 executive share options, with an exercise price of 57p, to become exercisable in May 2003 and the 2000 LTIP grant to vest in 2003. Under the LTIP grant a payment of £62,222 was paid and an option over 112,619 shares at an exercise price of £1 in total was granted. All other executive options and LTIP awards held by Ian Dahl were forfeited.

(3) Terry Burman's emoluments are specified and paid in US dollars and an average exchange rate of US$1.68 was used (2002/03:US$1.53).

(4) Until his resignation on 30 September 2002.

(5) Until his retirement on 8 January 2004.

(6) From his appointment on 1 September 2003

(7) From his appointment on 1 August 2002.

(8) Until his retirement on 13 June 2002.

The figures above represent emoluments earned as directors during the relevant financial year. Such emoluments are paid in the same financial year with the exception of bonus payments, which are paid in the year following that in which they are earned.

executives should not be unfairly benefited or penalised by short term movements in exchange rates, it decided to award discretionary bonuses of 27.0% and 20.3% to the Group Chief Executive and Group Finance Director. These payments took the total bonus payments up to the target level being 50.0% for the Group Chief Executive and 37.5% for the Group Finance Director, set by the Remuneration Committee even though performance at constant exchange rates would have justified a

significantly higher figure. Short term bonus targets will in future use constant exchange rates.

In 2004/05 the annual bonus of the Group Chief Executive is capped at 100% of base salary and that of the Group Finance Director at 75% of base salary. The potential rate of bonus increases on a straight line basis from the rate of inflation up to an intermediate target for growth in Group profit before tax at

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Directors remuneration report (continued)

constant exchange rates, then an accelerated rate applies until the maximum bonus can be earned at 15% growth. The minimum bonuses are only payable after profits increase by more than inflation.

(c) Share option and long term incentive plans

Share options granted to directors are set out on page 50. See page 43 for the factors influencing the choice of performance criteria and for the basis of measurement.

(i) Executive share option plans

In July 2003, following consultation with the Association of British Insurers and a significant number of major shareholders, approval was given at an extraordinary general meeting to the Signet Group plc International Share Option Plan 2003, the Signet Group plc UK Inland Revenue Approved Share Option Plan 2003 and the Signet Group plc US Share Option Plan 2003 (2003 Plans). Of the votes cast by proxy at the extraordinary general meeting 87% were in favour of the proposal. 1,160,619,434 votes were cast (68% of the issued share capital) and abstentions in respect of 7% of the issued share capital were received.

The 2003 Plans replace the Signet Group plc 1993 Executive Share Option Scheme (the 1993 Scheme), under which no further options may be granted.

The 2003 Plans allow the Remuneration Committee discretion to set performance conditions. The performance conditions under the 2003 Plans were set out in the circular to shareholders seeking approval for the 2003 Plan and no significant change in those conditions will be made without prior consultation with major shareholders. The Remuneration Committee made the 2004 grants on the same basis as the 2003 grants. The conditions are set out below:

UK executives

For UK executives the personal performance of participants will be assessed on each occasion that share option grants take place and will be reflected in the level of the individual awards.

In addition all grants will be subject to exercise conditions as follows:

Level of grant	Required annual rate of compound growth in earnings per share(1) above inflation(2)
Up to 200% of base salary	+3%
201% to 400% of base salary	+4%
Above 400% of base salary	+5%

(1) Normalised earnings per share as defined by the Institute of Investment Management and Research.

(2) As defined by the UK Retail Price Index.

Performance will be measured over three years from the start of the financial year in which the award is made, and may then be measured from the same start point to the end of the fourth and fifth years if not previously satisfied.

US executives

For US executives there is a pre-grant test based on both personal and corporate performance. In addition there is a post grant exercise condition that annual compound growth in earnings per share will be more than 3% above inflation.

The post grant performance condition will be measured over three years from the start of the financial year in which the award is made, and may then be measured from the same start point to the end of the fourth and fifth years if not previously satisfied.

Options granted under the executive share option plans are normally only exercisable between three and ten years from the date of grant, after which the options lapse.

In July 2003 options of five times salary were awarded to the Group Chief Executive. In 2004 options amounting to five times salary will be awarded to the Group Chief Executive, the grant price to be fixed following the announcement of the preliminary results. The awards to the Group Chief Executive were based on principles 2 (iv), 2 (v), 2 (vi) (set out on pages 42 and 43), a remuneration survey that was undertaken, and reflected the strong performance of both the Group and the executive over the prior three years. In the case of the Group Finance Director, he was awarded options amounting to one and a quarter times salary in July 2003 and will be awarded options amounting to one and a half times salary in 2004.

Certain provisions of all the share option plans may be amended by the Board, but certain basic provisions (and in particular most of the limitations on individual participation, the number of shares and the percentage of share capital that can be issued thereunder) cannot be altered to the advantage of the participants except with the approval of the shareholders of the Company or in accordance with the adjustment provisions in the plans.

(ii) All-employee share plans

In 1998/99 the Group introduced an Inland Revenue approved savings related share option scheme for UK employees (the “Sharesave Scheme”), a US Section 423 Plan (the “Employee Stock Savings Plan”) and a savings related share option scheme for employees in the Republic of Ireland (the “Irish Sharesave Scheme”), together, the “All-employee Schemes”. These schemes give those employees with qualifying service the opportunity to participate in the equity of the Company, with the aim of aligning the interests of employees with those of shareholders.

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The options granted under the Sharesave Scheme and the Irish Sharesave Scheme are normally exercisable between 36 and 42 months from the date of the relevant savings contract. Options were granted under these plans at a price approximately 20% below the middle market price of the shares on the London Stock Exchange on the dealing day prior to the date that employees were invited to participate in them.

The options granted under the Employee Stock Savings Plan, which is for employees in the US, are normally exercisable between 24 and 27 months from the date of grant, such date being the first business day of any period during which savings may be accumulated under a savings contract. The options under this plan were granted at a price approximately 15% below the middle market price of the shares on the London Stock Exchange on the date of grant. The period of exercise and the discount allowed vary from the UK due to different legal regulations in the US.

(iii) Long term incentive plan

Shareholders gave approval, in June 2000, to the Signet Group plc 2000 Long Term Incentive Plan (“2000 LTIP”).

Awards were made to executive directors and other senior executives in 2000/01, 2001/02, 2002/03 and 2003/04. All these awards are subject to fulfilment of minimum performance conditions set at the time of the award as to:

- compound annual growth in the profit before tax of the Group using a constant exchange rate (“Profit Growth”) and

- the return on capital employed (“ROCE”) of the Group

in each case over a fixed period of three successive financial years starting with the one in which the award was made. Nothing is payable under the award unless both minimum performance conditions are achieved. The minimum Profit

Growth is set at a threshold level after taking account of inflation. The conditions were selected to ensure that awards would only vest provided that growth in profits exceeded the rate of inflation and that the business’s targeted ROCE is achieved.

If the performance conditions are achieved the award will vest and its value will depend on the extent to which the minimum performance conditions are exceeded:

- if Profit Growth exceeds the minimum threshold inflation level, the amount of the award will be calculated on a straight line basis from that level up to a specified inflection point, at which point 37.5% of the award will vest, and then at an accelerated rate on a straight line basis up to the maximum set for the particular participant. This maximum is equal to a specified percentage of his base salary at the time at which the award vests. The maximum award for the Group Chief Executive is equal to 70% of base salary at vesting and for the Group Finance Director 50% of base salary at vesting.

- if the minimum threshold inflation level of Profit Growth is achieved but the maximum award has not been earned by reference to Profit Growth, then, in addition to the percentage of base salary which has been earned on the above basis, the amount of the award earned on the basis of Profit Growth may be increased on the basis of the ROCE increase. In the case of the Group Chief Executive, for each 0.5% by which the ROCE exceeds the level specified in the award, the amount of the award would increase by an amount equal to 5% of base salary (at vesting) up to a maximum increase equal to 35% of such base salary. Similarly in the case of the Group Finance Director, for each 0.5% by which the ROCE exceeds the specified level the amount of the award would increase by an amount equal to 3% of such base salary up to a maximum increase equal to 25% of such base salary. In no event, however, can any such increase result in the applicable maximum award amount stated in the preceding paragraph being exceeded.

2000 LTIP performance criteria	2004/05	2003/04	2002/03	2001/02

	award	award	award	award
Minimum performance for any vesting				
Profit measure	Profit Growth in excess of threshold inflation level			
ROCE measure	22.2%	21.0%	20.5%	20.5%
Profit Growth performance measure				
Profit Growth rate inflection point	10.0%	10.0%	10.0%	10.0%
Profit Growth rate required for maximum vesting	15.0%	15.0%	15.0%	15.0%
ROCE performance measure				
Specified ROCE required	23.2%	22.0%	21.5%	22.5%

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Directors remuneration report (continued)

The table on page 47 shows the percentages and the inflection points which have been specified for the existing awards and indicates the relevant profits and ROCE to be used for measurement in the case of each participant.

When the performance conditions have been satisfied 50% of the amount which vests will be payable in cash and the other 50% will consist of the grant of an option to acquire shares in the Company, the number of shares being determined by using the middle market price on the day preceding the grant of the award. For the 2001/02, 2002/03 and 2003/04 awards, that share price was 74.75p, 121.00p and 83.50p respectively. Due to the deferred equity nature of the share linked element of the award the exercise price of the option is a nominal amount of £1 or $1, as appropriate. The participants can normally exercise their option at any time after vesting, until the tenth anniversary of the grant of the award.

In 2004/05 awards under the 2000 LTIP were made to the Group Chief Executive and the Group Finance Director at a similar level to that of previous years, the share price to be fixed following the announcement of the preliminary results.

(d) Employee trusts

The share option plans may be operated in conjunction with one or more employee share ownership trusts (the Signet Group Employee Share Trust (ESOT) or the Signet Group Qualifying Employee Share Trust (QUEST)) which may acquire shares in the Company for the purposes of satisfying the exercise of options.

The 2000 LTIP operates in conjunction with the ESOT which may be funded by the Group to acquire shares in the Company for the purposes of meeting the Companys obligation to provide shares on the exercise of options.

The trustees of the ESOT and QUEST have waived their rights to any dividends declared on shares held in the trusts.

(e) Share Scheme Limits

The executive share option plans are subject to the following limits on the number of shares that may be issued:

(i) the maximum number of shares that have been or may be issued pursuant to options granted under the executive share option plans and any other discretionary share option scheme adopted by the Company may not exceed 5% of the shares from time to time in issue in any ten year period;

(ii) the maximum number of shares that have been or may be issued pursuant to options granted under the executive share option plans and any other employees share scheme adopted by the Company may not exceed 10% of the shares from time to time in issue in any ten year period; and

(iii) the maximum of 171,376,839 shares (representing 10% of the issued share capital on 8 July 2003) may be issued pursuant to incentive options granted under the US Plan (the equivalent 10% limit for incentive stock options under the US section of the 1993 Scheme as at 8 June 2000 was 167,996,844 shares).

In any ten year period not more than 10% of the issued share capital of the Company from time to time may in aggregate be issued or issuable pursuant to options granted under the All-employee Schemes or any other employees share schemes adopted by the Company.

The number of shares which may be issued or issuable pursuant to the 2000 LTIP (including to the ESOT), when aggregated with any shares issued or issuable by the Company in the preceding ten years under any employees share scheme, participation in which is at the discretion of the Board, is limited to 5% of the Companys issued share capital from time to time. The number of shares which may be issued or issuable pursuant to the 2000 LTIP (including to the ESOT), when aggregated with all shares issued or issuable by the Company in the preceding ten years under any other employees share scheme, is limited to 10% of the Companys issued share capital from time to time.

No more than 5% of the issued share capital of the Company may be held by the trustee of the ESOT without prior approval of shareholders.

(f) Shareholding guidelines

When the 2003 Plans were introduced shareholding guidelines were set for executive directors and senior executives of the Group. The Group Chief Executive is expected to build a holding of shares equal to at least twice salary and the Group Finance Director to at least one times salary. Until these levels have been achieved, half of any post tax option gains under the 2003 Plans should be held in Signet shares.

(g) Service contracts

The Group Chief Executive has a rolling service contract (dated 20 December 2000) with a US subsidiary which can be terminated on one year's notice in writing by either party. The Group Finance Director has a rolling service contract (dated 14 June 1995 and amended on 15 May 2000) with the Company, which can be terminated on one year's notice in writing by either party and terminates on his 60th birthday. The service contracts for the Group Chief Executive and the Group Finance Director provide for

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termination payments in the cases of early termination by the Group or in the event of certain changes of control. In these circumstances the amount of termination payments due to the Group Chief Executive would equal, in summary, the aggregate of (i) 100% of his base salary at the time of termination (ii) 25% of his base salary in respect of pension and other benefits, (iii) his outstanding entitlement to a cash bonus under the annual bonus plan referred to on page 44 in respect of the proportion of the fiscal year prior to the effective date of termination and (iv) a sum equal to a variable percentage (currently 80.6%) of the cash bonus to which he would have become entitled under the annual bonus plan during the notice period. The amount of termination payments due to the Group Finance Director would equal, in summary, the aggregate of (i) his annual salary as at the time of termination, (ii) the market value of the contractual benefits in kind (including any pension contribution) to which he would have become entitled during the following 12 months, and (iii) all payments to which he would have become entitled under the annual bonus plan during the same 12 month period. Entitlement to any share options or LTIP awards is governed by the rules of the relevant scheme. The contracts contain confidentiality and non-competition clauses.

The Chairman has a letter of appointment (dated 20 June 2001), with no fixed term. The appointment can be terminated in writing by either party on reasonable notice. Each non-executive director has a letter of appointment from the Company which does not have a termination clause and does not provide for compensation for loss of office. The duration of any such appointment is subject to the terms of the Articles of Association and normally runs until such director is next required to stand for election or re-election.

The letters of appointment are dated as set out below:

Robert Blanchard	5 September 2000
Dale Hilpert	15 July 2003
Brook Land	16 October 1995
Russell Walls	29 May 2002

(h) Company pension

The Chairman did not receive any pension provision in 2003/04. The amount paid in respect of life assurance for him in the period was £19,100ß (2002/03: £19,100ß).

The Group Chief Executive is a member of the Sterling Jewelers Inc. 401(k) Retirement Savings Plan and an unfunded, unqualified deferred compensation plan. Contributions made by Signets US division in respect of the Group Chief Executive during the period totalled £1,786ß (2002/03: £1,797ß) and £140,091ß (2002/03: £145,571ß) respectively.

Pension benefits in respect of UK based directors are set out below.

(i) Aggregate emoluments

The total emoluments for directors of the Company and officers of the Group (excluding amounts due under the LTIP), as listed on pages 34 and 35, for services in all capacities was 2,403,000 (2002/03: £3,340,000). The amounts due under the 2000 LTIP for directors of the Company and officers of the Group was £760,000 (2002/03: £1,107,000, restated to reflect the market value at vesting). 50% of the amounts due under the 2000 LTIP are payable in cash and the other 50% consists of the grant of an option to acquire shares in the Company. Details of the directors emoluments are given on page 45.

Pension benefits for UK based executive directorsß

	Walker Boyd Group Finance Director		Ian Dahl former Chief Executive of the UK division	
	2003/04	2002/03	**2003/04**	2002/03(1)

	£	£	£	£
Change in accrued benefits during the year (gross of inflation) (A)	**3,934**	3,814	—	2,295
Change in accrued benefits during the year (net of inflation)	**2,955**	3,285	—	2,173
Accrued benefits at the end of the year	**38,888**	34,954	—	9,450
Transfer value of (A)(2)	**35,071**	37,621	—	36,393
Transfer value of accrued benefits at the beginning of the year(2)	**400,303**	336,380	—	104,583
Transfer value of accrued benefits at the end of the year(2)	**408,530**	400,303	—	158,266
Change in transfer value of accrued benefits(2)(3)	**8,227**	63,923	—	53,683
Group payments to the FURBS	**41,760**	38,787	—	30,027
Life assurance contributions	**2,508**	2,127	—	4,265

(1) Until his resignation on 30 September 2002.
(2) No contributions were made by a director.
(3) Calculated in accordance with the Actuarial Guidance Note GN 11.

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Directors remuneration report (continued)

4. Directors interests in sharesß

(a) Directors interest in share optionsß

Director		Number of shares under option							
		At 2 February 2003	Granted	Forfeited	Exercised	**At 31 January 2004**	Exercise price	Date from which exercisable (1)	Expiry date (1)
Walker Boyd(2)									
		837,037				**837,037**	33.75p	6.10.00	5.10.07
		745,665				**745,665**	43.25p	28.4.01	27.4.08
		429,648				**429,648**	49.75p	10.4.02	31.3.09
		611,842				**611,842**	57.00p	8.5.03	7.5.10
		179,401				**179,401**	75.25p	2.5.04	1.5.11
	(3)	19,000				**19,000**	50.00p	1.1.05	30.6.05
		225,000				**225,000**	120.00p	11.4.05	10.4.12
			133,484			**133,484**	£1 in total	15.4.03	18.7.10
	(4)		397,435			**397,435**	97.50p	14.7.06	13.7.13
Total		3,047,593	530,919			**3,578,512**	55.04p(5)		
Terry Burman(2)									
	(6)	1,968,122			(1,968,122)		$0.72		
		1,094,239				**1,094,239**	$0.80	10.4.02	31.3.09
		2,217,280				**2,217,280**	$0.87	8.5.03	7.5.10
		496,289				**496,289**	$1.08	2.5.04	1.5.11
		1,242,019				**1,242,019**	$1.72	11.4.05	10.4.12
	(3)	8,670				**8,670**	$1.10	3.11.04	31.1.05
	(6)		486,384		(486,384)		$1 in total		
	(4)		3,807,426			**3,807,426**	$1.59	14.7.06	13.7.13
Total		7,026,619	4,293,810		(2,454,506)	**8,865,923**	$1.30(5)		
James McAdam									
		1,075,145				**1,075,145**	43.25p	28.4.01	27.4.08
		869,347				**869,347**	49.75p	10.4.02	31.3.09
	(3)	19,000				**19,000**	50.00p	1.1.05	30.6.05
Total		1,963,492				**1,963,492**	46.19p(5)		

All options were granted to directors while they were directors. The performance conditions for grants made under the 2003 Plans are set out on page 46. The conditions set by the Remuneration Committee for exercise of options granted under the Executive Share Option Scheme 1993 were that for vesting to take place a post inflation minimum growth in earnings per share of 10% over any consecutive three year period had to be achieved. This performance condition was chosen as the Remuneration Committee believed it to be in line with market practice. This condition has been met in respect of the options granted between October 1997 and May 2001; the performance criteria having been satisfied in each case over the first three year period following the grant of the options.

The Black-Scholes option-pricing model fair value is given on page 99 for options granted in the last three years.

(1) The dates from which options are exercisable and the expiry dates are the dates that normally apply. Other dates apply in certain circumstances, such as an option holder ceasing to be employed.

(2) See page 46 regarding awards that will be made in 2004/05.

(3) & (4) The options above were all granted under the 1993 Scheme except those marked (3) which were granted under the terms of the Sharesave Scheme or, in the case of Terry Burman, the Employee Stock Savings Plan, and those marked (4) which were granted under the 2003 Plans.

(5) These are weighted averages of the exercise prices per share for the options held at the year end.

	$40,500	$31,607	$27,082
Valuation allowance	(40,500)	(31,607)	(27,082)
Net future tax liability	$	$	$

15. NET LOSS PER SHARE

Had the Company generated net earnings during the years presented, the earnings per share calculations for the years presented would have included the following weighted average items:

	Year ended December 31, (000's)		
	2003	2002	2001
Warrants	556		
Convertible debenture	499	1,299	545
Stock options	3,535	2,986	4,018
	4,590	4,285	4,563

Additionally, the earnings per share calculations would not have included the following weighted average items because the exercise prices exceeded the average market prices of the common shares:

	Year ended December 31, (000's)		
	2003	2002	2001
Warrants	140		2,500
Convertible debenture	306		
Stock options	3,802	5,359	240
	4,248	5,359	2,740

16. RELATED PARTY TRANSACTIONS

The Company has entered into agreements with a number of entities, some of which are related through common directors or shareholders, to share administrative personnel, aircraft, office space and facilities. The agreement for the usage of aircraft was terminated in 2003. The Company is billed on a cost recovery basis. The costs incurred in the normal course of business with respect to the above arrangements amounted to $0.9 million for 2003, $1.2 million for 2002 and $2.7 million for 2001. In addition, a company controlled by a director provides consulting services to the Company. Consulting services and out of pocket expenses paid to this company were $0.4 million for 2003 and 2002 and $0.7 million for 2001. At year-end, amounts included in accounts payable under these arrangements totaled $0.1 million in 2003, $0.8 million in 2002 and $1.1 million in 2001.

The Company borrowed $1.25 million from a related company controlled by a director of the Company. The loan, plus accrued interest, was repaid in September 2003. (See Note 5)

17. COMMITMENTS AND CONTINGENCIES

With the signing of the production-sharing contract in September 2002 for the Zitong block, the Company is obligated to conduct a minimum exploration program during the first three years, which will include acquiring seismic data, reprocessing existing seismic and drilling two exploration wells. At the end of the three-year period, if the Company does not complete the minimum exploration program, and elects not to continue, it will be obligated to pay, to PetroChina within 30 days, a cash equivalent of the deficiency in the work program. The remaining cost of the minimum exploration program is estimated to be at least $16.6 million as at December 31, 2003.

The Company has temporarily abandoned Northwest Lost Hills #1-22 pending the identification of one or more partners to share the costs of the testing program. If the well were permanently abandoned, the Company would be obligated for its share of the costs to plug and abandon the well, which is estimated to be $1.1 million. There is no provision in the balance sheet for this contingent obligation.

18. LEASE COMMITMENTS

For the years ended December 31, 2003, 2002 and 2001, the Company expended $0.5 million, $0.6 million and $0.6. million, respectively, on operating leases relating to the rental of office space, which expire between April 2005 and March 2007. Such leases frequently provide for renewal options and require the Company to pay for utilities, taxes, insurance and maintenance expenses. As at December 31, 2003, future net minimum lease payments for operating leases (excluding oil and gas and other mineral leases) were the following:

2004	$ 533
2005	442
2006	306
2007	51
Total minimum lease payments	$ 1,332

19. SUBSEQUENT EVENTS

In January 2004, the Company signed a Stock Purchase and Shareholders Agreement with Ensyn Group Inc. and its subsidiary, Ensyn Petroleum International Ltd (Ensyn), pursuant to which we acquired a 10% equity interest in Ensyn and exclusive rights to use the proprietary Ensyn RTPTM Process in several key international markets. The Company will pay $2.0 million and grant Ensyn rights to acquire equity interests in the Company s international oil development projects that use the Ensyn RTPTM Process. The purchase price for the 10% equity interest in Ensyn will be paid in four equal installments and completion of the acquisition is subject to the attainment of specific milestones: (1) upon signing the heads of agreement, (2) upon signing the Stock Purchase and Shareholders Agreement, (3) upon Ensyn delivering a commercial demonstration facility to California and (4) upon confirmation of the economic viability of the Ensyn RTPTM Process from the commercial demonstration facility. The first payment of $0.5 million was made in December 2003 and is included in long-term assets.

In January 2004, the Company signed farm-out and joint operating agreements with Richfirst Holdings Limited (Richfirst), a wholly-owned subsidiary of CITIC to jointly develop the Dagang oil project, operated by the Company s wholly owned subsidiary, Sunwing Energy Ltd (Sunwing). Richfirst will acquire a 40% working interest in the project following regulatory approvals and an up-front payment of $20.0 million. The assignment of the interest to Richfirst is subject to the approval of China National Petroleum Corporation and the Ministry of Commerce of the People s Republic of China. The farm-out agreement permits Richfirst to exchange its working interest in the Dagang Project for common shares in the Company or Sunwing, should the Company seek and secure a public listing for Sunwing.

In February 2004, the Company farmed into the Knights Landing project, which is a 14,000-acre block located in the Sutter and Yolo counties, in northern California. Under this exploration and development farm-in agreement, the Company purchased, for $1.0 million, a 50% non-operated interest in four recent discoveries in the contract area and agreed to fund, for $0.6 million, gas gathering, surface treatment facilities and meters to connect the four wells to an existing pipeline system. The agreement also provides for the Company to participate, at its election, in drilling additional exploration wells in the lease block.

In February 2004, the Company arranged a special warrant financing to advance the Company s worldwide oil and gas operations and for general corporate purposes. The financing consists of 5,448,276 million special warrants at $2.90 per special warrant. Each special warrant entitles the holder to acquire one common share and one-half of a common share purchase warrant at no additional cost. One common share purchase warrant is exercisable to purchase an additional common share at $3.00 until February 15, 2005 and at $3.20 until February 15, 2006.

20. ADDITIONAL DISCLOSURES REQUIRED UNDER U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

The Company s consolidated financial statements have been prepared in accordance with GAAP as applied in Canada. In the case of the Company, Canadian GAAP conforms in all material respects with U.S. GAAP except for certain matters, the details of which are as follows:

Consolidated Statements of Loss

As discussed under Oil and Gas Properties in this note, there is a difference in performing the ceiling test evaluation under full cost accounting between U.S. and Canadian GAAP. Application of the ceiling test evaluation under U.S. GAAP as at December 31, 2001 required an additional $10.0 million provision for impairment with respect to the Company s China properties.

The capitalization of development costs permitted under Canadian GAAP in connection with our GTL prospects is not permitted under U.S. GAAP. In addition, under U.S. GAAP interest income would be classified as other income.

The application of U.S. GAAP has the following effects on net loss and net loss per share as reported:

	Year ended December 31,		
	2003	2002	2001
Net loss under Canadian GAAP	$ 29,703	$ 6,819	$ 21,122
Additional provision for impairment of China properties under U.S. GAAP			10,000
Depletion adjustment China	(88)	(78)	
Write-down of GTL development costs under U.S. GAAP, net	(2,529)	1,461	5,142
Net loss under U.S. GAAP	$ 27,086	$ 8,202	$ 36,264

Net loss per share under U.S. GAAP Basic	$ 0.18	$ 0.06	$ 0.28
Weighted average shares outstanding under U.S. GAAP (in thousands) Basic	150,154	142,314	128,598

Under U.S. GAAP, changes in the fair value of derivative instruments that meet specific cash-flow hedge accounting criteria are reported in other comprehensive income (OCI). The gains and losses on cash-flow hedge transactions that are reported in OCI are reclassified to earnings in the period in which earnings are affected by changes in the cash flow of the underlying hedged item. The Company s hedging contracts qualify for hedge accounting treatment. The mark-to-market value of these derivatives as at December 31, 2002 is a liability of $0.1 million, which comprises the balance of OCI as at December 31, 2002.

Stock based compensation

The Company has a stock-based compensation plan as more fully described in Note 9. With regards to its stock option plan, the Company applies APB Opinion No. 25, as interpreted by FASB (FIN) 44, in accounting for this plan and accordingly no compensation cost has been recognized for stock options issued to employees and directors. Had compensation expense been determined based on fair value at the stock option grant date, consistent with the method of SFAS No. 123, Accounting for Stock-Based Compensation, the Company s net loss and net loss per share would have been increased to the pro forma amounts indicated below:

	Year ended December 31,		
	2003	**2002**	**2001**
Net loss under U.S. GAAP	$27,086	$ 8,202	$36,264
Stock-based compensation expense determined under fair-value based method for all awards	1,682	1,885	1,827
Pro forma net loss under U.S. GAAP	$28,768	$10,087	$38,091
Net loss per common share under U.S GAAP:			
Basic as reported	$ 0.18	$ 0.06	$ 0.28
Basic pro forma	$ 0.19	$ 0.07	$ 0.30
Stock options granted during period (thousands)	690	1,870	846
Weighted average exercise price	$ 4.00	$ 1.92	$ 2.99
Weighted average fair value of options granted during the period	$ 2.83	$ 1.07	$ 1.92

The foregoing is calculated in accordance with Black-Scholes option pricing model, using the following data and assumptions: 59% to 108% price volatility, using the prior one to three-year weekly average prices of the Company s common shares; expected dividend yield of 0%; option terms to expiry of 5 to 10 years, as defined by the option agreements; risk-free rate of return as of the date of the grant of 4.08% to 5.70%, based on one and four year Government of Canada Bond yields.

Consolidated Balance Sheets

The application of U.S. GAAP would have the following effects on balance sheet items as reported:

Shareholders Equity

Shareholders equity at December 31, 2003 under Canadian GAAP	$100,537
Adjustment to ascribed value of shares issued for royalty interests	1,358
Impairment provision for China properties required under U.S. GAAP	(10,000)
Depletion adjustment China	166
Write-down of GTL development costs required under U.S. GAAP	(4,074)
Shareholders equity at December 31, 2003 under U.S. GAAP	$ 87,987
Shareholders equity at December 31, 2002 under Canadian GAAP	$100,548
Adjustment to ascribed value of shares issued for royalty interests	1,358
Impairment provision for China properties required under U.S. GAAP	(10,000)
Depletion adjustment China	78

Write-down of GTL development costs required under U.S. GAAP	(6,603)
OCI Derivative mark- to-market adjustment	(102)
Shareholders equity at December 31, 2002 under U.S. GAAP	$ 85,279

The shareholders approved, on June 22, 1999, the reduction of stated capital in respect of the common shares by an amount of $74.4 million being equal to the accumulated deficit as at December 31, 1998. Under U.S. GAAP, a reduction of the deficit such as this is not recognized except in the case of a quasi reorganization. The effect of this is that under U.S. GAAP, share capital and deficit each are increased by $74.4 million at December 31, 2003 and 2002. As a result, shareholders equity under U.S. GAAP would comprise the following:

	As at December 31,	
	2003	**2002**
Share capital (including adjustments above)	$ 236,617	$ 206,925
Deficit (including adjustments above)	(148,630)	(121,544)
Accumulated other comprehensive income		(102)
	$ 87,987	$ 85,279

Oil and Gas Properties

There are certain differences between the full cost method of accounting for oil and gas assets as applied in Canada and as applied in the U.S. The principal difference results in the method of performing ceiling test evaluations under the full cost accounting rules. Under Canadian GAAP, non-discounted future net revenues from oil and gas production, less an estimate for future general and administrative expenses, financing costs and income taxes are compared to the carrying value of the evaluated oil and gas assets, whereas for U.S. GAAP future net revenues are discounted to present value at 10% per annum and compared to the carrying value of the evaluated oil and gas assets. The Company has performed the ceiling test in accordance with U.S. GAAP and determined that there would be an additional provision for impairment required in connection with the Company s China properties of $10.0 million for 2001. No additional impairment provisions are required for 2003, and no impairment provision was required for 2002.

For U.S. GAAP purposes, the aggregate value attributed to the acquisition of royalty rights is $1.4 million higher, due to the difference between Canadian and U.S. GAAP in the value ascribed to the shares issued, primarily resulting from differences in the recognition of effective dates of the transactions.

The categories of costs included in the cost of oil and gas properties, equipment and GTL investments, including the adjustments in accordance with U.S. GAAP, to the ascribed value of shares issued for royalty interests of $1.4 million, an additional provision for impairment of the Company s China properties of $10.0 million and the write-down of GTL development costs are as follows:

	As at December 31,		
	2003	**2002**	**2001**
Property acquisition costs	$ 17,518	$ 16,868	$ 15,956
Royalty rights acquired	10,582	10,582	10,582
Exploration costs	34,908	31,760	20,918
Development costs	56,269	45,088	45,325
GTL license	10,000	10,000	12,000
Support equipment	464	493	468
	129,741	114,791	105,249
Accumulated depletion and depreciation	(10,334)	(6,523)	(3,437)
Provision for impairment	(44,000)	(24,000)	(24,000)
	$ 75,407	$ 84,268	$ 77,812

Development costs as at December 31, 2003 include $0.4 million of asset retirement costs.

As at December 31, 2003, the costs of unevaluated properties included in capital assets are as follows:

		Incurred In			
	Total	2003	2002	2001	Prior to 2001
Property acquisition costs	$ 9,874	$ 2,318	$ 1,686	$ 4,642	$ 1,228
Royalty rights acquired	8,095			3,509	4,586
Exploration costs	14,562	2,925	4,008	4,222	3,407
	$ 32,531	$ 5,243	$ 5,694	$ 12,373	$ 9,221

Accounts payable and accrued liabilities

The following is the breakdown of accounts payable and accrued liabilities:

	As at December 31,	
	2003	2002
Accounts payable	$ 3,626	$ 4,387
Accrued salaries and related expenses	858	348
Fair market value of oil hedge		102
Accrued interest	2	10
Other accruals	30	52
Total	$ 4,516	$ 4,899

Consolidated Statements of Cash Flow

As a result of the write-down of GTL development costs required under U.S. GAAP, the statement of cash flow as reported would result in cash deficiencies from operating activities of $2.9 million, $4.7 million and $1.5 million for the years ended December 31, 2003, 2002 and 2001, respectively, and capital spending reported under investing activities would be $14.6 million, $16.9 million and $36.6 million for the same periods ended, respectively.

Impact of New and Pending U.S. GAAP Accounting Standards

The following standards issued by the FASB do not impact us:

Interpretation No. 46, Consolidation of Variable Interest Entities , effective for financial statements issued after January 31, 2003.

SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity , effective for financial statements issued after June 15, 2003.

SFAS No. 132 (revised 2003), Employers Disclosures about Pensions and Other Post Retirements Benefits an amendment of SFAS No. 87, 88 and 106 , effective for financial statements issued after December 15, 2003.

SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities , effective for contracts entered into or modified after June 30, 2003.

QUARTERLY FINANCIAL DATA IN ACCORDANCE WITH CANADIAN AND U.S. GAAP (UNAUDITED)

	QUARTER ENDED							
	March 31		June 30		September 30		December 31	
	2003	2002	2003	2002	2003	2002	2003	2002
Oil and gas revenues	$ 2,531	$ 1,663	$ 2,332	$ 1,981	$ 2,405	$ 2,328	$ 2,301	$ 2,357
Operating profit	$ 1,633	$ 807	$ 1,384	$ 969	$ 1,257	$ 1,258	$ 1,002	$ 1,454
Net loss under Canadian GAAP	$ 998	$ 1,521	$ 4,465	$ 1.107	$ 1,206	$ 3,064	$ 23,034	$ 1,127
Net loss under U.S GAAP	$ 1,185	$ 2,131	$ 1,325	$ 1,808	$ 1,306	$ 2,976	$ 23,270	$ 1,287
Net loss per share under Canadian GAAP	$ 0.01	$ 0.01	$ 0.03	$ 0.01	$ 0.01	$ 0.02	$ 0.15	$ 0.01
Net loss per share under U.S GAAP	$ 0.01	$ 0.02	$ 0.01	$ 0.01	$ 0.01	$ 0.02	$ 0.15	$ 0.01

Notes:

(1) A $20.0 million provision for impairment of U.S. oil and gas assets was recorded in the fourth quarter of 2003.

(2) A $3.3 million write down of costs associated with the unsuccessful negotiation of a GTL contract in Qatar was recorded in the second quarter of 2003 for Canadian GAAP only as GTL costs are written off currently for U.S. GAAP.

(3) A $2.4 million write down of the Sweetwater, Australia GTL assets was recorded in the third quarter of 2002.

SUPPLEMENTARY DISCLOSURES ABOUT OIL AND GAS PRODUCTION ACTIVITIES (UNAUDITED)

The following information about the Company s oil and gas producing activities is presented in accordance with U.S. Statement of Financial Accounting Standards No. 69, Disclosures About Oil and Gas Producing Activities .

Oil and Gas Reserves

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions.

Proved developed oil and gas reserves are reserves, which can be expected to be recovered from existing wells with existing equipment and operating methods.

Estimates of oil and gas reserves are subject to uncertainty and will change as additional information regarding the producing fields and technology becomes available and as future economic conditions change.

Reserves presented in this section represent the Company s share of reserves, excluding royalty interests of others. The reserves for 2003 in the U.S. are based on the estimates by the independent petroleum engineering firm of Netherland, Sewell & Associates, Inc. The reserves for 2002 and 2001 in the U.S. are based on estimates by the independent petroleum engineering firms of Joe C. Neal & Associates and Allan Spivak Engineering. In China, the reserves are based on estimates by the independent petroleum engineering firm of Gilbert Laustsen Jung Associates Ltd.

The Company s net proved and net proved developed oil and gas reserves are as follows:

	Oil	**Gas**
	(MBbl)	**(MMcf)**
Net proved reserves, December 31, 2000	25,794	6,296
Extensions and discoveries	923	651
Production	(377)	(127)
Revisions to previous estimates	(2,542)	(5,189)
Net proved reserves, December 31, 2001	23,798	1,631
Extensions and discoveries	710	63
Production	(350)	(103)
Revisions to previous estimates	(2,881)	(101)
Sale of reserves	(3,889)	(671)
Net proved reserves, December 31, 2002	17,388	819
Extensions and discoveries	480	22
Production	(346)	(50)
Revisions to previous estimates	(260)	(96)
Net proved reserves, December 31, 2003	17,262	695
Net proved developed reserves:		
December 31, 2001	1,808	1,215
December 31, 2002	1,179	819
December 31, 2003	1,434	695

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves

The following standardized measure of discounted future net cash flows from proved oil and gas reserves has been computed using period end prices of $30.31 per barrel of oil ($29.04 per barrel in 2002 and $15.37 per barrel in 2001) and $6.13 per Mcf of gas ($5.30 per Mcf in 2002 and $2.76 per Mcf in 2001) and costs and period end statutory tax rates. A discount rate of 10% has been applied in determining the standardized measure of discounted future net cash flows.

The Company does not believe that this information reflects the fair market value of its oil and gas properties. Actual future net cash flows will differ from the presented estimated future net cash flows in that:

future production from proved reserves will differ from estimated production;

future production will also include production from probable and potential reserves;

future rather than year end prices and costs will apply; and

existing economic, operating and regulatory conditions are subject to change.

The standardized measure of discounted future net cash flows as at December 31 in each of the three most recently completed financial years are as follows:

	2003	**2002**	**2001**
Future cash inflows	$527,499	$513,313	$370,344

Future development and restoration costs	156,383	134,452	137,581
Future production costs	113,949	150,828	156,103
Future income taxes	61,647	52,656	5,526
Future net cash flows	195,520	175,377	71,134
10% annual discount	96,646	94,110	52,845
Standardized measure	$ 98,874	$ 81,267	$ 18,289

Changes in standardized measure of discounted future net cash flows as at December 31 in each of the three most recently completed financial years are as follows:

	2003	2002	2001
Sale of oil & gas net of production costs	$ (5,276)	$ (4,488)	$ (4,386)
Net changes in pricing and productions costs	43,926	164,210	(110,584)
Sale of reserves		(47,685)	
Discoveries and extensions	5,076	9,585	4,955
Revisions of previous estimates	(16,788)	(63,467)	22,167
Net change in future development costs	(12,289)	3,230	(1,640)
Accretion of discount	2,958	1,593	6,541
Increase (decrease)	17,607	62,978	(82,947)
Standardized measure, beginning of year	81,267	18,289	101,236
Standardized measure, end of year	$ 98,874	$ 81,267	$ 18,289

Costs Incurred in Oil and Gas Property Acquisition, Exploration, and Development Activities are as follows:

	Year ended December 31,		
	2003	2002	2001
Property Acquisition			
Proved	$	$	$
Unproved	650	913	5,688
Royalty rights			4,043
Exploration	3,148	10,841	11,545
Development	11,181(1)	5,178	19,091
	$ 14,979	$ 16,932	$ 40,367

(1) Development cost additions for the year ended December 31, 2003 include $0.4 million of asset retirement costs.

Depletion, per unit of net production, before provision for impairment:

U.S.	
Year ended December 31, 2003	$ 10.58
Year ended December 31, 2002	$ 8.39
Year ended December 31, 2001	$ 8.12
China	
Year ended December 31, 2003	$ 10.23
Year ended December 31, 2002	$ 8.30
Year ended December 31, 2001	$ 6.79

Results of Producing Activities:

	Year ended December 31,		
	2003	2002	2001
Oil and gas revenue	$ 9,569	$ 8,329	$ 9,144
Operating costs	4,293	3,841	4,758
Depletion (including provision for impairment)	23,730	3,108	27,133
Results of operations from producing activities	$ (18,454)	$ 1,380	$ (22,747)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s CEO and CFO, of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to the 1934 Securities Exchange Act. Based upon that evaluation, the CEO and CFO concluded that, as of December 31, 2003, the Company s disclosure controls and procedures are effective in timely alerting them to material information required to be included in the Company s periodic SEC filings relating to the Company (including its consolidated subsidiaries). There were no significant changes in the Company s internal control over financial reporting or in other factors that could significantly affect its internal control over financial reporting during the year ended December 31, 2003, nor any significant deficiencies or material weaknesses in such internal control over financial reporting requiring corrective actions. As a result, no corrective actions were taken.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table provides the names of all of our directors and executive officers, their positions, terms of office and their principal occupations during the past five years. Each director is elected for a one-year term or until his successor has been duly elected or appointed. Officers serve at the pleasure of the Board of Directors.

Name, Age and Municipality of Residence	Position with the Registrant	Present Occupation and Principal Occupation for the Past Five Years
DAVID R. MARTIN, age 72 Santa Barbara, California	Chairman of the Board and Director (since August, 1998)	Chairman of the Board of Ivanhoe Energy Inc. (August 1998 present); President, Cathedral Mountain Corporation (1997 present); President and Chief Executive Officer, Occidental Oil and Gas Corporation (1986-1996); Executive Vice President and Director, Occidental Petroleum Corporation (1986-1996)
ROBERT M. FRIEDLAND, age 53 Hong Kong	Deputy Chairman (since June, 1999) and Director (since February, 1995)	Chairman and President, Ivanhoe Capital Corporation, a Singapore based venture capital company principally involved in establishing and financing international mining and exploration companies
E. LEON DANIEL, age 67 Park City, Utah	President, Chief Executive Officer (since June, 1999) and Director (since August, 1998)	President and Chief Executive Officer of Ivanhoe Energy Inc. (June, 1999 present); Executive Vice President, Worldwide Business Development, Occidental Oil and Gas Corporation (1996-1998); Vice President Engineering, Drilling and Production, Occidental Petroleum Corporation (1997-1998)
JOHN A. CARVER, age 71 Bakersfield, California	Director (since August, 1998)	Retired (1998); Senior Vice President, Worldwide Exploration, Occidental Petroleum Corporation (1997-1998)
R. EDWARD FLOOD, age 58 Reno, Nevada	Director (since June, 1999)	Deputy Chairman, Ivanhoe Mines Ltd. (May, 1999 present); Mining Analyst, Haywood Securities (May, 1999 September 2001) President, Ivanhoe Mines Ltd. (1995-1999)
SHUN-ICHI SHIMIZU, age 63 Tokyo, Japan	Director (since July, 1999)	Managing Director of C.U.E. Management Consulting Ltd. (1994 present)
HOWARD R. BALLOCH, age 52 Beijing, China	Director (since January, 2002)	President, The Balloch Group (July 2001 present); President, Canada China Business Council (July 2001 present); Canadian Ambassador to China, Mongolia and Democratic Republic of Korea (April 1996 July 2001)
J. STEVEN RHODES, age 52 Los Angeles, California	Director (since December, 2003)	Chairman and Chief Executive Officer. Claiborne- Rhodes, Inc. (2001 present); Senior Vice President, First Southwest Company (1999 2001) White House, Chief Domestic Advisor to Vice President George Bush (1981 1985)
W. GORDON LANCASTER, C.A. age 60 Vancouver, British Columbia	Chief Financial Officer (Effective January 1, 2004)	Vice President Finance and Chief Financial Officer of Xantrex Technology Inc., (July 2003 December 2003); Vice President Finance and Chief Financial Officer of Power Measurement, Inc., (August 2000 June 2003) 2003); Senior President Finance and Chief Financial Officer of Lions Gate Entertainment Corp., (1998 2000)
JOHN O KEEFE, age 55 Houston, Texas	Executive Vice-President, Investor Relations and Chief Financial Officer (From September, 2000 to December 2003)	Executive Vice-President, Investor Relations and Chief Financial Officer of Ivanhoe Energy Inc. (September 2000 December 2003); Vice-President, Investor Relations of Santa Fe Snyder Corporation (1999 September 2000); Director, Investor Relations of Oryx Energy Company (1991-1999)
PATRICK CHUA, age 48 Hong Kong, China	Executive Vice-President (since June, 1999)	Executive Vice-President of Ivanhoe Energy Inc. (June, 1999 present); President and Director of Sunwing Energy Ltd. (Bermuda) (March 2000 present): Co-Chairman and Director of Sunwing Energy Ltd. (June, 1996

		June, 1999)
GERALD MOENCH, age 55 Lethbridge, Alberta	Executive Vice-President (since June, 1999)	Executive Vice-President of Ivanhoe Energy Inc. (June, 1999 present); President and Director, Sunwing Energy Ltd. (July, 1997 June, 1999)

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Each of our directors was elected at our last annual general meeting of shareholders held on June 19, 2003. The term of office of each director concludes at our next annual general meeting of shareholders, unless the director s office is earlier vacated in accordance with our by-laws. There are no family relationships among any of our directors, officers or key employees.

As required under the *Business Corporations Act* (Yukon), our Board of Directors has an Audit Committee. We also have a Compensation Committee. The members of the Audit Committee are Messrs. Edward Flood, Howard Balloch and Steven Rhodes. Mr. Rhodes replaced Mr. Shun-ichi Shimizu effective March 2, 2004. Mr. Flood, an independent director of the Company, has been determined by the Board of Directors to be an Audit Committee financial expert. The members of the Compensation Committee are Messrs. Edward Flood, Howard Balloch and Steven Rhodes. Mr. Rhodes was appointed to the Compensation Committee on March 2, 2004.

Management is responsible for our financial reporting process including our system of internal control over financial reporting and for the preparation of consolidated financial statements in accordance with generally accepted accounting principles in Canada. Our independent auditors are responsible for auditing those financial statements. The members of the audit committee are not our employees, and are not professional accountants or auditors. The audit committee s primary purpose is to assist the Board of Directors to fulfill its oversight responsibilities by reviewing the financial information provided to shareholders and others, the systems of internal controls which management has established to preserve our assets and the audit process. It is not the audit committee s duty or responsibility to conduct auditing or accounting reviews or procedures or to determine that our financial statements are complete and accurate and in accordance with generally accepted accounting principles in Canada. In giving its recommendation to the Board of Directors, the audit committee has relied on management s representations that the financial statements have been prepared with integrity and objectivity and in conformity with generally accepted accounting principles in Canada and on the opinion of the independent auditors included in their report on our financial statements.

Based solely on a review of the reports furnished to us, we believe that during 2003 all of our directors, executive officers and 10% shareholders complied with the applicable requirements for reporting initial ownership and changes in ownership of our common shares.

Code of Business Conduct and Ethics

We have a Code of Business Conduct and Ethics applicable to all employees, officers and directors regardless of their position in our organization, at all times and everywhere we do business. The Code provides that our employees, officers and directors will uphold our commitment to a culture of honesty, integrity and accountability and that we require the highest standards of professional and ethical conduct from our employees, officers and directors. Our Code of Business Conduct and Ethics has been filed as Exhibit 14.1 to this Annual Report.

ITEM 11. EXECUTIVE COMPENSATION

In accordance with the requirements of applicable securities legislation in Canada, the following executive compensation disclosure is provided in respect of the Company s President and Chief Executive Officer as at December 31, 2003, and each of the Company s four most highly compensated executive officers (Named Executive Officers) whose annual compensation exceeded Cdn$100,000 in the year ended December 31, 2003. During the year ended December 31, 2003, the aggregate compensation paid to all executive officers of the Company whose annual compensation exceeded Cdn$40,000 was US$1,300,000.00.

Summary Compensation Table

The following table sets forth a summary of all compensation paid during the years ending December 31, 2001, 2002 and 2003 to each of the Named Executive Officers.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long Term Compensation			
					Awards		Payouts	
Name and Principal Position	Year	Salary $US	Bonus $US	Other Annual Compensation	Securities Under Options/ SARs Granted (#)	Restricted Shares or Restricted Share Units	LTIP Payouts	All Other Compensation
E. Leon Daniel	2003	332,610		6,133(6)				9,792(7)
President & Chief	2002	266,500		2,674(6)				5,415(7)
Executive Officer(1)	2001	150,000	81,123(9)	2,046(6)				
Patrick Chua	2003	144,000	32,449(9)	5,262(6)				
Executive Vice President(2)	2002	182,970		5,083(6)	60,000			
	2001	180,000		12,794(6)				
John O Keefe	2003	205,562		8,742(6)				24,898(8)
Executive Vice President	2002	219,845		7,716(6)	75,000			7,200(7)
Investor Relations & Chief	2001	174,955		6,455(6)	250,000			5,250(7)
Financial Officer(3)								
David R. Martin	2003	205,562	54,082(9)	3,057(6)				9,792(7)
Chairman(4)	2002	253,167		3,074(6)				7,200(7)
	2001	150,000		2,546(6)				3,000(7)
Gerald Moench	2003	150,000	33,801(9)	4,379(6)				
Executive Vice President(5)	2002	152,475		3,535(6)	50,000			
	2001	150,000		3,085(6)				

(1) Mr. Leon Daniel was appointed President and Chief Executive Officer on June 22, 1999, and has been a director of the Company since August 25, 1998.

(2) Mr. Chua was appointed as an Executive Vice President in June 1999.

(3) Mr. O Keefe was Executive Vice President Investor Relations and Chief Financial Officer from September, 2000 to December 2003.

(4) Mr. Martin has been Chairman and one of the Company s directors since August 1998.

(5) Mr. Moench was appointed an Executive Vice President in June 1999.

(6) Includes premiums paid by us on behalf of the Named Executive Officer for medical, dental and other health insurance coverage.

(7) Company s matching contribution to the 401(k) plan, a US defined contribution retirement plan available to US employees.

(8) Includes Company s matching contribution to the 401(k) plan of $9,792 plus accrued vacation pay of $15,106.

(9) Bonuses earned in 2003 are payable in cash and Company shares from the Share Bonus Plan at fair market value on date of approval by the Compensation Committee.

Options and Stock Appreciation Rights (SARs)

No options were granted to our Named Executive Officers in the financial year ended December 31, 2003.

Aggregated Option Exercises in Last Fiscal Year and Year End Option Values

During the financial year ended December 31, 2003, John O Keefe exercised options for 200,000 shares at Cdn. $6.22 per share, 100,000 shares at Cdn. $3.60 per share and 30,000 shares at Cdn. $3.10 per share and Gerry Moench exercised options for 50,000 shares at Cdn. $2.50 per share. No other named executive officers exercised options in 2003.

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at December 31, 2003	Value of Unexercised In-the-Money Options at December 31, 2003
	(#)	($)	(#)	($)
E. Leon Daniel			666,667	725,001
Patrick Chua			560,000	1,361,000
John O Keefe	330,000	805,229	50,000	62,500
Dave Martin			3,400,000	14,790,000
Gerald Moench	50,000	161,954	195,000	495,750

Indebtedness of Directors, Executive Officers and Senior Officers

There was no indebtedness of any officers, directors, employees and former officers, directors and employees of the Company in connection with the purchase of securities of the Company as at March 2, 2004.

Defined Benefit and Actuarial Plan

The Company does not presently provide a pension plan for our employees. However, in 2001 the Company adopted a defined contribution retirement or thrift plan (401(k) Plan) to assist U.S. employees in providing for retirement or other future financial needs. Employees contributions (up to the maximum allowed by U.S. tax laws) are matched by the Company 50% starting in 2001 and increasing 10% per year thereafter to a maximum of 100%. The Company s matching contributions to the 401(k) Plan during 2003, 2002 and 2001 were $0.2 million for 2003 and $0.1 million per year for 2002 and 2001.

Employment Contracts, Termination of Employment and Change-In-Control Arrangements

The Company has written contracts of employment with Messrs. E. Leon Daniel and W. Gordon Lancaster. Until December 31, 2003, the Company also had a written contract of employment with Mr. John O Keefe. Otherwise, the Company has no written employment contracts or termination of employment or change of control arrangements with any of our directors or Named Executive Officers. Each of the written employment contracts the Company has with the Named Executive Officers allows us to terminate the Named Executive Officer for cause in which case the Named Executive Officer would have no entitlement to any compensation with respect to the termination. None of the contracts provides for a change of control arrangement.

Mr. Daniel s contract provides for an annual salary of not less than $300,000 over the term of employment of five years, commencing on April 30, 2002, unless terminated earlier in accordance with the provisions of the contract. Either party may terminate the contract upon one year s notice provided however that the Company may terminate Mr. Daniel s employment at any time without notice by paying him an amount equal to the lesser of one year s salary or the prorated amount of his annual salary that he would have earned between the date of termination and the expiration of the contract term. Mr. Daniel is eligible to receive a cash bonus and a stock bonus each year, as determined by the Compensation Committee. Mr. Daniel is entitled to participate in the Company s employee benefit programs on the same basis as all of the Company s other employees.

Commencing in September 2000, the Company had an employment contract with Mr. John O Keefe, the Company s former Executive Vice-President of Investor Relations and Chief Financial Officer. The contract had no fixed term of employment and provided for an annual salary of $200,000. Mr. O Keefe was entitled to participate in the Company s employee benefit programs on the same basis as all of the Company s other employees. Effective December 31, 2003, Mr. O Keefe elected to terminate his employment with the Company. Mr. O Keefe received no additional compensation upon termination of his contract but was entitled to exercise his vested incentive stock options.

As of January 1, 2004, the Company entered into an employment contract with Mr. W. Gordon Lancaster having no fixed term of employment and providing for an initial annual salary of $200,000, subject to review annually by the Compensation Committee, and the same benefit entitlements available to the Company s other executive officers. Under the terms of the contract, Mr. Lancaster was granted an initial incentive stock option to acquire 250,000 common shares, which vest over 4 years and expire on the 5th anniversary of the date of grant. The Company may terminate Mr. Lancaster s employment for any reason by delivering to him six months written notice.

Director Compensation

All independent directors receive director fees of $2,000 per month. We did not pay any other cash or fixed compensation to our directors for acting as such. We reimburse our directors for expenses they reasonably incur in the performance of their duties as directors and they are also eligible to participate in our Employees and Directors Equity Incentive Plan. One of our non-executive directors, John A. Carver, was engaged as a full time employee effective January 1, 2002 and receives a salary in his capacity as an employee.

Employees and Directors Equity Incentive Plan

Our Employees and Directors Equity Incentive Plan, as amended (the Plan) consists of three component plans: a common share option plan (the Share Option Plan), a common share bonus plan (the Share Bonus Plan), and a common share purchase plan (the Share Purchase Plan). The purpose of the Plan is to advance our corporate interests by encouraging equity participation by our directors, officers, employees and service providers through the acquisition of our shares.

The following is a brief description of the terms of the Plan.

Share Option Plan

The Share Option Plan allows the Board of Directors to grant options to acquire our common shares in favor of our directors, officers, employees and service providers. Options are subject to adjustment in the event of a subdivision or consolidation of our common

shares, an amalgamation, or other corporate event affecting our common shares. Participation in the Share Option Plan is limited to directors, officers, employees and service providers, who are, in the opinion of our Board of Directors, in a position to contribute to our future growth and success.

In determining the number of common shares made subject to an option, we consider, among other things, the optionee s relative present and potential contribution to our success and to the prevailing policies of each stock exchange on which our shares are listed. The Board of Directors determines the date of grant, the number of optioned common shares, the exercise price per share, the vesting period and the exercise period. The minimum exercise price of any option granted under the Share Option Plan is the weighted average price of our common shares on the principal stock exchange on which our common shares trade for the five trading days prior to the date of grant.

Unless earlier terminated upon an optionee s death or termination of employment or appointment, options are exercisable for a period of up to ten years. We may, in our discretion, accelerate unvested options if a take-over bid is made for our common shares.

Share Bonus Plan

The Share Bonus Plan permits our Board of Directors to issue up to an aggregate maximum of 2,000,000 of our common shares as bonus awards to our directors, officers, employees and service providers on a discretionary basis having regard to such merit criteria as the Board of Directors may determine. As at December 31, 2003 there were 1,155,870 shares available to be issued from the Share Bonus Plan.

Share Purchase Plan

Participation in the Share Purchase Plan is limited to employees who have completed at least one year (or less, at the discretion of the Board of Directors) of continuous service on a full-time basis and who are designated by the Board of Directors as eligible to participate in the Share Purchase Plan.

Eligible employees may contribute up to 10% of their annual basic salary to the Share Purchase Plan in semi-monthly installments. We then make contributions on a quarterly basis equal to the employee s contribution.

At the end of each calendar quarter, the eligible employee receives a number of our common shares equal to the aggregate amount contributed by the employee participant and by us, on the participant s behalf, divided by the weighted average trading price of our common shares on our principal stock exchange during the previous three months.

The Share Purchase Plan component of the Plan has not yet been activated.

General

The aggregate maximum number of our common shares, which we may issue, or reserve for issuance under the Plan, is currently 20,000,000 common shares. Any increase is subject to Toronto Stock Exchange approval and approval by our shareholders. The maximum number of our common shares which we may, at any time, reserve for issuance to any one person under the Plan may not exceed 5% of our issued and outstanding common shares. As at December 31, 2003, there were 5,521,640 shares available to be issued from our Employees and Directors Equity Incentive Plan.

Our Board of Directors has the right to amend, modify or terminate our Equity Incentive Plan. However, any amendment to the Equity Incentive Plan which would materially increase the benefits under the Plan, materially modify the requirements as to eligibility for participation in the Plan or materially change the number of our common shares that may be issued or reserved for issuance under the Plan, is subject to Toronto Stock Exchange approval and the approval of our shareholders.

Compensation Committee Interlocks and Insider Participation

During the year ended December 31, 2003, our Compensation Committee consisted of Messrs. Edward Flood and Howard Balloch.

Board Compensation Committee Report on Executive Compensation

Our executive compensation program is administered by the Compensation Committee. The members of the Compensation Committee are both non-employee directors. Following review and approval by the Committee, decisions relating to executive compensation are reported to and approved by the full Board of Directors. The Committee has directed the preparation of this report and has approved its contents and its submission to shareholders.

The basic philosophy underlying our executive compensation program is that the interests of our executive officers should be aligned as closely as possible with the interests of Ivanhoe and its shareholders as a whole. Compensation for our executive officers is, accordingly, designed to achieve the following objectives: to provide a strong incentive to management to contribute to the achievement of our short-term and long-term corporate goals; to ensure that the interests of our executive officers and the interests of our shareholders are aligned; and to enable us to attract, retain and motivate executive officers of the highest caliber in light of the strong competition in our industry for qualified personnel. Our approach to compensation for senior executives and other employees is designed to recognize both corporate and individual performance, and the fact that, insofar as competition for highly skilled employees is intense, the levels of compensation we offer should be comparable to those offered elsewhere in our industry.

The compensation that we pay to our executive officers generally consists of cash, equity and equity incentives. Our compensation policy reflects a belief that an element of total compensation for our executive officers should be at risk in the form of stock options, so as to create a strong incentive to build shareholder value. The Compensation Committee oversees and sets the general guidelines and principles for the compensation packages for senior management. As well, the Compensation Committee assesses the individual performance of our executive officers and makes recommendations to the Board of Directors. Based on these recommendations, the Board of Directors makes decisions concerning the nature and scope of the compensation to be paid to our executive officers.

The base salaries of our executive officers are determined using a subjective assessment of each individual s performance, experience and other factors we believe to be relevant. We also consider recommendations from outside compensation consultants and use compensation data obtained from publicly available sources. We believe that current executive officer salaries are appropriate to ensure that our executive officers compensation remains close to the median level of most of the comparative compensation data. All of our executive officers are eligible to receive discretionary bonuses, based upon Ivanhoe s overall performance and achievement of corporate objectives and our subjective assessment of each executive officer s contribution to such performance and achievement. Incentive bonuses awarded for the 2003 fiscal year consisted of 55% cash and 45% common shares issued at fair market value under the share bonus plan component of our Employees and Directors Equity Incentive Plan.

The specific relationship of corporate performance to executive compensation under our executive compensation program is created through equity compensation mechanisms. Incentive stock options, which vest and become exercisable through the passage of time, link the bulk of our equity-based executive compensation to shareholder return, measured by increases in the market price of our common shares. We also make discretionary bonus awards of common shares to our employees, including our executive officers. Such awards are intended to recognize extraordinary contributions to the achievement of corporate objectives.

Eligibility for participation from time to time in the various equity incentive mechanisms available under our Employees and Directors Equity Incentive Plan is determined after we have thoroughly reviewed and taken into consideration the individual performance and contribution to overall corporate performance by each prospective participant. All outstanding stock options that have been granted under our Employees and Directors Equity Incentive Plan were granted at prices not less than 100% of the fair market value of Ivanhoe common shares on the dates such options were granted.

Ivanhoe relies heavily upon stock options to compensate its executive officers. We believe that stock-based incentives encourage and reward effective management that results in long-term corporate financial success, as measured by stock appreciation. Stock-based incentives awarded to our executive officers are based on the Committee s subjective evaluation of each executive officer s ability to influence our long-term growth and to reward outstanding individual performance and contributions to our business. Our reliance upon stock options also reflects our stage of development, our limited history of earnings and the priority allocation of our limited financial resources to the development of our business.

The compensation paid to our Chief Executive Officer for the fiscal year ended December 31, 2003 was based on the same basic factors and criteria used to determine executive compensation generally. As with executive compensation generally, we believe that there is necessarily some subjectivity involved in determining the compensation of our Chief Executive Officer and we do not use predetermined performance criteria when setting his compensation. In determining an appropriate level of compensation for our Chief Executive Officer, we subjectively and quantitatively analyze his performance, Ivanhoe s overall corporate performance and our Chief Executive Officer s contribution to that performance. Specific factors considered in setting bonus levels include shareholder returns, our operational and financial results and the success of our acquisition, exploration and development programs and strategies. We also consider our Chief Executive Officer s level and scope of responsibility, experience and the compensation practices of other industry participants for executives of similar responsibility.

Our Chief Executive Officer s minimum salary is set by his employment contract, the material terms of which are described under Employment Contracts, Termination of Employment and Change-in-Control Arrangements . This contract also provides that our Chief Executive Officer is eligible to receive, on an annual basis, a cash bonus and a non-cash bonus in an amount determined by the Committee based on such criteria as the Committee may determine from time to time. We awarded a bonus of $81,123 to our Chief Executive Officer in respect of the 2003 fiscal year. This bonus consisted of 55% cash and 45% common shares issued at fair market value under the share bonus plan component of our Employees and Directors Equity Incentive Plan. In determining the quantum of

our Chief Executive Officer s bonus, the principal factor we took into account was the creation of shareholder value, measured by the increase in the market price of our common shares during 2003. In this regard, reference is made to the performance graph that follows this report.

Submitted on behalf of the Compensation Committee:
Mr. R. Edward Flood
Mr. Howard R. Balloch

Performance Graph

The following graph and table compares the cumulative shareholder return on a $100 investment in common shares of the Company to a similar investment in companies comprising the S&P/TSX Composite Index, including dividend reinvestment, for the period from December 31, 1998 to December 31, 2003.

	As at December 31,					
	1998	1999	2000	2001	2002	2003
Ivanhoe Energy Inc.	Cdn. $100	Cdn. $711	Cdn. $1,961	Cdn. $592	Cdn. $189	Cdn. $1,276
S&P/TSX Composite Index	Cdn. $100	Cdn. $132	Cdn. $141	Cdn. $124	Cdn. $108	Cdn. $137

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Except as set forth below, no person or group is known to beneficially own 5% or more of our issued and outstanding common shares. Based on information known to us, the following table sets forth the beneficial ownership of each such person or group in our common shares as at February 2, 2004.

Title of Class	Name and Address of Beneficial Owner	Number of Shares Beneficially Owned(1)	Percentage of Class
Common Shares	Robert M. Friedland Flat B, 31st Floor Primrose Court 56A Conduit Road Hong Kong	46,611,725(2)	28.87%
Common Shares	Directors and Executive Officers as a Group (11 persons)	54,410,837(3)	33.49%

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Unissued common shares subject to options, warrants or other convertible securities currently exercisable or convertible, or exercisable or convertible within 60 days, are deemed outstanding for the purpose of computing the beneficial ownership of common shares of the person holding such

convertible security but are not deemed outstanding for computing the beneficial ownership of common shares of any other person.

(2) 46,611,725 common shares are held indirectly through Newstar Securities SRL, Premier Mines Ltd. and Evershine LLC, companies controlled by Mr. Friedland.

(3) Includes 5,796,667 unissued common shares issuable to directors and senior officers upon exercise of incentive stock options.

Security Ownership of Management

The following table sets forth the beneficial ownership at February 2, 2004 of our common shares by each of our directors, our named executive officers and by all of our directors and executive officers as a group:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Class	Incentive Stock Options Included in (a)
		(a)	(b)	(c)
Common Shares	David R. Martin	4,349,460	2.60	3,400,000
Common Shares	Robert M. Friedland	46,611,725	28.87	
Common Shares	E. Leon Daniel	1,243,290	0.74	666,667
Common Shares	John A. Carver	543,547	0.33	250,000
Common Shares	R. Edward Flood	175,029	0.10	150,000
Common Shares	Shun-ichi Shimizu	98,500	0.06	
Common Shares	J. Steven Rhodes	150,000	0.09	150,000
Common Shares	W. Gordon Lancaster	250,000	0.15	250,000
Common Shares	Patrick Chua	575,300	0.34	560,000
Common Shares	Gerald Moench	202,200	0.12	195,000
Common Shares	Howard R. Balloch	150,000	0.09	150,000
Common Shares	All directors and executive officers as a group (11 persons)	54,349,051	33.49	

Securities Authorized for Issuance under Equity Compensation Plans

Our shareholders have approved our Employees and Directors Equity Incentive Plan (the Plan) and all amendments increasing the number of common shares available for issuance under the Plan. The Plan is intended to further align our directors and management s interests with the company s long-term performance and the long-term interests of our shareholders. The material terms of the Plan are summarized in Item 11 Executive Compensation. The following information is as at December 31, 2003:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by shareholders	8,996,664	$ 2.64	5,521,640
Equity compensation plans not approved by shareholders	0		0

Total	8,996,664	5,521,640

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Transactions with Management and Others

The Company borrowed $1.25 million from Ivanhoe Capital Finance Ltd., a company wholly owned by Mr. Robert Friedland. The unsecured loan, due 90 days after written demand, or on the closing date of an equity financing or December 31, 2005 whichever occurs earliest, was repaid with accrued interest, at U.S. prime plus 3%, in September 2003. The Company negotiated a revolving credit facility of $1.25 million to re-establish or extend that loan in the future as needs arise.

Certain Business Relationships

We are parties to cost sharing agreements with other companies wholly or partially owned by Mr. Robert M. Friedland. Through these agreements, we share office space, furnishings, equipment and communications facilities in Vancouver and Singapore and an aircraft on a cost recovery basis. We also share the costs of employing administrative and non-executive management personnel at these offices. During the year ended December 31, 2003, our share of these costs was $0.9 million. The agreement for the usage of the aircraft was terminated in 2003.

During the year ended December 31, 2003 a company controlled by Mr. Shun-ichi Shimizu received $0.4 million for consulting services and out of pocket expenses.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table summarizes the aggregate fees billed by Deloitte & Touche LLP:

	Year ended December 31, ($000's) 2003	2002
Audit Fees (a)	$ 183	$ 148
Tax Fees (b)	43	95
Total	$ 226	$ 243

(a) Fees for audit services billed in 2003 and 2002 consisted of:

Audit of the Company s annual financial statements

Reviews of the Company s quarterly financial statements

Comfort letters, statutory and regulatory audits, consents and other services related to Canadian and U.S. securities regulatory matters

(b) Fees for tax services billed in 2003 and 2002 consisted of tax compliance and tax planning and advice:

Fees for tax compliance services totaled $36 thousand and $46 thousand in 2003 and 2002, respectively. Tax compliance services are services rendered based upon facts already in existence or transactions that have already occurred to document, compute, and obtain government approval for amounts to be included in tax filings and consisted of:

i. Federal, state and local income tax return assistance

ii. Preparation of expatriate tax returns

iii. Assistance with tax return filings in certain foreign jurisdictions

Fees for tax planning and advice services totaled $7 thousand and $49 thousand in 2003 and 2002, respectively. Tax planning and advice are services rendered with respect to proposed transactions or that alter a transaction to obtain a particular tax result. Such services consisted of:

i. Tax advice related to structuring certain proposed mergers, acquisitions and disposals.

In considering the nature of the services provided by Deloitte & Touche LLP, the Audit Committee determined that such services are compatible with the provision of independent audit services. The Audit Committee discussed these services with Deloitte & Touche LLP and Ivanhoe management to determine that they are permitted under the rules and regulations concerning auditor independence promulgated by the U.S. Securities and Exchange Commission (the SEC) to implement the Sarbanes-Oxley Act of 2002, as well as the American Institute of Certified Public Accountants.

Audit Committee Approval

Before Deloitte & Touche LLP is engaged by Ivanhoe or our subsidiaries to render audit or non-audit services, the engagement is approved by our Audit Committee. All services provided by Deloitte & Touche LLP after May 6, 2003 were approved by our Audit Committee.

The Audit Committee has adopted a pre-approval policy for audit or non-audit service engagements. This policy describes the permitted audit, audit-related, tax, and other services (collectively, the Disclosure Categories) that Deloitte & Touche LLP may perform. The policy requires that, prior to the beginning of each fiscal year, a description of the services (the Service List) expected to be performed by Deloitte & Touche LLP in each of the Disclosure Categories in the following fiscal year be presented to the Audit Committee for approval. Services provided by Deloitte & Touche LLP during the following year that are included in the Service List are pre-approved following the policies and procedures of the Audit Committee.

Any requests for audit, audit-related, tax, and other services not contemplated on the Service List must be submitted to the Audit Committee for specific pre-approval and cannot commence until such approval has been granted. Normally, pre-approval is provided at regularly scheduled meetings. However, the authority to grant a specific pre-approval between meetings, as necessary, has been delegated to the Chairman of the Audit Committee. The Chairman must update the Audit Committee at the next regularly scheduled meeting of any services that were granted specific pre-approval.

In addition, although not required by the rules and regulations of the SEC, the Audit Committee generally requests a range of fees associated with each proposed service on the Service List and any services that were not originally included on the Service List. Providing a range of fees for a service incorporates appropriate oversight and control of the independent auditor relationship, while permitting us to receive immediate assistance from the independent auditor when time is of the essence. On a quarterly basis, the Audit Committee reviews the status of services and fees incurred year-to-date against the original Service List and the forecast of remaining services and fees for the fiscal year.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

The following financial statements and exhibits are filed as part of this Annual Report:

(a) 1. **Financial Statements:**

Deloitte & Touche LLP Auditors Report on Consolidated Balance Sheets of Ivanhoe Energy Inc. as at December 31, 2003 and 2002 and Consolidated Statements of Loss and Deficit and Consolidated Statements of Cash Flow of Ivanhoe Energy Inc. for the years ended December 31, 2003, 2002 and 2001. Consolidated Balance Sheets of Ivanhoe Energy Inc. as at December 31, 2003 and 2002 Consolidated Statements of Loss and Deficit of Ivanhoe Energy Inc. For the years ended December 31, 2003, 2002 and 2001. Consolidated Statements of Cash Flow of Ivanhoe Energy Inc. for the years ended December 31, 2003, 2002 and 2001.

2. **Financial Statement Schedules:**

Supplementary Disclosures about Oil and Gas Production Activities (Unaudited)

3. **Exhibits**

3.1 Articles of Ivanhoe Energy Inc. as amended to June 24, 1999 (incorporated by reference to Exhibits 1.1 through to 1.4 of Form 20-F filed with the Securities and Exchange Commission on February 28, 2000)

3.2 Bylaws of Ivanhoe Energy Inc. (incorporated by reference to Exhibit 1.1 of Form 20-F filed with the Securities and Exchange Commission on February 28, 2000)

10.1 Petroleum Contract for Kongnan Block, Dagang Oilfield of the People s Republic of China dated September 8, 1997 between China National Petroleum Corporation and Pan-China Resources Ltd., as amended June 11, 1999 (incorporated by reference to Exhibit 3.15 of Form 20-F filed with the Securities and Exchange Commission on February 28, 2000)

Exhibits

10.2 Volume License Agreement dated April 26, 2000 between Syntroleum Corporation and Ivanhoe Energy Inc. (incorporated by reference to Exhibit 3.37 of Amendment No. 2 to Form 20-F filed with the Securities and Exchange Commission on July 24, 2000)

10.3 Master License Agreement Amendment No. 1 dated October 11, 2000 between Syntroleum Corporation and Ivanhoe Energy Inc. (incorporated by reference to Exhibit 10.18 of Form 10-K filed with the Securities and Exchange Commission on March 16, 2001)

10.4 Joint Study Agreement between Petro China Company Limited and Sunwing Energy Ltd. dated 29 March 2001, for the purposes of entering into Production Sharing Contracts on the Yudong block. (Incorporated by reference to Exhibit 10.21 of Form 10-K filed with the Securities and Exchange Commission on March 14, 2002)

10.5 Joint Study Agreement between Petro China Company Limited and Sunwing Energy Ltd. dated 29 March 2001, for the purposes of entering into Production Sharing Contracts on the Zitongxi and Zitondong blocks. (Incorporated by reference to Exhibit 10.22 of Form 10-K filed with the Securities and Exchange Commission on March 14, 2002)

10.6 Joint Venture Agreement and Operating Agreement dated 1 July 2001 between Union Oil Company of California and Ivanhoe Energy (USA) Inc. on the Creslenn Ranch Area, Henderson County, Texas. (Incorporated by reference to Exhibit 10.23 of Form 10-K filed with the Securities and Exchange Commission on March 14, 2002)

10.7 Joint Venture Agreement and Operating Agreement dated 1 October 2001 between Union Oil Company of California and Ivanhoe Energy (USA) Inc., in the Bossier Trend, Anderson, Freestone & Henderson Counties, Texas (Incorporated by reference to Exhibit 10.24 of Form 10-K filed with the Securities and Exchange

Commission on March 14, 2002)

10.8	Modification Agreement for Petroleum Development Contract for Kongnan Block, Dagang Oilfield, the People s Republic of China, dated 24 October 2001. (Incorporated by reference to Exhibit 10.25 of Form 10-K filed with the Securities and Exchange Commission on March 14, 2002)
10.9	Consulting Agreement dated 13 January 2002 between Ivanhoe Energy Inc. and Nahwan Trading LLC. (Incorporated by reference to Exhibit 10.27 of Form 10-K filed with the Securities and Exchange Commission on March 14, 2002)
10.10	Petroleum Contract dated September 2002 for Zitong Block, Sichuan Basin of the People s Republic of China . (Incorporated by reference to Exhibit 10.12 of Form 10-K filed with the Securities and Exchange Commission on March 19, 2003)
10.11	Strategic Development Alliance Letter Agreement dated September 26, 2002 between the Company and CITIC Energy Ltd. (Incorporated by reference to Exhibit 10.13 of Form 10-K filed with the Securities and Exchange Commission on March 19, 2003)
10.12	Loan Agreement dated 31 December 2002 between the Company and Ivanhoe Capital Finance Limited. (Incorporated by reference to Exhibit 10.15 of Form 10-K filed with the Securities and Exchange Commission on March 19, 2003)
10.13	Amended Standstill Agreement between Linyi Holdings Limited and the Company dated May 5, 2003
10.14	Cooperation Agreement between Ensyn Petroleum International Ltd. and Ivanhoe Energy (USA) Inc. dated May 30, 2003
10.15	Employees and Directors Equity Incentive Plan June 2003
10.16	Agreement in Principle for GTL Project Development between Syntroleum Corporation and the Company dated June 18, 2003

Exhibits

10.17	Amendment No. 3 to Master License Agreement between Syntroleum Corporation and the Company dated July 1, 2003
10.18	Settlement Agreement and Mutual Release between Aera Energy, LLC and Ivanhoe Energy (USA) Inc. dated November 5, 2003
10.19	Heads of Agreement between China International Trust and Investment Corporation and the Company dated November 18, 2003
10.20	Stock Purchase and Shareholders Agreement between Ensyn Group, Inc., Ensyn Petroleum International Ltd. and Ivanhoe Energy (USA) Inc. dated January 15, 2004
10.21	LAK Ranch Farm-in Agreement between Derek Resources (USA) Inc. and Ivanhoe Energy (USA) Inc. dated January 15, 2004
10.22	Farm-out Agreement among Richfirst Holdings Limited, Pan-China Resources Limited, Sunwing Energy Ltd. and the Company dated January 18, 2004
10.23	Farmout and Exploration Agreement, Knights Landing Starkey Sand Development Program between Ivanhoe Energy (USA) Inc. and Nahabedian Exploration Group, LLC dated February 17, 2004
14.1	Code of Business Conduct and Ethics
21.1	Subsidiaries of Ivanhoe Energy Inc.

23.1	Consent of Gilbert Laustsen Jung Associates Ltd., Petroleum Engineers
23.2	Consent of Netherland, Sewell & Associates, Inc.
23.3	Consent of Deloitte & Touche LLP

31.1	Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) **Reports on Form 8-K:**

The Company filed a report on Form 8-K on November 24, 2003, which included information under Item 5 of such form.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

IVANHOE ENERGY INC

By: /s/ E. LEON DANIEL

Name: E. Leon Daniel
Title: President and Chief Executive Officer
Dated: March 2, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ E. LEON DANIEL E. Leon Daniel	President, Chief Executive Officer and Director (Principal Executive Officer)	March 2, 2004
/s/ W. GORDON LANCASTER W. Gordon Lancaster	Chief Financial Officer (Principal Financial and Accounting Officer)	March 2, 2004
/s/ DAVID R. MARTIN David Martin	Chairman of the Board and Director	March 2, 2004
/s/ ROBERT M. FRIEDLAND Robert M. Friedland	Deputy Chairman and Director	March 2, 2004
/s/ JOHN A. CARVER John A. Carver	Director	March 2, 2004
/s/ R. EDWARD FLOOD R. Edward Flood	Director	March 2, 2004
/s/ SHUN-ICHI SHIMIZU Shun-ichi Shimizu	Director	March 2, 2004
/s/ HOWARD R. BALLOCH Howard Balloch	Director	March 2, 2004

/s/ J. STEVEN RHODES	Director	March 2, 2004
J. Steven Rhodes		

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EXHIBIT INDEX

Exhibit No.	Description
3.1	Articles of Ivanhoe Energy Inc. as amended to June 24, 1999 (incorporated by reference to Exhibits 1.1 through to 1.4 of Form 20-F filed with the Securities and Exchange Commission on February 28, 2000)
3.2	Bylaws of Ivanhoe Energy Inc. (incorporated by reference to Exhibit 1.1 of Form 20-F filed with the Securities and Exchange Commission on February 28, 2000)
10.1	Petroleum Contract for Kongnan Block, Dagang Oilfield of the People s Republic of China dated September 8, 1997 between China National Petroleum Corporation and Pan-China Resources Ltd., as amended June 11, 1999 (incorporated by reference to Exhibit 3.15 of Form 20-F filed with the Securities and Exchange Commission on February 28, 2000)
10.2	Volume License Agreement dated April 26, 2000 between Syntroleum Corporation and Ivanhoe Energy Inc. (incorporated by reference to Exhibit 3.37 of Amendment No. 2 to Form 20-F filed with the Securities and Exchange Commission on July 24, 2000)
10.3	Master License Agreement Amendment No. 1 dated October 11, 2000 between Syntroleum Corporation and Ivanhoe Energy Inc. (incorporated by reference to Exhibit 10.18 of Form 10-K filed with the Securities and Exchange Commission on March 16, 2001)
10.4	Joint Study Agreement between Petro China Company Limited and Sunwing Energy Ltd. dated 29 March 2001, for the purposes of entering into Production Sharing Contracts on the Yudong block. (Incorporated by reference to Exhibit 10.21 of Form 10-K filed with the Securities and Exchange Commission on March 14, 2002)
10.5	Joint Study Agreement between Petro China Company Limited and Sunwing Energy Ltd. dated 29 March 2001, for the purposes of entering into Production Sharing Contracts on the Zitongxi and Zitongdong blocks. (Incorporated by reference to Exhibit 10.22 of Form 10-K filed with the Securities and Exchange Commission on March 14, 2002)
10.6	Joint Venture Agreement and Operating Agreement dated 1 July 2001 between Union Oil Company of California and Ivanhoe Energy (USA) Inc. on the Creslenn Ranch Area, Henderson County, Texas. (Incorporated by reference to Exhibit 10.23 of Form 10-K filed with the Securities and Exchange Commission on March 14, 2002)
10.7	Joint Venture Agreement and Operating Agreement dated 1 October 2001 between Union Oil Company of California and Ivanhoe Energy (USA) Inc., in the Bossier Trend, Anderson, Freestone & Henderson Counties, Texas. (Incorporated by reference to Exhibit 10.24 of Form 10-K filed with the Securities and Exchange Commission on March 14, 2002)
10.8	Modification Agreement for Petroleum Development Contract for Kongnan Block, Dagang Oilfield, the People s Republic of China, dated 24 October 2001. (Incorporated by reference to Exhibit 10.25 of Form 10-K filed with the Securities and Exchange Commission on March 14, 2002)
10.9	Consulting Agreement dated 13 January 2002 between Ivanhoe Energy Inc. and Nahwan Trading LLC. (Incorporated by reference to Exhibit 10.27 of Form 10-K filed with the Securities and Exchange Commission on March 14, 2002)
10.10	Petroleum Contract dated September 2002 for Zitong Block, Sichuan Basin of the People s Republic of China. (Incorporated by reference to Exhibit 10.12 of Form 10-K filed with the Securities and Exchange Commission on March 19, 2003)
10.11	Strategic Development Alliance Letter Agreement dated September 26, 2002 between the Company and CITIC Energy Ltd. (Incorporated by reference to Exhibit 10.13 of Form 10-K filed with the Securities and Exchange Commission on March 19, 2003)
10.12	Loan Agreement dated 31 December 2002 between the Company and Ivanhoe Capital Finance Limited (Incorporated by reference to Exhibit 10.15 of Form 10-K filed with the Securities and Exchange Commission on March 19, 2003)
10.13	Amended Standstill Agreement between Linyi Holdings Limited and the Company dated May 5, 2003

10.14	Cooperation Agreement between Ensyn Petroleum International Ltd. and Ivanhoe Energy (USA) Inc. dated May 30, 2003
10.15	Employees and Directors Equity Incentive Plan June 2003
10.16	Agreement in Principle for GTL Project Development between Syntroleum Corporation and the Company dated June 18, 2003

Exhibit No.	Description
10.17	Amendment No. 3 to Master License Agreement between Syntroleum Corporation and the Company dated July 1, 2003
10.18	Settlement Agreement and Mutual Release between Aera Energy, LLC and Ivanhoe Energy (USA) Inc. dated November 5, 2003
10.19	Heads of Agreement between China International Trust and Investment Corporation and the Company dated November 18, 2003
10.20	Stock Purchase and Shareholders Agreement between Ensyn Group, Inc., Ensyn Petroleum International Ltd. and Ivanhoe Energy (USA) Inc. dated January 15, 2004
10.21	LAK Ranch Farm-in Agreement between Derek Resources (USA) Inc. and Ivanhoe Energy (USA) Inc. dated January 15, 2004
10.22	Farm-out Agreement among Richfirst Holdings Limited, Pan-China Resources Limited, Sunwing Energy Ltd. and the Company dated January 18, 2004
10.23	Farmout and Exploration Agreement, Knights Landing Starkey Sand Development Program between Ivanhoe Energy (USA) Inc. and Nahabedian Exploration Group, LLC dated February 17, 2004
14.1	Code of Business Conduct and Ethics
21.1	Subsidiaries of Ivanhoe Energy Inc.
23.1	Consent of Gilbert Laustsen Jung Associates Ltd., Petroleum Engineers
23.2	Consent of Netherland, Sewell & Associates, Inc.
23.3	Consent of Deloitte & Touche LLP
31.1	Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002