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SIG plc Annual Report and Accounts 2002

Delivering the goods to construction and industry



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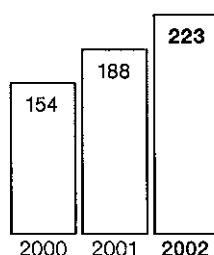
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Investing to create o term growth.

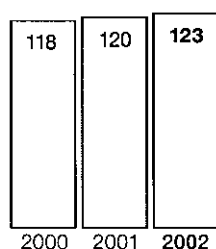
- Sales increased by 11.4% to £1.155 billion (2001: £1.037 billion) showing like for like increases and market share gains in all SIG's geographic regions.
- Operating profit before goodwill amortisation fell by 2% to £57.9m (2001: £59.1m) after charging one-off rationalisation costs of £2.3m.
- Good trading results in the Insulation and Roofing divisions were offset by the effects of very difficult market conditions in Commercial Interiors where operating profits declined.
- Further investment made in new outlets to take advantage of market opportunities and to generate future growth.
- Profit before tax and goodwill amortisation was £50.9m (2001: £54.1m). Earnings per share before goodwill amortisation were 30.1p (2001: 31.2p restated for FRS 19).
- Profit before tax was £46.3m (2001: £51.3m). Basic earnings per share were 26.3p (2001: 28.8p restated for FRS 19).
- Cash flow strengthened progressively during the year and gearing fell to 63% (2001: 66%) after investing £22m (net) on six acquisitions.
- Ninth successive year of dividend increase. Proposed final dividend per share of 7.7p giving a total dividend up 5.5% to 11.6p per share (2001: 11.0p) reflecting the Board's confidence in the Group's prospects.

Number of Branches/Sites 2002

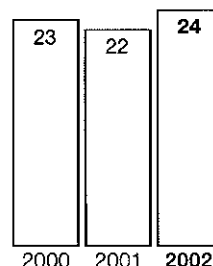
UK and
Republic of Ireland



Europe



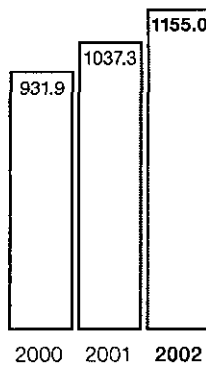
USA



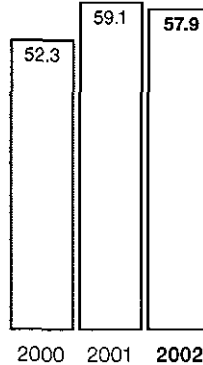
opportunities for long

The strength and resilience of the business has again been demonstrated by the increase in sales despite very difficult conditions in a number of markets in which the Group operates.

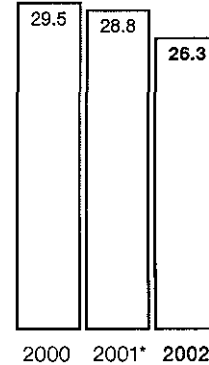
Group Turnover (£'m)



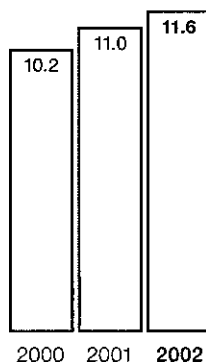
Operating Profit (£'m)
Before goodwill amortisation



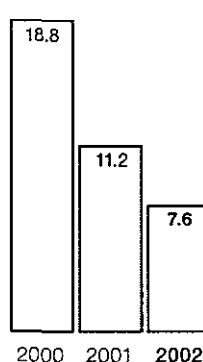
Earnings per Share (p)



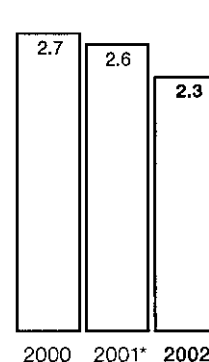
Dividend per Share (p)



Interest Cover (Times)

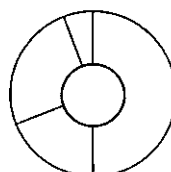


Dividend Cover (Times)



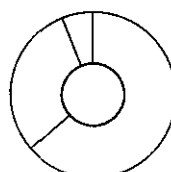
*Restated for the adoption of FRS 19 Deferred tax (see Note 18).

Sales by Market 2002



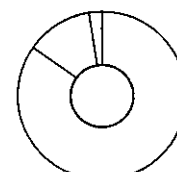
- Insulation 50.1%
- Roofing 18.9%
- Commercial Interiors 25.2%
- Other Activities 5.8%

Sales by Geography 2002



- UK and Republic of Ireland 63.6%
- Europe 30.3%
- USA 6.1%

Operating Profit by Geography 2002



- UK and Republic of Ireland £51.4m
- Europe £7.7m
- USA £1.5m

Focusing our resources to continually improve customer service.

SIG plc is the leading specialist supplier to the construction, building and diverse industrial markets.

The Group has three core business sectors: **Insulation | Roofing | Commercial Interiors**

Every day it delivers Brand Leading products to many thousands of customers from over 370 trading locations across the UK, Republic of Ireland, mainland Europe and the USA.

The Company benefits from the strengths associated with being the clear market leader in its main areas of activity. Customers appreciate the specialist technical expertise, commercial support and fast, reliable delivery services that define the core values of the Group.

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Over the year actions have been taken to improve efficiencies and reduce costs and the Group is strategically well placed with leading positions in all its main markets.

The Board is confident that progress can be achieved and shareholder value increased.

Trading Statement January 2003

David Williams, Chief Executive

Customer service OUR SUCCESS.

Fast, flexible, responsive and reliable...

Every customer is an individual with specific needs that change day by day, even hour by hour. We have resources in place to provide a fast reaction to the ever changing priorities of our customers.

This is the essence of our service -
fast, flexible, responsive and reliable.

Providing a complete 'one-stop-shop' service, ensuring that products and services are available wherever and whenever they are needed, across the UK, Republic of Ireland, Europe and the USA.

1,000 phone, fax and e-mail enquiries are received every 10 minutes.

5,000 stock status checks are performed every hour across 370 branches.

Customer focused service...

Our customers often need products delivered within 24 hours. They are dealing daily with unscheduled changes to work programmes, new priorities on site, emergency repair and maintenance, and unforeseen revisions to the material specifications.

SIG meets these exacting demands by investing in:

- experienced, trained sales people;
- the widest and deepest range of stocks available in the industry;
- an extensive fleet of specialist vehicles to ensure a

**fast, flexible, responsive and
reliable delivery service.**

is the cornerstone of

7,500 customers visit our trade counters every day for products or technical advice.

Over 15,000 orders are loaded onto our vehicles every day for immediate delivery.

Over 10,000 deliveries are made daily, from first thing in the morning to last thing at night.

One objective: meeting every customer's needs.

A vital link in the supply chain...

Whether it's a specially made acoustic insulation product for a cinema, a replacement roof tile to meet local planning requirements, or a ceiling tile to match an existing design, SIG is recognised as *the supplier* who has the expertise to understand the exact requirements and the stock to meet the delivery deadline.

SIG bridges the gap between manufacturers' volume schedules and the contractors' immediate requirements.

Providing the best insulation for every specific application with expertise

As the construction industry increases its demands for the efficient use of energy, for better control of noise and for high quality solutions to hazards, SIG continues to respond with the supply of thermal, acoustic and fire protection products.

Specialist contractors and other customers know that it is essential to have sound technical knowledge of these specific applications to ensure that legal and safety standards are met in building and industry, and that the products supplied match the exacting requirements in each case.

The Group's distribution network and the size and strength of its operations ensures that major product lines are available to meet every application. Specialist transport technology meets customers increasing needs for 'just in time' deliveries to increase productivity and reduce contractor down time. Professional, efficient scheduling of deliveries, making sure that the right product is in the right place at the right time, helps minimise material and labour costs. As well as 'breaking bulk' and supplying the whole range of insulating materials, the 'one-stop-shop' service offers a huge variety of building products and accessories. Trade counter facilities also provide an efficient collection service.

The use and choice of insulation is driven by three key factors: legislation, safety and cost control. SIG is at the forefront of providing solutions to meet those exacting requirements.

Specialist knowledge

The Group's businesses are adept at responding quickly with technical advice on the best products for a particular application. Impartial advice across a range of manufacturer's products is highly valued by architects, contractors and end-users alike.

Regulatory change

The tightening of regulations within the UK and the Republic of Ireland, together with new European CE marking regulation requirements, has created an increasingly complex and challenging marketplace where diverse product ranges are a pre-requisite.

Responding to demands for a diverse range of industrial and structural insulation products is key to the Group's success.

This ability to supply the right products across a range of areas is demonstrated by the involvement of SIG's German business in the Köln Turm in Cologne's Media Park. This new building houses a mix of broadcasters, music production companies and other tenants with a diverse range of needs.

Working closely with French architects and local contractors, SIG supplied both standard structural and industrial insulation products, as well as custom designed products for the office interiors. The ability to respond flexibly to each customer's requirements is a significant differentiator for SIG.

ation product for each xpert technical support.

Terminal 2E

Roissy-Charles De Gaulle Airport,
Paris, France

SIG's French Insulation business has worked closely with Aéroports de Paris (ADP) in the development of the new 2E terminal building at Roissy-Charles De Gaulle airport near Paris.

The work has involved SIG supplying highly specialist industrial insulation materials to ADP and its contractors, for use in insulating many kilometres of heating and cooling pipes in the building. SIG has advised on the appropriate performance specifications and worked with architects and specifiers to ensure that the installation of the insulation has met ADP's tight timescales.

SIG's French businesses provide industrial Insulation and related products as well as Ceilings and Partitioning for use in Commercial Interiors across the whole of France. The business emphasises high levels of customer service with exact specification of the product to the application, including design work to provide bespoke solutions to their specialist contracting base.

Product range and quality requirements of the specialist

The roof of any building is the most critical part: it provides protection from the forces of sun, wind, rain, snow and ice as well as adding to the overall aesthetic effect of the property.

Consequently, most roofs need maintenance and repair many times during their lifespan and, indeed, complete renewal of the roof of a building is commonplace. These factors mean that the repair and maintenance of roofs is a major industry, in addition to the new build market, and extremely short time-scales for contractors create a demand for instant availability across an extremely diverse range of materials. Meeting such demands is the classic role of a specialist supplier.

SIG is the largest supplier of roofing products in the UK and a leading specialist in Ireland, with a presence in other European markets. Covering the pitched, flat, industrial and agricultural roofing markets, SIG deals with major manufacturers of roofing products and holds significant levels of stock. The ability to competitively service the full range of the specialist contractor's requirements is unrivalled.

Local presence

SIG operates its roofing business using multiple brand names and from over 100 UK locations. This ensures nationwide coverage whilst not forgetting the traditional values important to individual customers and local markets.

Instant availability

SIG continues to develop through the application of its core business techniques to its existing businesses. This combines with the extensive range of stock, to satisfy customer demands for instant availability across an extremely diverse product range.

Satisfying customer demand is increasingly important in a competitive environment.

The construction industry is continually faced with new challenges and as a specialist distributor SIG is constantly looking to add value and reduce costs for customers. This approach is typified in the roofing branches, where extensive stock, knowledgeable staff and an increasingly specialist delivery service combine to meet these demands.

Dedication to customer service is shown through a continued expansion of the branch network, relocation of existing branches to increase the range of stock held and the introduction of new products to solve old problems. Increased use of delivery vehicles fitted with mechanical offload is another response to satisfying customer needs.

y of service are essential list distributor.

National Maritime Museum

Falmouth, Cornwall, UK

The National Maritime Museum, with its distinctive grey green natural slate roof makes a striking impression from its historical waterfront location in Falmouth.

The spectacular rhomboid shaped roof features a dramatic false perspective which made it a particularly complex design. The Spanish producer's technical team worked closely with our branch in Newquay to achieve the exacting demands set out by the unique design of this building. In order to achieve this effect, each slate was individually positioned and sized, with even the position of the nail hole in the slate being specified. This level of attention to detail and ability to work comfortably and closely with suppliers and customers alike is a key differentiator for the roofing business.

The requirements were for 50,000 high quality natural slates with: 14 different slate sizes, 9 hole positions, varying slate lengths, carefully tailored slate widths and a close control of the supply process to ensure the right product was on hand at the right time for installation.

SIG Roofing works with customers on many types of roofing projects ranging from the complex and high profile to the routine repair of storm damage.

Enhancing working enviro schools, industrial and retail

The market for Commercial Interiors has become more demanding and more sophisticated in recent years. The emphasis is very much on achieving the optimum balance between efficient utilisation of space and the quality and comfort provided for people who use that space as a working environment every day.

SIG provide a range of products and services into this market according to the requirements of the client. The building may be an office complex, a PFI project, a factory or a retail outlet. Refurbishment projects are equally as important as new construction. The Company provides an integrated package beginning with a design and space utilisation service, based on intended occupancy levels, through to the manufacture of specific 'tailor made' products and the eventual supply on a 'critical time' basis. In common with the Roofing and Insulation businesses, legislation and design performance requirements concerning acoustics and fire are vital elements in the Commercial Interiors sector. The product range is very extensive, covering the spectrum of requirements from budget systems to top quality boardroom interiors. Ceilings and wall systems, partitions, office screens, furniture, lighting and wall storage systems, together with a wide range of essential associated products, are all supplied.

The Group is the leading supplier in the UK and Republic of Ireland and has a substantial position in mainland Europe.

Flexible solutions

The flexible use of space in any environment is important. Many of the products can be relocated or reconfigured when requirements change, which helps customers find the balance between efficiency and comfort.

Supporting customers

The Commercial Interiors businesses work closely with customers, all the way through from the initial design stage with the architect to the final fit out by the contractor. At every stage the diverse range of products are backed by expert advice and support.

Providing the right working environment for health, education, industry and commerce.

SIG's Commercial Interior businesses don't only supply contractors working on office space. Chaucer Community School, Sheffield, UK, is an example of how having the right products available at the right time, and with the right level of technical support, gives interior specialists the tools to satisfy architects and end-users alike.

SIG supplies interior solutions to a whole range of buildings, and is able to tailor products to meet the customers' varying situations and priorities. Understanding client needs and working closely with contractors to meet these, is a key strength of the Group.

nments in offices, hospitals, space.

Warwickshire County Cricket Club

Edgbaston, Birmingham, UK

The design brief was to generate a welcoming, spacious and bright environment for visitors yet provide flexible workspace for both individual and group working. An informal area for presentations was also important.

To meet the client's requirements, glazed partitions were used to allow natural daylight to flood through to the main corridor. Sliding doors gave space savings. 'Working wall' islands, used to divide the offices and meeting rooms, were designed to accept flat screen monitors and desk accessories. This efficient use of the vertical plane enhanced the working environment for staff. Non-handed desking with mobile storage units gave additional flexibility allowing easy re-configuration as the client's future requirements change. Storgewall, in the presentation zone, is used to conceal filing, house audio visual equipment and provide glass fronted display cabinets.

SIG's Commercial Interior businesses design, manufacture and supply products to meet the most challenging of aesthetic and practical specifications for a whole variety of environments.

We have performed well

The Group increased sales substantially in 2002, despite a sharp decline in the market for commercial interiors products across Europe, and a more general reduction in building activity in Germany. Sales were increased on a like for like¹ basis in all three geographic regions in local currency (UK and Republic of Ireland, mainland Europe and the USA). In addition, the acquisitions made during 2002 performed well and contributed to the Group's top line growth.

As the year progressed, it became evident that despite the overall sales growth, profits would be below prior year. Operating profit before goodwill amortisation, which was in line with market expectations, fell by 2%. This fall was due to:

- adverse changes in the mix of sales
- increased investment in new branches and customer-focused resources
- one-off charges arising from a cost rationalisation programme.

Whilst the decline in profits is disappointing, when considered against the very difficult conditions in a number of markets in which the Group operates and the costs incurred in improving the business for the longer term, the underlying strength and resilience of the Group is clearly demonstrated.

Results

Sales

Sales increased by £117.7m (11.4%) to £1,155m. Of this growth, £77.2m (66%) was organic and £40.5m (34%) came from acquisitions made during 2002. It is believed that this performance demonstrates gains in market share in most of our major markets. Geographically, sales performance was as follows:

UK and Republic of Ireland: Sales up 15%, an overall increase of £95.7m. Growth was achieved in all three main product sectors of Insulation, Roofing and Commercial Interiors.

Mainland Europe: Sales were increased by 6% in local currencies and growth was achieved in each country, i.e. Germany, France, the Netherlands and Poland.

USA: Despite the depressed market conditions, a small sales increase was achieved (in US dollars) as a result of the new branch openings mid-year.

Profits

- Operating profits before goodwill amortisation were £57.9m (2001: £59.1m). This is after charging exceptional costs of £2.3m arising from the rationalisation programme implemented towards the year end.
- Profit before tax and goodwill amortisation was £50.9m (2001: £54.1m), a decline of £3.2m (5.9%).
- Profit before tax after goodwill amortisation of £4.5m (2001: £2.8m) was £46.3m (2001: £51.3m), representing a decline of £5m (9.6%).

¹ 'like for like' in this context means excluding the sales of acquisitions made in 2001 and 2002.

Margins

Increased costs and adverse changes in the sales mix caused operating profit margins to decline in all three geographic regions. The overall Group operating margin declined from 5.4% in 2001 to 4.6% in 2002.

Earnings and Dividends

Earnings per share in 2002 were 26.3p compared with 28.8p (restated for FRS 19) in 2001. A final dividend of 7.7p is proposed, subject to shareholders' approval. This would make the total dividend for the year 11.6p, up 5.5% from the 11.0p paid in 2001. This represents the ninth successive year of increased dividend and reflects the Board's confidence in the future prospects of the Group.

If approved, the final dividend will be payable on 16 May 2003 to shareholders on the register at 11 April 2003.

Acquisitions

Six acquisitions were made during the year, five in the UK and one in the Netherlands, for a total consideration of £23.8m. The greatest focus for this investment has been within the UK roofing market.

Finances

Cash flow strengthened progressively throughout the year, and gearing fell to 63% compared with 66% at the end of 2001 and 74% at 30 June 2002. Interest and dividend cover, whilst below 2001 levels, remain healthy, and the Group has a sound financial position.

Trading Conditions

In the UK and Republic of Ireland overall demand in the building and construction sectors was positive, which benefited the roofing and building insulations businesses. Demand from the more specialist industrial insulation sector declined. The decline in tenant occupancy in the office market caused a sharp fall in demand for ceilings and partition products, negatively impacting on sales and operating margins in the Commercial Interiors operations.

In mainland Europe market demand for commercial interiors products fell across the areas in which the Group operates. This affected the businesses in France, the Netherlands, Poland and Germany.

In Germany it is estimated that demand for products from the wider building and construction sector fell by around 10%.

In the USA overall demand from the core industrial and petrochemical market remains depressed.

To summarise, more than half of the markets in which the Group operates experienced reduced demand in 2002. Against this background, the like for like sales growth achieved in all areas justifies the investments made during the year to develop and strengthen the position of the Group for the future.

in very difficult conditions.

Pensions

The Group has four defined benefits pension schemes in existence with combined active membership of 296 employees, constituting less than 8% of UK employees. Money purchase arrangements exist for all other employees in the UK. All four defined benefits schemes were closed to new members some years ago. After consultation with the active membership of the largest scheme during the year, certain changes were made to the future contribution levels and benefits in order to limit future liabilities.

Under FRS 17 Retirement benefits (which the Group intends to adopt in accordance with requirements in 2005), the total net deficit at the year end on the four defined benefit schemes amounted to £13.957m (2001: £5.413m). Had the standard been adopted in 2002, the impact on the profit and loss account would have been minimal.

Employees

The drive, creativity and professionalism of our people are the hallmark by which the Group is recognised across all the trading activities. I would like to pay tribute to all our employees for their vital contribution to SIG in 2002.

Board

We have recently announced the appointment of two new non-executive directors to the Board, with effect from 1 March 2003. Les Tench (57), until recently managing director of CRH-Europe, Building Products, takes on the role of senior independent director. He is joined by David Haxby (61), previously a senior partner with an international accountancy practice and presently a non-executive director with Cattles plc and Cyberes plc.

The new directors each bring considerable experience and will add significantly to the Board. As the Company continues to move forward, I believe they will both make an important contribution. These appointments, particularly the newly created post of a senior independent director, strengthen further the Board from a corporate governance perspective.

Nick Paul, who joined the Board as a non-executive director in 2001 has decided to step down from SIG, with effect from 1 March 2003, in order to concentrate on other business interests. The Board thanks him for his valuable contribution.

The Board is aware of recent recommendations and reports concerning corporate governance and the composition and structure of the boards of listed companies. The various recommendations are actively discussed and considered by the Board on an ongoing basis in order to ensure that the highest standards of corporate governance are maintained.

Prospects

Overall, we expect no material change in market conditions in 2003. In the UK and Republic of Ireland, the housing market for both new build and repairs and maintenance is expected to remain sound. Non-housing construction is expected to remain broadly flat, with the exception of office interiors, which is expected to decline further in 2003. The new insulation standards are beginning to have a positive impact on new building activity and this influence is expected to continue progressively throughout the year.

Overseas, we expect construction activity in Germany to decline further but to remain broadly stable in France, the Netherlands and Poland. Industrial demand in the USA is expected to continue at similar levels to 2002.

Against the background of considerable macro-economic uncertainty, the Group expects to benefit from the actions taken last year to gain market share in a number of areas of operation, and from the restructuring programme implemented towards the end of the year.

The Group enters 2003 with sound finances and a strong position in all its main markets. The Board looks forward with confidence to further progress.

Barrie Cottingham, Non-Executive Chairman

We have continued to invest for future growth and have performed well in very difficult markets.

Barrie Cottingham, Non-Executive Chairman

Sales increased in all three

SIG continued to grow and develop during 2002, despite encountering very difficult trading conditions in a number of its core markets. These challenges were countered by a combination of actions based around three key areas:

- continued investment in existing businesses to generate future growth;
- gaining market share through the ongoing acquisition programme;
- the implementation of cost rationalisation measures.

Whilst sales were increased substantially and market position enhanced, operating profit before goodwill amortisation fell by 2%. Prior to charging costs associated with the rationalisation programme, which were £2.3m, operating profits before goodwill amortisation increased slightly.

Highlights

UK and Republic of Ireland

Sales in this region grew by 15% to £735m (2001: £639m), representing 64% of the Group total. The three main business streams of Insulation, Roofing and Commercial Interiors all increased sales, including the benefit of recent acquisitions. Operating profits were increased, although the operating margin declined due to the fall in sales of higher margin products in the commercial interiors sector.

Like for like sales growth was 3% overall, with good progress in Insulation and Roofing countering a decline in Commercial Interiors and in the small safety products business.

Like for like sales growth in the **Insulation** division was supplemented by the benefit of current and prior year acquisitions and operating profits were increased. Demand from both the new and RM&I (repairs, maintenance and improvement) sectors of the building market was robust, and some additional benefit was gained from the increased minimum standards of thermal insulation resulting from the revision to the Building Regulations in April 2002. The changes will chiefly affect all new construction and some impact is also evident from certain parts of the refurbishment and renovation markets. Whilst it is early days, and it will be some time before the full impact of the new Regulations is known, the initial signs are encouraging.

The smaller industrial market for insulation materials declined, with customers in the general manufacturing, power generation and petrochemical industries reducing demand. Maintenance and renewal of insulation is essential on many plants for safety and operational reasons, but the number of new industrial projects declined. Overall, we benefited from our position as leader in all areas of the insulation market.

Like for like growth in sales and operating profits were achieved by the UK **Roofing** division. The addition of recent acquisitions boosted the rate of growth substantially. Within the core business, good progress was made in improving pricing management and internal efficiencies, so benefiting the operating margin.

New products were added to the range, further enhancing our position as the leading specialist roofing supplier. During the course of the year, the number of roofing branches increased by 30, from 78 to 108, as a result of acquisitions.

In contrast with both the Insulation and Roofing sectors, market demand for **Commercial Interiors** products declined, especially in the higher quality product areas where margins have been historically the highest in the Group. Taking into consideration the annualised effect on 2002 of the Capco interiors business, which was acquired in August 2001, sales overall increased, though were down on a like for like basis. Specialist partition systems, wall storage and office screens are products that depend upon tenants taking up either new or existing office space, and demand declined as office space remained unoccupied at a level not seen for many years.

Other sectors, such as health, education and retail, were more favourable and demand for commercial interiors products for both new build and refurbishment projects in these areas was more resilient.

2002 was a very difficult year for the commercial interiors market and, after years of consistent growth in sales and profits in this sector, our businesses saw like for like operating profits decline by more than 19%. Looking forward, investments were made in 2002 to extend our product range in order to create future opportunities for growth.

Our two development businesses in the UK, **Safety Products** and **Construction Specialities**, had mixed performances in the year. Weak demand and falling prices caused a small loss to be incurred in the Safety business, whilst sales and operating profits increased within Construction Specialities, partly as a result of an acquisition during the year.

Mainland Europe

Overall, sales in mainland Europe increased by 7% in sterling with negligible impact from acquisitions. Operating profits fell by 26%, due to the impact of investment costs in Germany and France to support expansion in specific areas and the impact of one-off costs in Germany due to branch closures, which was part of the rationalisation programme.

In **Germany**, our largest single country of operation outside the UK and still the largest market in Europe for the SIG product ranges, the further decline in construction activity caused demand to fall. Two competitors collapsed in 2002, and we decided to invest in two new branches and increased our sales staff and delivery facilities in key geographic areas to take market share. The full benefit of these expansion initiatives were not gained in 2002, but we are confident that this further strengthening of our market position will create future growth.

Sales in Germany increased by 7% in sterling, which is a clear indication of the progress our businesses have made as a result of the investments, in a market which is estimated to have declined by around 10% by value. Gross margins were held, but increased costs reduced the operating profit in the year as a whole.

e main product sectors.

As we progressed into the second half of 2002, the benefits of the investments made in the first half were evident and second half operating profits, prior to rationalisation costs, were ahead of prior year.

Sales in **France** increased by 7% in sterling, with growth achieved in both Insulation and Commercial Interiors. The commercial interiors market in the main business centres in France, especially Paris, showed a similar decline to that which occurred in the UK, so our own growth is an excellent achievement.

During the year, we opened three new roofing products branches. These achieved a satisfactory level of sales in their first year of operation, but did not contribute positively to profits. Operating profits fell in France, due to pricing pressures, an adverse change in the sales mix and the start-up costs associated with the new branches.

In the **Netherlands** sales in sterling increased overall by 24%, due to the benefit of the acquisition in March of Coolag, a leading specialist insulation distributor in the Netherlands. Prior to this acquisition, our business was almost entirely focused on the commercial interiors market in Amsterdam and other business centres throughout the country. Market demand in this sector fell, leading to a reduction in our operating profits. The insulation business performed in line with expectations and made a positive contribution to the result.

Our **Polish** business, which represents less than 2% of total Group turnover, achieved a small increase in sales in local currency and reduced its operating losses, compared to 2001.

USA

Demand from the petro-chem industries in the southern US states fell in 2002, with the level of investment in new plant and chemical processing installations running well below that of previous years.

The branches on the Eastern Seaboard, from Washington and Baltimore in the north down to the Carolinas, are more focused on commercial demand and serve a wider range of industries. Market conditions were more stable and we opened three new branches to take advantage of the withdrawal of a competitor mid year, which boosted sales.

Overall in the USA, sales increased marginally in US dollars, gross margins were increased, but increased costs reduced the operating profit for the year.

Acquisitions

During 2002, we made three acquisitions in the UK Roofing division, which together added 30 branches to our network. This reinforced our position as the leading supplier to the roofing market.

A small, highly specialist insulation company was acquired to improve our coverage in the North West of England, and we strengthened our position in the specialist construction and civil engineering markets by acquiring a highly focused distribution business operating in this sector. We now have 14 branches serving customers in this niche area.

Finally, we added a specialist insulation distribution business to our operations in the Netherlands in order to widen our market coverage.

Total consideration for the six acquisitions in 2002 was £23.8m with combined annualised sales amounting to £63m. All the acquired businesses have integrated well and are performing in line with expectations. We have gained the services and experience of some highly skilled staff as a result of these acquisitions, and I thank them all for their hard work and dedication throughout the integration process.

Summary

2002 was an extremely difficult year for many of the markets in which we operate. Our belief in the long term growth prospects for our business remains firmly in place. During the year we continued to invest in the long term development of the Group, whilst at the same time seeking efficiency improvements and cost reductions. It is my belief that these actions have strengthened the Group considerably for the future.

David Williams, Chief Executive

The sales growth is an excellent achievement in such difficult markets and clearly demonstrates our resilience.

David Williams, Chief Executive

Cash flow has improved during the ye

Results

Turnover for the year amounted to £1,155m (2001: £1,037m), up 11%. A reduction in demand for commercial interiors products, difficult trading conditions overseas and rationalisation costs of £2.3m, resulted in operating profits before goodwill amortisation being 2% lower at £57.9m (2001: £59.1m).

Interest

The interest charge for the year was £7.1m (2001: £5.0m), reflecting increased debt and the full year effect of our fixed interest US Senior loan notes, and was covered 7.6 times.

Taxation

The taxation charge for the year of £14.6m amounted to 31.6% of pre-tax profits and includes the effect of the adoption of FRS 19 Deferred tax during the year. The prior year accounts have been restated accordingly (see Note 16).

Earnings and Dividends

Earnings per share of 26.3p (2001: 28.8p restated) were 8.7% below prior year. The proposed final dividend of 7.7p per share delivers a full year rate of 11.6p, representing an increase of 5.5% and is covered 2.3 times. Dividends per share have grown from 5.4p in 1993 to 11.6p in 2001, with nine successive years of dividend growth, whilst maintaining prudent cover in each of the years.

Cash Flow / Working Capital

A net cash inflow from operating activities of £64.7m was generated after further investment in working capital. After payments in respect of interest of £7.1m, taxation of £14.3m, dividends of £13.4m and capital expenditure of £20.2m, there was a cash inflow of £9.7m. A further £22.1m was spent on acquisitions, net of cash acquired leaving total net borrowings at the year end of £123.4m (2001: £109.3m) and gearing of 63%, compared with 66% last year.

Stocks have continued to be well managed and, after adjusting for acquisitions and exchange differences during the year, stocks increased by £4m, reflecting the increased activity.

Stock turn was improved throughout the Group and, at 10 times, was similar to last year. The average days of debt were 56 (2001: 55) and trade creditor days were at 32, compared to 29 last year. In trading conditions that have been less than helpful, it is pleasing to report a slight improvement in our working capital to sales ratio to 15.8% (2001: 15.9%). We have the objective of improving this further in 2003.

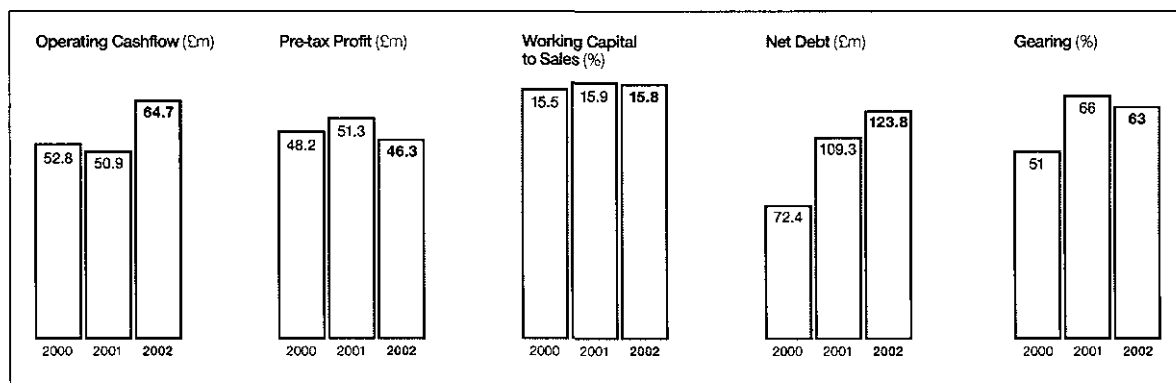
FRS 17 Retirement Benefits

The Group has four defined benefit schemes covering a total of 296 active members. All of these schemes have been closed to new members for a number of years.

FRS 17 Retirement benefits is not required to be implemented in full until 2005. However, certain transitional disclosures are required and these are included in Note 22.

Full actuarial valuations of the schemes did not occur during 2002; however, the previous valuations were updated to 31 December 2002 by qualified actuaries using assumptions consistent with the requirements of FRS 17. These updated FRS 17 valuations highlighted a total net deficit on the schemes of £14m (2001: £5.5m), an increase of £8.5m since 31 December 2001.

If FRS 17 had been adopted early, there would have been minimal effect on the result for the year, as current funding rates under SSAP 24 are not materially different to those under FRS 17.



ar and gearing was reduced to 63%.

Funding

The Group's borrowing facilities comprise a mixture of short and medium term facilities. As previously reported, the debt maturity profile was extended significantly in 2001 via the Group's first issue of US Senior loan notes.

Of the total net borrowings outstanding at the year end, 85% (2001: 91%) is medium term and 75% (2001: 81%) of the total is at a fixed rate of interest.

With the exception of finance leases, all borrowings in the UK, France and USA are on an unsecured basis. In the Netherlands and Germany, all borrowings are secured.

Foreign Currency Risk

The Group's exposure to exchange rate movements is limited to currency translation. The movement in exchange rates compared to 2001 of approximately 2% had a positive effect of £0.2m on operating profits.

In order to protect the Group's sterling balance sheet from movements in the Euro/Sterling exchange rate, the Group finances its net investment in its German, French and Dutch subsidiaries by means of US\$ fixed rate Senior loan notes swapped into Euros. The net effect on the Group's sterling balance sheet of currency translation differences on all our overseas subsidiaries in 2002 was a gain of £0.3m (2001: loss of £0.4m).

The vast majority of the Group's sales and purchases are not cross border. When cross border transactions occur it is the Group's policy to eliminate currency exposure at that time through forward currency contracts, if exposure is considered to be material.

Financing of Germany

At the beginning of 2002, the Company's original loan provided to its German subsidiary was held in the accounts at an historic exchange rate (i.e. the rate extant at the inception of the loans) and was not retranslated. This loan was treated as a long term investment equivalent to a permanent equity stake in Germany and accordingly as a non-monetary item in the SIG plc Company accounts.

During 2002, an exercise was undertaken whereby this loan was repaid, and refinanced using another subsidiary company. The SIG plc Company balance sheet now records this item as an investment instead of an intercompany receivable. As the Deutschemmark (now Euro) has devalued against sterling since we made our investment in Germany in 1996 this has resulted in a loss in the SIG plc Company profit and loss account. This loss is deductible for UK tax purposes and will reduce the tax paid in relation to 2002 by £4.6m. From a Group perspective this loss has been dealt with in the exchange reserve in accordance with the requirements of SSAP 20 Foreign currency translation, and, in accordance with FRS 16 Current tax, the tax credit has also been taken to the exchange reserve.

Summary

We manage the Group on sound and prudent accounting principles and will continue to do so. This approach ensures that the Group has a firm financial platform for long term growth in earnings, free cash flow and dividends.

Gareth Davies, Finance Director

In difficult trading conditions, we have focused on reducing costs and on management of working capital.

Gareth Davies, Finance Director

Building sustainable business social and environmental performance

Corporate Social Responsibility (CSR) is a core part of SIG's management process and the Company therefore aims to integrate CSR into every aspect of both the strategic and the routine management of its businesses.

SIG believes that the financial stability and strength of the Group is key to protecting its stakeholders' interests. The health and vitality of its businesses, its employees, its customers and its suppliers are of paramount importance in ensuring and developing the Group's long-term sustainability.

The Board is developing an integrated framework that targets and measures the performance of the Company in the following areas:

- Marketplace
- Workplace
- Community
- Environment

and is working towards compliance with relevant and appropriate guidance on CSR.

Board responsibility for Corporate Social Responsibility is held by David Williams, Chief Executive.

Marketplace

The Group works closely with key suppliers to source and distribute products that contribute positively to environmental performance.

It is a founding member of the Association for the Conservation of Energy and is active in raising mandatory standards in thermal and acoustic insulation.

Workplace

SIG's businesses comply with current employment legislation and work with employees and local management of each branch to create a positive and equitable working environment.

There is a strong culture of internal promotion and regular dialogue on job and career development.

Improving the efficiency of the delivery fleet to provide timely, efficient and cost-effective delivery of materials.

Benefits:

- Improved customer service
- Lower fuel usage
- Reduced emissions
- Enhanced driver job satisfaction

The ongoing programme aims to improve vehicle efficiencies by a range of measures including:

- Smarter route scheduling
- Better loading
- Increased efficiency engines
- Smoother driving techniques

ss practice into economic, ormance.

Community

The Group supports local charities and encourages employees to take an interest in social and community activities outside the workplace.

SIG plc is a national member of *Business in the Community* - a grouping of over 700 of the UK's top companies committed to improving their positive impact on society.

Environment

Energy consumption is a priority for all businesses and ongoing reductions in the use of energy are a priority for all operating companies. SIG is operating a pilot programme to reduce power-generated CO2 emissions. SIG works with suppliers to source timber for its Roofing and Commercial Interiors operations from sustainable forests.

SIG, as Europe's leading supplier of insulation and related products, is closely involved with its main markets of energy conservation, fire protection and noise control.

The Group contributes significantly to the overall improvement of the environment through the supply of these products. Its supply of materials for repairs, maintenance and improvement in all of its business sectors helps maintain existing assets without the need for environmentally intensive investment.

Socially Responsible Investment Indicators:

Does SIG manufacture or sell alcoholic drinks?	NO
Does SIG manufacture or sell armaments?	NO
Does SIG operate gambling facilities?	NO
Does SIG generate nuclear power?	NO
Does SIG publish or distribute pornographic material?	NO
Does SIG manufacture or sell tobacco products?	NO
Does SIG extract minerals or other natural resources?	NO
Does SIG's activity contaminate land or water?	NO
Does SIG test any raw materials or finished products on animals?	NO

The Group believes that continuing to develop a financially strong business, that is responsive to all its stakeholders, and active in developing opportunities to work with these stakeholders will produce a sustainable platform for ongoing, successful, business growth.

Minimising primary and secondary packaging on manufactured and distributed products is helping to reduce landfill across the UK.

SIG encourages all its businesses to purchase recycled and recyclable packaging where practicable and is involved in returning re-usable packaging and pallets to suppliers. In some instances this includes recovering re-usable pallets from customers.

Secondary packaging for distribution products is also being re-used in some branches and the Company meets its obligations under the packaging waste regulations in the UK by working closely with the UK's leading compliance scheme operator.

Where appropriate, waste is compacted on-site, at source, to reduce transportation and landfill requirements. SIG's businesses continue to look at ways of reducing waste - both physical waste and invisible 'waste' built into business processes.

Board of Directors

Front row: **Barrie Cottingham** FCA, ATII, **David Williams** Top row: **Gareth Davies** ACA, **Peter Blackburn** CBE, BA, D.Litt, FCA, **John Chivers**, **Nick Paul** BSc, MSc, MIMechE, MIMC

Barrie Cottingham ♦ ● ■
Non-Executive Chairman

Barrie Cottingham (age 69) became a non-executive director in August 1993 and non-executive chairman in April 1996. He is a former senior partner of Coopers & Lybrand, chartered accountants. He is non-executive chairman of Cattles plc, a non-executive director of Vp plc and non-executive deputy chairman of Dew Pitchmastic plc.

David Williams ■
Chief Executive

David Williams (age 52) joined the Group in 1983 having gained UK and overseas sales and marketing experience in several diverse industries. He was appointed Managing Director of Sheffield Insulations Limited and to the main Board in June 1993. He became Chief Executive on 1 January 2002.

Gareth Davies
Finance Director

Gareth Davies (age 39) joined the Group in November 1993 as Group Financial Controller, having previously been a senior manager with Arthur Andersen. He was appointed to the main Board on 1 August 2002 as Finance Director.

John Chivers
Managing Director,
SIG Roofing Supplies Limited

John Chivers (age 50) joined the Group in July 1975 and was appointed a director of Sheffield Insulations Limited in April 1989. He became Managing Director of SIG Roofing Supplies Limited in July 1997 and was appointed to the main Board on 1 September 2001.

Peter Blackburn, CBE ♦ ● ■
Non-Executive Director

Peter Blackburn (age 62) became a non-executive director on 1 July 2001. He is non-executive chairman of Northern Foods plc and a non-executive director of Compass Group PLC. From November 1997 to June 2001 he was chairman and chief executive of Nestlé UK. He was, until recently, president of the Food and Drink Federation.

Nick Paul ♦ ● ■
Non-Executive Director

Nick Paul (age 58) became a non-executive director on 1 July 2001. He is chairman of Advantage West Midlands and non-executive chairman of Tricorn Group plc. He resigned on 1 March 2003.

- ♦ Member of the Audit Committee
- Member of the Remuneration Committee
- Member of the Nomination Committee

Company Information

President

Sir Norman Adsetts, OBE, MA

Secretary

John Swynnerton, FCA

Registered office

Hillsborough Works,
Langsett Road,
Sheffield S6 2LW

Registration number

Registered in England
998314

Registrars and transfer office

Computershare
Investor Services PLC
PO Box 82,
The Pavilions,
Bridgwater Road,
Bristol BS99 7NH

Auditors

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1 City Square,
Leeds LS1 2AL

Principal Bankers

The Royal Bank of Scotland plc
Corporate & Institutional Banking
PO Box 126,
6th Floor,
8 Park Row,
Leeds LS1 5AH

Solicitors

Pinsent Curtis Biddle
1 Park Row,
Leeds LS1 5AB

Joint Stockbrokers

Cazenove & Co
12 Tokenhouse Yard,
London EC2R 7AN

ING Barings Limited

60 London Wall,
London EC2M 5TQ

Financial PR

Finsbury Limited
52-58 Tabernacle Street,
London EC2A 4NJ

Report of the Directors

The Directors present their annual report on the affairs of the Company and its subsidiary undertakings ('the Group'), together with the Group accounts and the Independent Auditors' Report for the year ended 31 December 2002.

Principal activities and business review

The principal activities of the Group are the distribution of thermal insulation materials and associated products; roofing materials; ceiling tiles; personal protective equipment and the design, manufacture and distribution of partitioning.

A review of the business during the year and comments on the future outlook are contained in the Chairman's Statement and the Chief Executive's Review of Operations on pages 10 to 13.

Results

The results for the year are shown on page 32. The movement on the Group reserves during the year is shown in Note 18 on page 51. Details of dividends are shown in Note 7 on page 41.

Directors and their interests

The directors who served during the year were:

B Cottingham (Non-Executive Chairman)
D Williams (Chief Executive)
G W Davies (Finance Director) (appointed 1 August 2002)
M J Chivers (Managing Director, SIG Roofing Supplies Limited)
F C Prust (resigned 15 October 2002)
P H Blackburn (Non-Executive)
N C Paul (Non-Executive) (resigned 1 March 2003)

Messrs. D A Haxby and L O Tench were appointed directors on 1 March 2003.

Mr Williams (age 52) joined the Group in 1983 having gained UK and overseas sales and marketing experience in several diverse industries. He was appointed Managing Director of Sheffield Insulations Limited and to the main Board in June 1993. He became Chief Executive on 1 January 2002. He is a member of the Nomination Committee.

Mr Davies (age 39) joined the Group on 15 November 1993 as Group Financial Controller, having previously been a senior manager with Arthur Andersen. He was appointed to the main Board on 1 August 2002 as Finance Director.

Mr Chivers (age 50) joined the Group in July 1975 and was appointed a director of Sheffield Insulations Limited in April 1989. He became Managing Director of SIG Roofing Supplies Limited in July 1997 and was appointed to the main Board on 1 September 2001.

Mr Prust (age 58) joined the Group as Company Secretary and Treasurer in October 1985 after fifteen years in Investment Banking. He was appointed Finance Director in December 1987. He resigned on 15 October 2002.

Mr Cottingham (age 69) became a non-executive director in August 1993 and non-executive chairman in April 1996. He is chairman of the Nomination Committee and a member of the Remuneration and Audit Committees. He was chairman of the Audit Committee until 1 March 2003. He is a former senior partner of Coopers & Lybrand, chartered accountants. He is non-executive chairman of Cattles plc, a non-executive director of Vp plc and non-executive deputy chairman of Dew Pitchmastic plc.

Mr Blackburn (age 62) became a non-executive director on 1 July 2001. He is chairman of the Remuneration Committee and a member of the Audit and Nomination Committees. He is non-executive chairman of Northern Foods plc and a non-executive director of Compass Group PLC. From November 1997 to June 2001 he was chairman and chief executive of Nestlé UK. He was, until recently, president of the Food and Drink Federation.

Mr Paul (age 58) became a non-executive director on 1 July 2001. Until 1 March 2003, when he resigned, he was a member of the Remuneration, Audit and Nomination Committees.

Mr Haxby (61) is currently a non-executive director of Cattles plc and Cyberes plc, positions he has held since 1999 and 2000 respectively. From 1991 until his retirement in 1995 he was the London Office managing partner of Arthur Andersen and since then has served on the board of a number of public and private companies. He became a director on 1 March 2003 and has been appointed chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

Mr Tench (57) joined CRH plc in 1992, and since 1998 until his retirement in December 2002 was managing director of CRH-Europe, Building Products. He is a non-executive director of the privately owned Shepherd Building Group Limited, a position he has held since 1994. He became a director on 1 March 2003 and has taken on the role of senior independent director and has been appointed a member of the Remuneration, Audit and Nomination Committees.

In accordance with the Articles of Association, Messrs. Davies, Haxby and Tench retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Mr Cottingham retires by rotation at the Annual General Meeting and, being eligible, offers himself for re-election.

Directors' interests in the shares of SIG plc

The beneficial shareholdings of the Directors who held office at 31 December 2002 were as follows:

	Ordinary shares of 10p	
	31 December 2002	31 December 2001 or date of appointment
B Cottingham	64,100	58,100
D Williams	52,463	36,429
M J Chivers	32,227	26,549
G W Davies	7,940	7,940
P H Blackburn	8,000	8,000

Subsequent changes

The interests shown above remained the same at 3 March 2003 for those Directors who held office at that date.

Share capital and substantial shareholdings

Details of the share capital of the Company are set out in Note 17 to the accounts on page 49.

As at 3 March 2003 the Company has been notified of the following interests, held directly or indirectly, in 3% or more of the Company's issued ordinary share capital:

	Number of shares	% of issued share capital
Legal & General Investment Management Limited	4,490,810	3.75%
Prudential plc	4,486,000	3.75%

Payments to suppliers

It is Group policy to agree terms and conditions for its business transactions with suppliers. Payment is made on those terms subject to the terms and conditions being met by the supplier. The Company does not trade and therefore its average number of days outstanding in respect of trade creditors at 31 December 2002 was nil. The Group's average number of days outstanding in respect of trade creditors was 32 (2001: 29).

Charitable contributions

The Group contributed £45,000 (2001: £45,000) to local charities during the year.

Employees

It is the Group's policy that employees should be kept as fully informed as is practicable about the performance and prospects of the Group.

The Group gives every consideration to applications for employment from disabled persons where the requirements of the job may be adequately covered by a handicapped or disabled person. Where employees become disabled, the Group endeavours to continue to employ them provided there are duties which they can perform, bearing in mind the handicap or disability. As far as possible, training, career development and promotion are available to handicapped and disabled persons where this is in their own as well as the Group's best interests.

Employee share ownership is encouraged through savings related and other employee share schemes. At 31 December 2002 there were 1,086 employees saving under the savings related schemes.

Auditors

Arthur Andersen resigned as auditors during the year and Deloitte & Touche were appointed auditors to fill the casual vacancy. The directors will place a resolution before the Annual General Meeting to re-appoint Deloitte & Touche as auditors for the ensuing year.

Annual General Meeting

The notice of the meeting can be found on pages 59 to 60. Included in the notice of the meeting and explained in Note 4 (on page 60) to that notice is the Special Business to be conducted at the meeting, which relates to the following matters:

Authority to allot equity securities: Resolution No. 10

Shareholders' approval is requested each year for the renewal of the Directors' authority to issue up to 5 per cent of the Company's issued share capital without application to the statutory pre-emption rights. Resolution No. 10 seeks to renew that authority until the next Annual General Meeting.

Authority to make market purchases: Resolution No. 11

Resolution No. 11 gives the Directors power to make market purchases of the Company's shares up to approximately 10 per cent of the issued ordinary share capital of the Company. This power will expire on the earlier of 1 August 2004 and the conclusion of the 2004 Annual General Meeting. There is no present intention to purchase shares and, if granted, the authority would only be exercised if the Board considered it to be in the best interests of shareholders generally and, in any case, if it would result in an increase in earnings per share.

Corporate Governance Statements

These corporate governance statements, including the Internal Control section of this report and the Directors' Remuneration Report, on pages 24 to 29, set out how the Company has applied the principles and complied with the provisions set out in Section 1 of the Principles of Good Governance and Code of Best Practice encompassed in the Combined Code ('the Code'), annexed to the Listing Rules of the Financial Services Authority.

Throughout the year the Company has complied with the Code provisions, except as detailed below with regard to the appointment of a senior independent non-executive director (Code provision A.2.1). The Company is now compliant in this respect with the Code provision.

Deloitte & Touche has reviewed the Directors' compliance statement and have made reference to this review in their Independent Auditors' Report on page 31.

Directors

The Board meets regularly throughout the year, normally ten times a year, monitoring the executive management. Board meetings follow a formal agenda of matters specifically reserved for decision and approval of the Board, ensuring that full control of appropriate financial, strategic, organisational and compliance matters is maintained. All directors may take independent professional advice at the Company's expense in the furtherance of their duties and have access to the services of the Company Secretary.

Mr B Cottingham, a non-executive director, chairs the Board, and Mr D Williams, the Chief Executive, is responsible for running the Group's business. Previously, in view of the small size of the Board, it had not been felt necessary to nominate a senior independent non-executive director. However, with effect from 1 March 2003, Mr L O Tench has been appointed to this position.

Until 1 March 2003, the Board consisted of six directors, of whom three were non-executive directors. On 1 March 2003, Mr N C Paul resigned and Messrs. D A Haxby and L O Tench were appointed non-executive directors. Details of the Board as at 31 December 2002, together with short biographies and their membership of Board Committees, are set out on page 18. The non-executive directors bring considerable knowledge and external experience to the Board's discussions and the Board considers all of the non-executive directors to be independent.

The Board receives reports and financial information prior to meetings, together with other relevant information on business, corporate and strategic issues.

The Nomination Committee consists of the non-executive directors and the Chief Executive. The committee is currently chaired by Mr B Cottingham.

The Company's Articles of Association require one third of the Board to submit themselves for re-election, on a rotational basis, every year. No director is exempt from seeking re-election. Non-executive directors are normally appointed for an initial term of three years.

Directors' remuneration

The responsibilities of the Remuneration Committee, together with an explanation of how it applies the directors' remuneration principles of the Code, are set out in the Directors' Remuneration Report on pages 24 to 29.

Relations with shareholders

During the year directors have met with most of the Company's larger institutional investors to whom presentations were made after the announcement of the Company's preliminary and interim results. Care is taken to ensure that any price sensitive information is released to all shareholders, institutional or private, at the same time in accordance with the Financial Services Authority requirements.

All directors, including the Chairmen of the Audit, Remuneration and Nomination Committees, attended the Annual General Meeting and were available to answer questions from those shareholders present. The Chairman, after the show of hands on each resolution, indicated the number of proxy votes for and against each resolution.

Accountability and audit

The Chairman's Statement and the Chief Executive's Review of Operations on pages 10 to 13, together with the Finance Director's Review on pages 14 and 15, give an assessment of the Group's position and prospects. The Statement of Directors' Responsibilities for preparing the accounts is set out on page 30.

Until 1 March 2003, the Audit Committee, which meets at least twice a year, comprised the three non-executive directors, Mr B Cottingham (Chairman of the Audit Committee), Mr P H Blackburn and Mr N C Paul. From 1 March 2003, the composition of the Audit Committee is Mr D A Haxby (Chairman of the Audit Committee), Mr B Cottingham, Mr P H Blackburn and Mr L O Tench. The Audit Committee monitors the accounting policies, internal control and financial reporting of the Group. The external auditors attend all the meetings and have direct access to the Committee Chairman.

Internal Control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failing to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

For the whole of the year under review and up to the date of the approval of the annual report and accounts, the Board has had formal procedures in place to ensure that it is in a position to consider all significant aspects of internal control.

As required by the Code, the Board has conducted a review of the effectiveness of the Group's system of internal control. This review has covered all controls including operational, compliance and risk management, as well as financial.

The formal process followed, and reviewed by the Board, to assess the effectiveness of the Group's system of internal control accords with the guidance issued by the Turnbull working party: 'Internal Control: Guidance for Directors on the Combined Code' and is part of the ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process is summarised as follows:

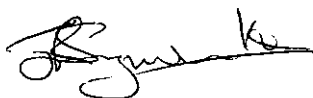
- Operating company management is charged with the ongoing responsibility for identifying risks facing each of the businesses and for putting in place procedures to mitigate and monitor risks.
- Operating companies formally review all business risks and set out the significant risks to the business, the controls in place and additional controls which could be implemented. These proposals are approved by each operating company board and submitted to Group executive management for review. Any significant matters arising from this review are formally reported to the Board by the Finance Director.
- The risk and control identification and management process is monitored and periodically reviewed by Group executive management.
- The key elements of the controls framework within which the Group operates are:
 - an organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements.
 - an embedded culture of openness of communication between operating company management and the Group executive management on matters relating to risk and control.
 - defined expenditure authorisation levels.
 - operating company reviews covering all aspects of each business are conducted by Group executive management each quarter.
 - a comprehensive system of financial reporting. An annual budget for each operating company is prepared in detail and approved by the Chief Executive. The Board approves the overall Group's budget and plans. Monthly actual results are reported against budget and prior year and the forecast for the year is revised where necessary. Any significant changes and adverse variances are questioned by the Board and remedial action is taken where appropriate. There is weekly cash and treasury reporting to the Finance Director and periodic reporting to the Board on the Group's tax and treasury position.

The Group does not have an internal audit function. However, the Board annually reviews the need for such a function and has done so during the year. Bearing in mind that, during the year, there were no adverse trends evident from the monitoring of internal controls or unexpected or unacceptable results of a material nature, at present the Board considers that an internal audit function is not necessary.

Going concern

The directors report that, after making enquiries, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

By order of the Board:



J R Swynnerton, Secretary

10 March 2003

Directors' Remuneration Report

Unaudited information

Consideration by the directors of matters relating to directors' remuneration

The Board has a long established Remuneration Committee, which meets at least twice a year. It is composed of the non-executive directors, who, in the opinion of the Board, are independent of management and free from any business or other relationship which could materially interfere with their independent judgement. Until 1 March 2003, the Committee consisted of Mr P H Blackburn (Chairman of the Remuneration Committee), Mr B Cottingham and Mr N C Paul. From 1 March 2003, the composition of the Remuneration Committee is Mr P H Blackburn (Chairman of the Remuneration Committee), Mr B Cottingham, Mr D A Haxby and Mr L O Tench. The responsibilities of the Committee, together with an explanation of how it applies the directors' remuneration principles of the Code, are set out below.

The Committee's primary role is to recommend to the Board the remuneration of the Company's executive directors.

The Committee does not consider fees payable to non-executive directors, which is a matter for the Board as a whole.

The Chief Executive, Mr D Williams, is consulted on the remuneration of executive directors and attends all meetings, except when his own remuneration is discussed. The Company Secretary provides information to the Remuneration Committee and is in attendance at meetings.

The Committee takes independent professional advice, on an ad hoc basis, as required. In December 2002 the Remuneration Committee appointed Watson Wyatt LLP to undertake a review of the remuneration of senior executives. Watson Wyatt LLP did not provide any other services to the Group.

Statement of the Company's policy on directors' remuneration for 2003 and subsequent financial years

Executive Directors

The Company's policy for 2003 and subsequent years is to provide each executive director with a remuneration package which not only gives a fair degree of security by way of a base salary but also, through an annual bonus and long term incentive plan, gives a significant performance-related element. In determining the remuneration packages of executive directors, the Remuneration Committee considers a number of factors including:

- The basic salaries and benefits available to executive directors of comparable companies;
- The importance of recruiting and retaining management of an appropriate calibre; and
- Linking reward to the Company's performance.

The Company's policy on the duration of service contracts is for executive directors to have service contracts terminable by either party giving 12 months notice in writing. If the Company was to terminate employment in lieu of the 12 months notice period, the executive director would be entitled to a termination payment in accordance with his service contract.

The main components of executive directors' salaries are given below. Most importance is attached by the Remuneration Committee to the basic salary of each executive director, which is not performance related.

Base salary and benefits

Base salary and benefits are determined on an annual basis by the Committee based upon the recommendations of the Chief Executive and after a review of the individual's performance and market trends. The Committee takes into account published remuneration information on comparable companies and salary policy within the rest of the Group. Benefits include a company car and medical insurance premiums. The value of benefits is not pensionable.

Annual bonus

The annual performance related bonus provides executive directors with an incentive to achieve performance targets which are set at the beginning of a financial year. The performance targets are predominantly based on profit before tax either of the Group or a subsidiary, whichever is appropriate. In addition, for certain executives, additional targets are based on cash flows and reduction in gearing, again, either of the Group or a subsidiary, whichever is appropriate. The maximum annual bonus that can be paid is 50% of basic salary. The annual bonus is not pensionable.

Pension schemes

All executive directors are members of the Group's main contributory defined benefit pension scheme, which enables members to retire at age 60 with a maximum pension after 40 years' pensionable service equivalent to two thirds of final pensionable salary. Pensionable salary is basic salary, excluding bonuses. Final pensionable salary is the average of the highest three consecutive pensionable salaries in the last ten years before retirement. For service up to 31 July 2002, pensions in payment are guaranteed to increase by 5% per annum compound. After consultation with the active membership of the main scheme, during the year, certain changes were made to the contribution levels and benefits in order to limit future liabilities. Consequently, for service from 1 August 2002, pensions in payment are guaranteed to increase by the lower of 5% per annum or the increase in the Retail Price Index. On death before retirement, a lump sum equal to 4 times current salary is paid, together with a spouse's pension of 50% of pensionable salary. As part of this scheme, all executive directors are covered by permanent health insurance.

Share option schemes

1989 Executive Share Option Scheme

In 1997 this Scheme was superseded by the Long Term Incentive Plan and the 1997 Executive Share Option Scheme. Messrs. Williams and Chivers had awards under this scheme, which had not vested at 31 December 2002. There are no performance criteria attached to the exercise of these options. They must be exercised between three and ten years of the date of grant. The right to exercise options terminates upon the employee ceasing to hold office or employment with the Group, subject to certain exceptions and the discretion of the Board. Awards under this scheme are not pensionable.

Long Term Incentive Plan (LTIP)

Under the LTIP, executives can be awarded an annual grant of nominal value share options up to a maximum value of 50% of base salary. As set out on page 28 in the directors' share options table under the heading Long Term Incentive Plan, Messrs. Williams, Chivers and Davies had awards under this scheme, which had not vested at 31 December 2002, and the performance conditions which apply to them are given below. At the end of the relevant period the Remuneration Committee assesses whether the performance conditions have been satisfied. Awards under this scheme are not pensionable.

The LTIP is exercisable between three and seven years from the date of grant. Provided the individual's performance criteria are met the award would vest, as described above, if, over a consecutive three year period, the growth in the Group's earnings per share is 10% higher than the percentage increase in the Retail Price Index. None of the award would vest if the growth in earnings per share is less than 6% above the percentage increase in the Retail Price Index over the same period. Between these two limits, the award would vest proportionately. The right to exercise options terminates upon the employee ceasing to hold office with the Group, subject to certain exceptions and the discretion of the Board.

If the 6% minimum growth performance target is not met, the performance period is extended by one year and the minimum growth in the Group's earnings per share, over a consecutive four year period, is increased to 8% over the percentage increase in the Retail Price Index over the same period. The maximum for the full award to vest would be 13.33%.

The awards for Messrs. Williams and Davies would vest in full if the performance condition requirements set out above are achieved. 50% of the awards for Mr. Chivers would vest in full if the performance condition requirements set out above are achieved. The remaining 50% of the shares under the award would vest in full if the actual profit before tax of the SIG Roofing Supplies business in aggregate for the consecutive three or four year period, referred to above, exceeds budgeted profit before tax in aggregate for the same period by 1%.

The above performance conditions were chosen because they are believed to be challenging and not only take account of the need for long-term performance and commitment but also are an important means of aligning the interests of employees and shareholders.

1997 Executive Share Option Scheme (ESOS)

Under the ESOS, executives can be awarded an annual grant of share options at market price, provided that the total amount payable by him to exercise options under the ESOS or any other share option scheme of the Group (excluding savings related schemes) granted during the immediately preceding 10 years does not exceed 4 times base salary, bonus and benefits. As set out on page 28 in the directors' share options table under the heading 1997 Executive Share Option Scheme, Mr Davies had awards under this scheme, which had not vested at 31 December 2002, to which the performance condition in the next paragraph applies. At the end of the relevant period the Remuneration Committee assesses whether the performance conditions have been satisfied. Awards under this scheme are not pensionable.

The ESOS is exercisable between three and ten years for the Inland Revenue approved scheme and three and seven years for the unapproved scheme from the date of grant. The award would vest in full if, over a consecutive three year period, the growth in the Group's earnings per share is 6% higher than the percentage increase in the Retail Price Index. None of the award would vest if the growth in earnings per share is less than 6% above the percentage increase in the Retail Price Index over the same period.

The above performance condition was chosen because it is believed to be challenging and not only takes account of the need for long-term performance and commitment but also is an important means of aligning the interests of employees and shareholders.

Savings Related Schemes

The Company operates within the UK a savings-related share option scheme which is open to all UK employees and is linked to a monthly savings contract over three and five year periods. Options have been granted to scheme participants at 80% of the prevailing market price. Similar arrangements have been introduced in the Republic of Ireland. There are no performance conditions attached to the exercise of these options. These options may be exercised within a fixed six month period three or five years from the date of grant. The right to exercise options terminates if the employee ceases to be employed by the Group otherwise than by way of death, injury or disability, redundancy, retirement or Group reconstruction. Exercise of options following cessation of employment by early retirement or other reason is permitted at the discretion of the Board provided that the date of cessation is at least three years after the date of grant.

Non-executive Directors

For non-executive directors appointed after 31 December 2002, the Company's policy is that the appointment will be for an initial term of three years, unless otherwise terminated earlier by and at the discretion of either party upon three month's written notice. Non-executive directors will be expected to serve two three-year terms, although the Board may invite them to serve for an additional period. The executive directors are responsible for recommending to the Board the fees of non-executive directors. Non-executive directors do not receive benefits from the Company. They are not eligible to join the Company's pension scheme or participate in any bonus or incentive scheme or any of the Company's share option schemes.

Directors' contracts

Non-executive directors, who held office at 31 December 2002, were appointed for an initial term of three years. Their appointment is subject to a rolling twelve months notice on either side. In the event of a merger or take-over, their services may be terminated by the payment of 12 months remuneration, at their current rate, in lieu of notice.

The executive directors, who held office at 31 December 2002, have service contracts for a continuous term to retirement age providing for a rolling 12 months' notice period in writing by either party.

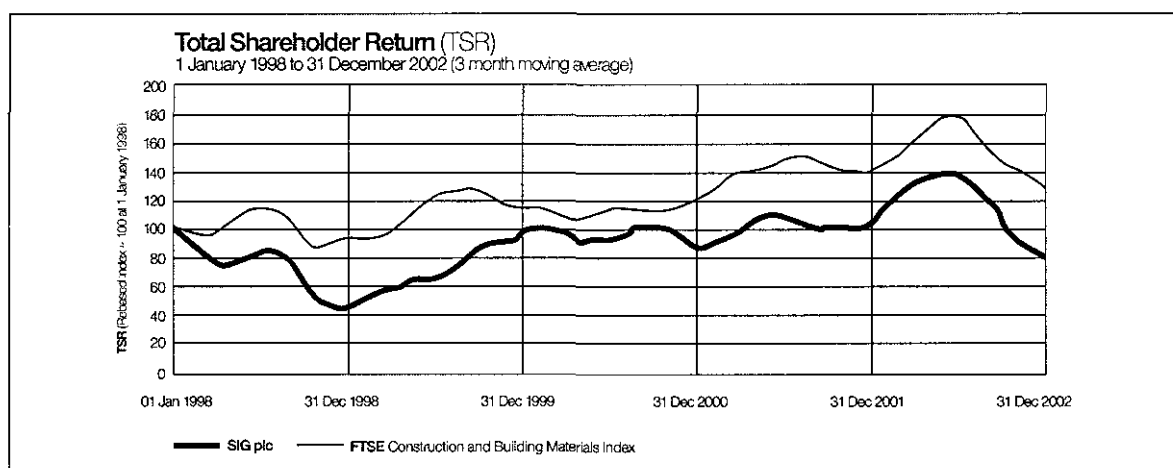
The service contract for Mr Williams, which is dated 7 May 2002, terminates automatically on his reaching the age of 60. The Company can terminate his employment forthwith in lieu of a 12 month notice period or any unexpired portion thereof by paying to him an amount equal to his basic salary for such period and an amount in lieu of bonus which he would have received had he remained employed during the notice period and providing him with all benefits to which he is entitled, with the exception of his company car. If the Company terminates employment without giving notice or making a payment in lieu, any damages to which he may be entitled is to be calculated in accordance with common law principles, including those relating to mitigation of loss and accelerated receipt.

The service contracts for Messrs. Chivers and Davies, which are dated 1 January 1995 and 1 August 2002 respectively, terminate automatically on their reaching the age of 65. The Company can discharge any obligation in relation to the unexpired portion of their notice period or any notice required to be given under their service contracts by making a payment in lieu thereof subject to the deduction of tax and national insurance. If the Company terminates employment without giving notice or making a payment in lieu, any damages to which the executive may be entitled is to be calculated in accordance with common law principles, including those relating to mitigation of loss and accelerated receipt.

Mr Prust, who resigned on 15 October 2002, had a continuous service contract to retirement age providing for a maximum of two year's notice in writing by either party. In the event of a merger or take-over, his services could have been terminated by either party and he would have been entitled on termination to compensation, without deduction for mitigation, equivalent to two and a half times his salary, annual bonus and contractual benefits. The Remuneration Committee considered these arrangements to be reasonable having regard to the length of his service with the Company, the reduction from the original four years rolling service contract to the above terms and the de-motivating effect of a further reduction. Mr Prust has until 14 April 2003 to exercise his awards under the Long Term Investment Plan and Savings Related Schemes.

Performance graph

The following graph shows the Company's three month moving average Total Shareholder Return (TSR) performance, compared with the performance of the FTSE Construction & Buildings Material Index, also measured by TSR, over the 5 year period ended 31 December 2002. This index has been selected because the Company believes that the constituent companies comprising the FTSE Construction & Buildings Material Index are the most appropriate for this comparison as they are affected by similar commercial and economic factors.



Audited information

Directors' emoluments

The emoluments of the individual directors were as follows:

	Salary and fees £000's	Performance related bonus £000's	Permanent disability payment £000's	Benefits £000's	2002 Total emoluments £000's	2001 Total emoluments £000's
Executive						
D Williams	274	-	-	6	280	254
M J Chivers	133	60	-	10	203	164
G W Davies	64	-	-	5	69	-
F C Prust	129	-	380	16	525	339
Non-executive						
B Cottingham (Chairman)	92	-	-	-	92	86
P H Blackburn	31	-	-	-	31	15
N C Paul	31	-	-	-	31	15
	754	60	380	37	1,231	873

There were no expense allowance or compensation for loss of office payments.

The information on emoluments for Mr Davies is for the period from his date of appointment as a director.

The salaries of Messrs. Williams, Chivers and Davies include additional payments of £14,000, £8,000 and £8,000 respectively following their agreement during the year to changes in the future pension scheme benefits and contribution rates.

The permanent disability payment made to Mr Prust was recovered in full from the insurer. In addition, £73,000 in respect of Mr Prust's salary for the period 25 February 2002 to 30 June 2002 was recovered from the insurer.

Benefits relate to the estimated value of the provision of a company car and medical insurance premiums.

There were no sums paid to third parties in respect of the services of any director.

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the executive directors.

Directors' pensions

The following directors had retirement benefits accruing under the Company's main contributory defined benefit scheme in respect of qualifying services during the year:

	Increase in accrued benefits £000's	Increase in accrued benefits net of inflation £000's	Transfer value of increase in accrued benefits net of inflation £000's	Accrued benefits at 31 December 2002 or date of cessation £000's	Transfer value at 31 December 2002 or date of cessation £000's	Transfer value at 1 January 2002 or date of appointment £000's	Contributions made by Executive to the scheme in the year £000's	Transfer value increase after deducting Executive contributions £000's
D Williams	14	14	175	76	1,199	817	14	368
M J Chivers	7	7	79	45	769	553	8	208
G W Davies	2	2	10	12	102	85	3	14
F C Prust	9	8	172	80	1,774	1,285	6	483

The Company contributed £152,000 (2001: £48,000) to a money purchase scheme in respect of Mr Prust's qualifying services during the year.

The transfer values disclosed above are calculated in a manner consistent with 'Retirement Benefit Schemes - Transfer Values (GN11)' published by the Institute of Actuaries and the Faculty of Actuaries. They do not represent a sum paid or payable to the individual director, but instead represent a potential liability of the pension scheme.

Members of the above scheme have the option to pay Additional Voluntary Contributions; neither such contributions nor the resulting benefits are included in the above table.

Directors' share options

Messrs. Cottingham, Blackburn and Paul, as non-executive directors, did not hold or have granted any share options during the year. The share options for the other directors who held office at any time during the year are set out below:

Date on which scheme interest was awarded	Market price when scheme interest was awarded	At 1 Jan 2002 or date of appointment as a director	Number of shares			At 31 Dec 2002 or date of ceasing to be a director	Exercise price per 10p share	Market price when scheme interest vested	Exercise dates	
			Granted	Exercised	Lapsed				Date exercised/ date from which option may be exercised	Date on which option expires
1989 Executive Share Option Scheme										
F C Prust										
17/10/1994	250p	75,000	-	(75,000)	-	-	250p	316p	18/03/2002	-
D Williams										
19/04/1994	261p	50,000	-	-	-	50,000	261p	-	19/04/1997	18/04/2004
M J Chivers										
19/04/1994	261p	10,000	-	-	-	10,000	261p	-	19/04/1997	18/04/2004
Long Term Incentive Plan										
F C Prust										
01/04/1999	158.5p	50,473	-	(50,473)	-	-	10p	319p	23/04/2002	-
11/04/2000	232.5p	35,785	-	-	-	35,785	10p	-	See note below	
17/04/2001	251p	34,263	-	-	-	34,263	10p	-	See note below	
D Williams										
27/04/1998	212.5p	3,035	-	(3,035)	-	-	10p	204p	03/09/2002	-
01/04/1999	158.5p	18,927	-	(13,000)	-	5,927	10p	#	01/04/2002	31/03/2006
11/04/2000	232.5p	13,993	-	-	-	13,993	10p	-	11/04/2003	10/04/2007
17/04/2001	251p	13,944	-	-	-	13,944	10p	-	17/04/2004	16/04/2008
19/04/2002	321p	-	26,168	-	-	26,168	10p	-	19/04/2005	18/04/2009
M J Chivers										
01/04/1999	158.5p	5,678	-	(5,678)	-	-	10p	185.5p	20/09/2002	-
11/04/2000	232.5p	4,129	-	-	-	4,129	10p	-	11/04/2003	10/04/2007
17/04/2001	251p	5,129	-	-	-	5,129	10p	-	17/04/2004	16/04/2008
19/04/2002	321p	-	7,788	-	-	7,788	10p	-	19/04/2005	18/04/2009
G W Davies										
01/10/2002	178p	-	15,168	-	-	15,168	10p	-	01/10/2005	30/09/2009
1997 Executive Share Option Scheme										
G W Davies										
30/05/1997	309.5p	5,000	-	-	-	5,000	309.5p	-	30/05/2000	29/05/2007
11/04/2000	232.5p	5,000	-	-	-	5,000	232.5p	-	11/04/2003	10/04/2007
17/04/2001	251p	5,000	-	-	-	5,000	251p	-	17/04/2004	16/04/2008
19/04/2002	321p	6,000	-	-	-	6,000	321p	-	19/04/2005	18/04/2012
Savings Related Schemes										
F C Prust										
11/05/1999	152p	13,831	-	-	-	13,831	122p	-	See note below	
D Williams										
11/05/1999	152p	13,831	-	-	-	13,831	122p	-	01/07/2004	31/12/2004
M J Chivers										
11/05/1999	152p	13,831	-	-	-	13,831	122p	-	01/07/2004	31/12/2004
G W Davies										
17/05/2002	321p	3,696	-	-	-	3,696	257p	-	01/07/2005	31/12/2005
			386,545	49,124	(147,186)	-	288,483			

The market price for shares on 11 October 2002 was 180.5p for 3,000 shares and on 9 December 2002 was 162.5p for 10,000 shares.

No price has been paid for any awards of share options which were unexpired at any time in the financial year.

There was no variation made in the financial year in the terms and conditions of any of the above share options.

There are no performance criteria for the 1989 Executive Share Option Scheme or the Savings Related Schemes.

Mr. Prust has until 14 April 2003 to exercise his awards under the Long Term Investment Plan and Savings Related Schemes.

For Messrs. Williams and Davies awards under the Long Term Investment Plan would vest in full if, over a consecutive three year period, the growth in the Group's earnings per share is 10% higher than the percentage increase in the Retail Price Index. None of the award would vest if the growth in earnings per share is less than 6% above the percentage increase in the Retail Price Index over the same period. Between these two limits, the award would vest proportionately. If the minimum performance target is not met over the three year performance period, the performance period is extended by one year only and the performance target is increased proportionately.

For Mr Chivers 50% of the award under the Long Term Investment Plan would vest in full if, over a consecutive three year period, the growth in the Group's earnings per share is 10% higher than the percentage increase in the Retail Price Index. None of the award would vest if the growth in earnings per share is less than 6% above the percentage increase in the Retail Price Index over the same period. Between these two limits, 50% of the award would vest proportionately. If the minimum performance target is not met over the three year performance period, the performance period is extended by one year only and the performance target is increased proportionately. The remaining 50% of the shares under the award would vest in full if the actual profit before tax of the SIG Roofing Supplies business in aggregate for the consecutive three or four year period, referred to above, exceeds budgeted profit before tax in aggregate for the same period by 1%.

Awards under the 1997 Executive Share Option Scheme Plan for Mr Davies would vest in full if, over a consecutive three year period, the growth in the Group's earnings per share is 6% higher than the percentage increase in the Retail Price Index. None of the award would vest if the growth in earnings per share is less than 6% above the percentage increase in the Retail Price Index over the same period.

There was no variation made in the financial year in the performance criteria summarised above.

The market price of the shares at 31 December 2002 was 172.5p and the range during 2002 was 157.5p to 342p.

A resolution to approve this report will be proposed at the Annual General Meeting.

The Directors' Remuneration Report was approved by the Board of Directors on 10 March 2003 and signed on its behalf by:



P H Blackburn, Director and ~~Chairman~~ of the Remuneration Committee

Statement of Directors' Responsibilities

Accounts

United Kingdom company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period.

In preparing the accounts, the directors are required to: select suitable accounting policies and then apply them consistently; make judgments and estimates that are reasonable and prudent; and state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

Other matters

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the Members of SIG plc

We have audited the financial statements of SIG plc for the year ended 31 December 2002 which comprise the Consolidated Profit and Loss Account, the Balance Sheets, the Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, and the related notes 1 to 22 together with the Reconciliation of Movement in Consolidated Shareholders' Funds and Statement of Accounting Policies. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Directors' Remuneration Report. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors' is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Report of the Directors' and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the Directors' Remuneration Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report described as having been audited.

Opinion

In our opinion;

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit of the Group for the year then ended, and
- the financial statements and part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche, Chartered Accountants and Registered Auditors, Leeds
10 March 2003

Consolidated Profit and Loss Account for the year ended 31 December 2002

		2002	2002	2001	2001
	Note	£000's	£000's	£000's	Restated £000's
Turnover					
Continuing operations	1		1,114,517		1,037,258
Acquisitions	1		40,451		-
			1,154,968		1,037,258
Cost of sales			859,128		770,193
Gross profit			295,840		267,065
Other operating expenses	2		242,441		210,753
Operating profit					
Continuing operations	1	51,886		56,312	
Acquisitions	1	1,513		-	
			53,399		56,312
Net interest payable	3		7,051		5,045
Profit before taxation and amortisation of goodwill		50,872		54,068	
Amortisation of goodwill		4,524		2,801	
Profit on ordinary activities before taxation	4		46,348		51,267
Tax on profit on ordinary activities	6		14,646		17,017
Profit on ordinary activities after taxation			31,702		34,250
Minority interests (all equity)			294		160
Profit for the financial year			31,408		34,090
Equity dividends paid and proposed	7		13,917		13,051
Retained profit for the year	18		17,491		21,039
Earnings per share					
Basic earnings per share	8		26.3p		28.8p
Diluted earnings per share	8		26.1p		28.5p
Earnings per share before goodwill amortisation					
Basic earnings per share	8		30.1p		31.2p
Diluted earnings per share	8		29.9p		30.8p

The accompanying accounting policies and notes are an integral part of this Consolidated Profit and Loss Account.

Consolidated Statement of Total Recognised Gains and Losses for the year ended 31 December 2002

	Note	2002 £000's	2001 Restated £000's
Profit for the financial year		31,408	34,090
Tax credit arising on repayment of overseas intercompany loans	18	4,572	-
Currency translation differences on foreign currency net investments		269	(398)
Total recognised gains and losses for the year		36,249	33,692
Prior year adjustment	16	(506)	-
Total recognised gains and losses since last annual report		35,743	33,692

There is no difference between the results presented on page 32 and the results on an unmodified historical cost basis. Therefore, a note of historical cost profits is not required.

The accompanying accounting policies and notes are an integral part of this statement.

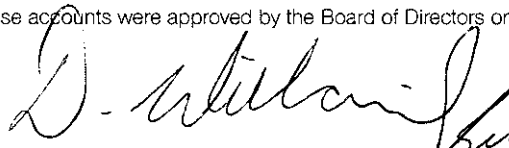
Reconciliation of Movement in Consolidated Shareholders' Funds for the year ended 31 December 2002

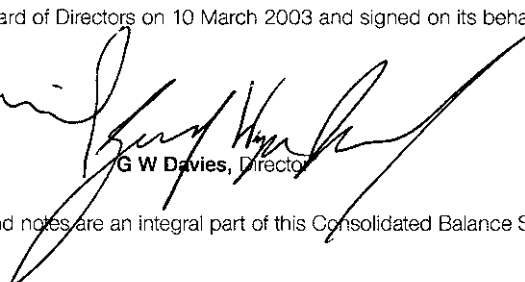
	Note	2002 £'000's	2001 Restated £'000's
Profit for the financial year		31,408	34,090
Dividends		(13,917)	(13,051)
		17,491	21,039
New share capital issued		1,735	384
Currency translation differences on foreign currency net investments		269	(398)
Tax credit arising on repayment of overseas intercompany loans	18	4,572	-
Credit to LTIP reserve		174	223
Adjustment to goodwill	18	4,835	-
Net additions to shareholders' funds		29,076	21,248
Opening shareholders' funds as previously reported		165,486	143,448
Prior year adjustment	16	(506)	284
Opening shareholders' funds as restated		164,980	143,732
Closing shareholders' funds		194,056	164,980

Consolidated Balance Sheet as at 31 December 2002

		2002	2001
		£000's	Restated £000's
	Note		
Fixed assets			
Intangible assets	10	80,693	67,152
Tangible assets	9	71,717	65,031
		152,410	132,183
Current assets			
Stocks	11	88,876	78,504
Debtors	12	221,974	199,330
Cash at bank and in hand		13,558	10,348
		324,408	288,182
Creditors:			
Amounts falling due within one year	13	(172,242)	(151,868)
Net current assets		152,166	136,314
Total assets less current liabilities		304,576	268,497
Creditors:			
Amounts falling due after more than one year	14	(105,920)	(99,815)
Provision for liabilities and charges	16	(4,306)	(3,702)
Net assets		194,350	164,980
Capital and reserves			
Called up share capital	17	11,968	11,865
Share premium account	18	14,131	12,499
Capital redemption reserve	18	347	347
Special reserve	18	22,113	17,278
L-TIP reserve	18	326	306
Profit and loss account	18	146,642	128,997
Exchange reserve	18	(1,471)	(6,312)
Shareholders' funds (all equity)		194,056	164,980
Minority Interest		294	-
Total capital employed		194,350	164,980

These accounts were approved by the Board of Directors on 10 March 2003 and signed on its behalf by:


D Williams, Director

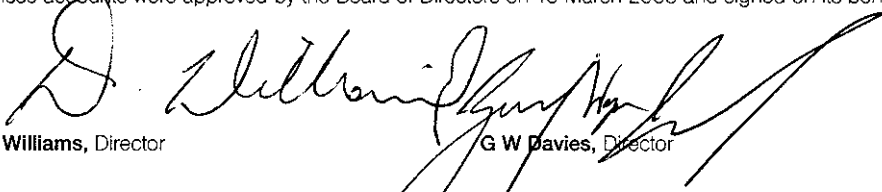

G W Davies, Director

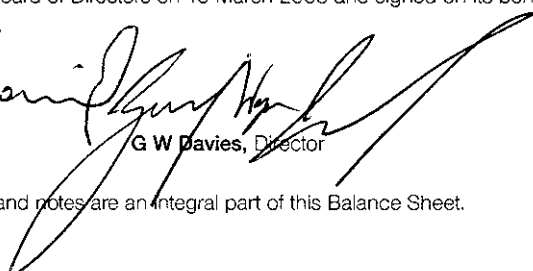
The accompanying accounting policies and notes are an integral part of this Consolidated Balance Sheet.

Company Balance Sheet as at 31 December 2002

	Note	2002 £000's	2001 £000's
Fixed assets			
Tangible assets	9	1,100	903
Investments	10	230,341	95,124
		231,441	96,027
Current assets			
Debtors - due within one year	12	133,450	127,783
- due after one year	12	24,029	146,041
Cash at bank and in hand		1,401	9,931
		158,880	283,755
Creditors:			
Amounts falling due within one year	13	(51,793)	(20,813)
Net current assets		107,087	262,942
Total assets less current liabilities		338,528	358,969
Creditors:			
Amounts falling due after more than one year	14	(88,737)	(84,747)
Provision for liabilities and charges	16	8	-
Net assets		249,799	274,222
Capital and reserves			
Called up share capital	17	11,968	11,865
Share premium account	18	14,131	12,499
Merger reserve	18	21,655	21,655
Capital redemption reserve	18	347	347
Special reserve	18	130,365	130,365
L-TIP reserve	18	326	306
Profit and loss account	18	71,007	97,185
Shareholders' funds (all equity)		249,799	274,222

These accounts were approved by the Board of Directors on 10 March 2003 and signed on its behalf by:


D Williams, Director


G W Davies, Director

The accompanying accounting policies and notes are an integral part of this Balance Sheet.

Consolidated Cash Flow Statement for the year ended 31 December 2002

	Note	2002 £000's	2002 £000's	2001 £000's	2001 £000's
Net cash inflow from operating activities	19		64,699		50,932
Returns on investments and servicing of finance					
Interest received		1,426		1,665	
Interest paid		(7,899)		(3,808)	
Interest element of finance lease rentals		(582)		(594)	
Net cash outflow from returns on investments and servicing of finance			(7,055)		(2,737)
Tax paid			(14,323)		(17,888)
Capital expenditure					
Purchase of tangible fixed assets		(22,068)		(21,755)	
Sale of tangible fixed assets		1,844		2,249	
			(20,224)		(19,506)
Acquisitions					
Purchase of subsidiary undertakings		(22,956)		(38,530)	
Net cash acquired with subsidiary undertakings		899		1,994	
Net cash outflow from acquisitions			(22,057)		(36,536)
Equity dividends paid			(13,363)		(12,431)
Cash outflow before financing			(12,323)		(38,166)
Financing					
Issue of ordinary share capital		1,735		384	
Lease financing		7,430		5,212	
Capital element of finance lease rental payments		(7,107)		(4,426)	
Repayment of loans		-		(15,643)	
New loans		10,286		91,284	
Net cash inflow from financing			12,344		76,811
Increase in cash	20		21		38,645

The accompanying accounting policies and notes are an integral part of this Consolidated Cash Flow Statement.

Statement of Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year with the exception of the policy for FRS 19 Deferred tax which is explained in Note 16.

Basis of accounting

The accounts have been prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards.

Basis of consolidation

The consolidated accounts incorporate the accounts of the Company and each of its subsidiary undertakings after eliminating all significant intercompany transactions and balances. The results of subsidiary undertakings acquired or sold are consolidated for the periods from or to the date on which control passed.

No profit and loss account is presented for SIG plc, as permitted by Section 230 of the Companies Act 1985. The Company's loss for the financial year was £12,405,000 (2001: profit for the financial year £33,170,000). All recognised gains and losses are accounted for in the Company's profit and loss account.

Intangible assets - Goodwill

Goodwill arising on the acquisition of subsidiary undertakings, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and amortised on a straight line basis over its useful economic life up to a maximum of twenty years. Provision is made for any impairment.

Goodwill arising on acquisitions in the year ended 31 December 1997 and earlier periods has been written-off against reserves on acquisition, in accordance with the accounting standard then in force. As permitted by the current accounting standard, the goodwill previously written-off to reserves has not been reinstated in the balance sheet. On disposal of a previously acquired business, the attributable amount of goodwill previously written-off to reserves is included in determining the profit or loss on disposal.

Investments

Fixed asset investments are shown at cost less provision for any impairment in value.

Turnover

Group turnover represents the invoiced value of sales net of allowances and value added tax in the normal course of business.

Pension costs

For defined benefit schemes the amount charged to the profit and loss account in respect of pension costs and other post retirement benefits is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. Variations from regular cost are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated average remaining working lives of scheme members. Defined benefit schemes are funded, with the assets of the schemes held separately from those of the Company in separate trustee administered funds. Differences between amounts charged to the profit and loss account and amounts funded are shown as either accruals or prepayments in the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet. Further information on pension costs is contained in Note 22.

Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction or where appropriate at the rate of exchange in a related forward exchange contract. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end or where appropriate at the rate of exchange in a related forward contract.

Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

The Company's investments in subsidiaries denominated in foreign currency are held at historic exchange rates.

For the purpose of consolidation the closing rate method is used. Profit and loss accounts of overseas subsidiary undertakings are translated at the average rate and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations and on foreign currency borrowings, to the extent that they hedge the Group's investment in such operations, are reported in the Statement of Total Recognised Gains and Losses.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Tangible fixed assets

Tangible fixed assets are shown at original cost to the Group less accumulated depreciation and any provision for impairment.

Depreciation is provided at rates calculated to write off the cost or fair value less estimated residual value of fixed assets on a straight line basis over their estimated useful lives as follows:

Freehold buildings	-	50 years
Leasehold buildings	-	period of lease
Plant, machinery and motor vehicles	-	3 to 8 years

Stocks

Stocks are stated at the lower of cost (including an appropriate proportion of attributable overheads) and net realisable value.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving, or defective items where appropriate.

Leases and hire purchase agreements

The cost of assets held under finance leases and hire purchase agreements is capitalised with an equivalent liability categorised as appropriate under creditors falling due within or after one year. The asset is depreciated over its useful life. Rentals under finance leases and hire purchase agreements are apportioned between finance costs and reduction of the liability and the finance costs are charged in arriving at the profit on ordinary activities.

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Onerous leasehold property contracts

In accordance with the requirements under FRS 12 Provisions, contingent liabilities and contingent assets, the Group has continued to make provision in respect of onerous leasehold property contracts during the year.

Further information on the movements in this provision is contained in Note 16.

Notes to the Accounts

1 Segmental information

Geographical analysis	2002			2001		
	Turnover £000's	Operating Profit £000's	Net Assets £000's	Turnover £000's	Operating Profit £000's	Net Assets Restated £000's
Continuing operations						
- UK and Republic of Ireland	698,924	50,038	138,827	638,883	49,120	136,472
- Europe	344,983	7,615	84,325	325,614	10,424	72,167
- USA	70,610	1,501	14,515	72,761	2,097	15,399
- Parent Company	-	(2,744)	(68,164)	-	(2,528)	(59,058)
- Amortisation of goodwill	-	(4,524)	-	-	(2,801)	-
	1,114,517	51,886	169,503	1,037,258	56,312	164,980
Acquisitions						
- UK and Republic of Ireland	35,613	1,410	21,702	-	-	-
- Europe	4,838	103	3,145	-	-	-
Total	40,451	1,513	24,847	-	-	-
Total operations	1,154,968	53,399	194,350	1,037,258	56,312	164,980

Turnover and operating profit by destination is not materially different from these amounts.

Of the goodwill amortisation, £3.669m (2001: £1.970m) relates to the UK and Republic of Ireland, £0.586m (2001: £0.533m) relates to Europe and £0.269m (2001: £0.298m) relates to the USA.

Charged against operating profit for the year is £2.3m of one-off costs arising from a cost rationalisation programme. Of this total, £0.7m relates to operations in the UK and Republic of Ireland and £1.6m to operations in Europe.

2 Cost of sales and other operating expenses

	2002 £000's	2001 £000's
Distribution costs	95,122	84,929
Selling and marketing costs	82,412	72,719
Administrative expenses	64,907	53,105
	242,441	210,753

The administrative expenses above include £4.524m (2001: £2.801m) in respect of goodwill amortisation.

Cost of sales and other operating expenses for 2002 include the following amounts relating to acquisitions; cost of sales £30.708m and other operating expenses £8.230m (namely: distribution costs £3.165m, selling and marketing costs £3.168m and administrative expenses £1.897m).

3 Net interest payable

	2002 £000's	2001 £000's
Interest payable and similar charges:		
On bank loans, overdrafts and other loans repayable within five years	1,917	3,785
On bank loans, repayable after five years	124	23
On US Senior loan notes	5,854	2,308
On finance leases and hire purchase agreements	582	594
	8,477	6,710
Interest receivable	(1,426)	(1,665)
	7,051	5,045

4 Profit on ordinary activities before taxation

	2002 £000's	2001 £000's
Profit on ordinary activities before taxation is stated after crediting:		
Gain on disposal of tangible fixed assets	451	504
And after charging:		
Depreciation of tangible fixed assets		
- owned	12,402	11,497
- held under finance leases and hire purchase agreements	3,626	2,803
Amortisation of goodwill	4,524	2,801
Operating lease rentals		
- land and buildings	19,601	17,715
- plant and machinery	3,584	4,088
Auditors' remuneration for audit services		
- Group (excluding Company)	487	447
- Company	30	30
Staff costs (Note 5)	146,114	128,585

Amounts payable to the auditors and their associates in respect of non audit work, relating principally to tax planning and compliance, were: in the UK £228,000 (2001: £92,000); overseas £137,000 (2001: £190,000).

In addition, fees of £131,000 (2001: £206,000), which were incurred in relation to due diligence services, are included in the cost of acquisitions.

Charged against profit before taxation for the year are one-off costs arising from a cost rationalisation programme amounting to £2.3m. These costs comprise principally redundancy and property costs associated with the reorganisation of the Group's branch network and accounting functions.

5 Staff costs

Particulars of employees (including executive directors) are shown below:	2002 £000's	2001 £000's
Employee costs during the year amounted to:		
Wages and salaries	126,098	110,887
Social security costs	15,826	13,996
Other pension costs (Note 22)	4,190	3,702
	146,114	128,585

The average monthly number of persons employed by the Group during the year was as follows:

	2002 Number	2001 Number
Production	1,209	1,059
Distribution	1,945	1,907
Sales	2,241	2,008
Administration	921	868
	6,316	5,842

Directors' emoluments:

Details of the individual director's emoluments are given in the Directors' Remuneration Report on page 27.

The employee costs shown above include the following emoluments in respect of Directors of the Company:

	2002 £000's	2001 £000's
Management remuneration	1,231	1,525
Company contributions to money purchase schemes	152	48
	1,383	1,573

6 Tax on profit on ordinary activities

	2002	2001	2001
The tax charge comprises:	£000's	Restated £000's	Original £000's
Current tax			
UK Corporation tax on profits of the year	12,589	13,760	13,760
Adjustments in respect of previous years	(875)	(453)	(453)
	11,714	13,307	13,307
Overseas taxation	2,220	2,643	2,643
Total current tax	13,934	15,950	15,950
Deferred taxation			
Current year	585	1,067	277
Adjustments in respect of prior years	127	-	-
	14,646	17,017	16,227

The tax charge for the year is higher than that resulting from applying the standard rate of corporation tax in the UK of 30% (2001: 30%). The differences are explained in the following reconciliation:

	2002	2001
	£000's	Restated £000's
Profit on ordinary activities before tax	46,348	51,267
Tax at 30% thereon:	13,904	15,380
Factors affecting charge for the year:		
Goodwill	1,350	841
Expenses not deductible for tax purposes	430	636
Capital allowances in excess of depreciation	(472)	(323)
Short term timing differences	(918)	(744)
Losses included in deferred tax	870	-
Losses not recognised in deferred tax	180	299
Adjustments in respect of prior years	(875)	(453)
Effect of overseas tax rates	(535)	314
Current tax charge for the year	13,934	15,950

7 Equity dividends paid and proposed

Ordinary:	2002	2001
	£000's	£000's
- interim paid of 3.9p per share (2001: 3.7p)	4,701	4,390
- final proposed of 7.7p per share (2001: 7.3p)	9,216	8,661
	13,917	13,051

8 Earnings per share

The calculations of earnings per share are based on the following profits and numbers of shares:

	Basic and Diluted		Basic and Diluted before goodwill amortisation	
	2002	2001 Restated	2002	2001 Restated
	£000's	£000's	£000's	£000's
Profit on ordinary activities after taxation	31,702	34,250	31,702	34,250
Minority interests	(294)	(160)	(294)	(160)
Goodwill amortisation	-	-	4,524	2,801
	31,408	34,090	35,932	36,891

Weighted average number of shares:

	2002 Number	2001 Number
For basic earnings per share	119,309,596	118,415,817
Exercise of share options	935,230	1,215,171
For diluted earnings per share	120,244,826	119,630,988

Earnings per share before goodwill amortisation is presented in order to give an indication of the underlying performance of the Group.

9 Tangible fixed assets

	Land and Buildings		Plant, machinery & motor vehicles	Total
	Freehold	Short and long leasehold		
	£000's	£000's	£000's	£000's
Group				
The movement in the year was as follows:				
Cost:				
Beginning of year	16,698	5,547	78,896	101,141
Exchange difference	946	8	1,244	2,198
Businesses acquired	-	256	630	886
Additions	20	2,143	19,905	22,068
Disposals	(10)	(600)	(13,971)	(14,581)
End of year	17,654	7,354	86,704	111,712
Depreciation:				
Beginning of year	3,854	1,179	31,077	36,110
Exchange difference	259	2	784	1,045
Charge for year	525	495	15,008	16,028
Disposals	(5)	(470)	(12,713)	(13,188)
End of year	4,633	1,206	34,156	39,995
Net book value, beginning of year	12,844	4,368	47,819	65,031
Net book value, end of year	13,021	6,148	52,548	71,717

The net book value of plant and machinery includes an amount of £16.147m (2001: £15.739m) in respect of assets held under finance leases and hire purchase agreements.

9 Tangible fixed assets continued

Company	Freehold land & Buildings £000's	Plant, machinery & motor vehicles £000's	Total £000's
The movement in the year was as follows:			
Cost:			
Beginning of year	37	1,260	1,297
Additions	13	585	598
Transfers from subsidiary undertakings	-	2	2
Disposals	-	(176)	(176)
End of year	50	1,671	1,721
Depreciation:			
Beginning of year	11	383	394
Charge for year	-	371	371
Disposals	-	(144)	(144)
End of year	11	610	621
Net book value, beginning of year	26	877	903
Net book value, end of year	39	1,061	1,100

10 Fixed asset investments and intangible assets

Company	2002 £000's	2001 £000's
Fixed asset investments comprise investments in subsidiary undertakings, as follows:		
Cost:		
Beginning of year	95,151	95,151
Additions	135,217	-
End of year	230,368	95,151
Provisions at the beginning and end of year	(27)	(27)
Net book value, beginning of the year	95,124	95,124
Net book value, end of year	230,341	95,124

Additions to investments in subsidiary undertakings in 2002 comprise investment in an intermediate holding company as part of a restructuring of intra group financing which involved the repayment of intercompany loans. The Company also subscribed for preference shares in another intermediate holding company during the year.

Group	2002 £000's	2001 Restated £000's	2001 Original £000's
Intangible assets comprise goodwill arising on the acquisition of subsidiary undertakings, as follows:			
Cost:			
Beginning of year	72,087	38,250	38,250
Additions	18,065	34,098	34,098
Prior year adjustment (Note 16)	-	(261)	-
End of year	90,152	72,087	72,348
Amortisation:			
Beginning of year	4,935	2,134	2,134
Charge for year	4,524	2,801	2,801
End of year	9,459	4,935	4,935
Net book value, beginning of year	67,152	36,116	36,116
Net book value, end of year	80,693	67,152	67,413

10 Fixed asset investments and intangible assets continued

Details of the Group's principal trading subsidiaries, all of which have been included in the consolidated accounts, are shown on page 57. Additions to goodwill of £18.065m comprises additions in respect of 2002 acquisitions of £17.352m and a reassessment of the fair values of the assets acquired in respect of 2001 acquisitions, resulting in additional goodwill of £0.713m.

The Group has adopted the acquisition method in accounting for each acquisition.

Details of 2002 Group acquisitions are set out below.

- On 6 March 2002, the Group acquired 100% of the issued share capital of AM Proos and Sons Limited for a total consideration of £12.88m (including £0.88m contingent consideration). In addition, acquisition expenses amounted to £0.352m. The fair value of the net assets acquired was £1.411m, resulting in goodwill of £11.821m, and comprised £0.212m fixed assets, £2.114m stock, £4.031m debtors, £0.789m cash and £5.735m creditors. Fair value adjustments totalled £0.595m. Amortisation in 2002 amounted to £0.488m.

- On 27 March 2002, the Group acquired 100% of the issued share capital of Coolag Holland B.V. and Hamar B.V., companies registered in the Netherlands, for a consideration of £2.883m. In addition, acquisition expenses amounted to £0.196m. The fair value of the net assets acquired was £2.235m, resulting in goodwill of £0.844m. Amortisation in 2002 amounted to £0.035m.

- On 25 July 2002, the Group acquired 100% of the issued share capital of Clydesdale Roofing Supplies (Leyland) Limited for a consideration of £2.026m. In addition, acquisition expenses amounted to £0.143m. The fair value of the net assets acquired was £0.525m, resulting in goodwill of £1.644m. Amortisation in 2002 amounted to £0.040m.

- On 29 October 2002, the Group acquired 100% of the issued share capital of Kesteven Roofing Centre Limited, for a consideration of £2.870m. In addition, acquisition expenses amounted to £0.099m. The fair value of the net assets acquired was £1.001m, resulting in goodwill of £1.968m. Amortisation in 2002 amounted to £0.017m.

- In addition the Group acquired 100% of the issued share capital of BBM (Materials) Limited, and the trade and certain assets of Whitehead Insulations, for a total consideration, including acquisition expenses, of £2.387m. The fair value of the net assets acquired was £1.312m, resulting in goodwill of £1.075m. Amortisation in 2002 amounted to £0.041m.

2002 acquisitions summary fair value table	Book values £000's	Accounting policy alignment £000's	Fair value £000's
Fixed assets			
Intangible assets	180	(180)	-
Tangible assets	1,088	(202)	886
Fixed asset investments	390	(390)	-
	1,658	(772)	886
Current assets			
Stocks	6,365	(835)	5,530
Debtors	13,480	(144)	13,336
Cash	548	-	548
Total assets	22,051	(1,751)	20,300
Liabilities	(13,659)	(157)	(13,816)
Net assets	8,392	(1,908)	6,484
Goodwill			17,352
Contingent consideration			(880)
Satisfied by cash			22,956
Net cash acquired			(899)
Net cash outflow from acquisitions			22,057

The directors have made an initial review of the fair value of the net assets acquired with the current year acquisitions.

Any further adjustments arising will be accounted for in 2003.

The contingent consideration of £880,000 is payable to the vendors of AM Proos and Sons Limited if certain profit targets are achieved.

11 Stocks

	Group	
	2002 £000's	2001 £000's
Raw materials and consumables	4,502	4,073
Finished goods and goods for resale	84,374	74,431
	88,876	78,504

The estimated replacement cost of stocks is not materially different from the balance sheet value stated above.

12 Debtors

	Group		Company	
	2002 £000's	2001 £000's	2002 £000's	2001 £000's
Trade debtors	207,478	185,298	-	-
Amounts owed by subsidiary undertakings	-	-	152,628	273,484
Corporation tax recoverable	-	-	4,550	-
VAT	338	295	-	-
Other debtors	3,617	3,924	-	11
Prepayments and accrued income	10,541	9,813	301	329
	221,974	199,330	157,479	273,824

Of the total amount owed to the Company by subsidiary undertakings, £24.029m (2001: £146.041m) is due after more than one year.

13 Creditors: Amounts falling due within one year

	Group		Company	
	2002 £000's	2001 £000's	2002 £000's	2001 £000's
Obligations under finance leases and hire purchase agreements	5,446	4,779	-	-
Bank overdrafts	18,598	15,845	997	2,402
Bank loans	7,819	-	7,500	-
Trade creditors	77,192	64,465	-	-
Bills of exchange payable	11,158	7,153	-	-
Amounts owed to subsidiary undertakings	-	-	31,001	3,447
Taxation and social security:				
- Corporation tax payable	6,693	12,934	-	2,566
- VAT	4,345	4,465	-	-
- Social security and PAYE	3,745	3,357	-	-
Proposed dividend	9,216	8,661	9,216	8,661
Accruals and deferred income	28,030	30,209	3,079	3,737
	172,242	151,868	51,793	20,813

£0.319m (2001: £2.889m) of the above Group bank loans and overdrafts are secured on the assets of subsidiary undertakings. The remaining Group balances are unsecured. All the Company's bank loans and overdrafts are unsecured.

14 Creditors: Amounts falling due after more than one year

	Group		Company	
	2002	2001	2002	2001
	£000's	£000's	£000's	£000's
Obligations under finance leases and hire purchase agreements				
- Due after one and within two years	3,322	2,892	-	-
- Due after two and within five years	824	1,294	-	-
Bank loans	12,192	10,119	-	-
US Senior loan notes	88,737	84,747	88,737	84,747
Accruals and deferred income	845	763	-	-
	105,920	99,815	88,737	84,747

	2002	2001	2002	2001
	£000's	£000's	£000's	£000's
The bank loans included above are repayable as follows:				
Due after one and within two years	780	8,846	-	-
Due after two and within five years	9,663	810	-	-
Due after five years	1,749	463	-	-
	12,192	10,119	-	-

Of the above bank loans, £3.479m (2001: £3.565m) is secured on certain of the assets of subsidiary undertakings, and is repayable by instalments.

Details of the bank loans repayable after more than five years are as follows:

- £0.757m has a fixed interest rate until 2003, is repayable in full by 2015 and attracts an interest rate of 6.85%.
- £0.543m has a fixed interest rate until 2003, is repayable in full by 2011 and attracts an interest rate of 6.85%.
- £0.449m is repayable in full by 2017 and attracts a fixed interest rate of 5%.

The US Senior loan notes are unsecured, repayable after more than five years and attract an average interest rate of 6.851%.

The movement in US Senior loan notes between 2001 and 2002 reflects movements in Euro and Sterling exchange rates during the year. In accordance with SSAP 20 Foreign currency translation, the exchange loss of £3.99m has been taken to the Exchange reserve to offset exchange gains on retranslation of Euro denominated overseas net assets.

15 Derivatives and other financial instruments

The Finance Director's Review on pages 14 and 15 provides an explanation of the role that financial instruments have had during the year in creating or changing the risks the Group faces in its activities.

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in FRS 13 Derivatives and other financial instruments. Certain financial assets such as investments in subsidiary undertakings are excluded from the scope of these disclosures, as are short-term debtors and creditors, other than the currency disclosures.

Interest rate profile

The Group has no financial assets other than cash at bank of £13.558m (2001: £10.348m), which are part of the financing arrangements of the Group.

After taking into account interest rate and currency swaps, the interest rate and currency profile of the Group's financial liabilities at 31 December 2002 was as follows:

	Total	Floating rate	Fixed rate	Total	Floating rate	Fixed rate
	2002	2002	2002	2001	2001	2001
	£000's	£000's	£000's	£000's	£000's	£000's
Sterling	51,768	19,777	31,991	37,707	6,924	30,783
Euro	76,458	6,321	70,137	75,427	8,775	66,652
US dollar	8,712	8,712	-	6,542	6,542	-
Total	136,938	34,810	102,128	119,676	22,241	97,435

15 Derivatives and other financial instruments continued

The fixed rates are fixed for a period of between one and nine years.

The interest rate on floating rate financial liabilities is linked to UK base rate in the case of sterling liabilities, EURIBOR for Euro liabilities, and US prime rate and LIBOR for US dollar liabilities.

£24.149m (2001: £24.149m) of the sterling and £64.588m (2001: £60.598m) of the Euro fixed rate liabilities relate to the unsecured US Senior loan notes repayable after more than five years and attract an average interest rate of 6.851%.

£7.842m (2001: £6.634m) of the sterling and £1.750m (2001: £2.331m) of the Euro fixed rate liabilities are lease contracts taken out over a maximum period of 5 years with an average interest rate of 5% (2001: 6.5%).

The remaining Euro fixed rate liabilities of £3.799m (2001: £3.723m) have a weighted average interest rate of 6.3% (2001: 6.7%) and are repayable over a weighted average period of 2 years (2001: 2 years).

Currency exposures

The Group's objectives in managing the currency exposures arising from its net investment overseas (in other words, its structural currency exposures) are to maintain a low cost of borrowings and to retain some potential for currency-related appreciation while partially hedging against currency depreciation. Gains and losses arising from these structural currency exposures are recognised in the statement of total recognised gains and losses.

Transactional exposures that give rise to net currency gains and losses recognised in the profit and loss account, are minimal as Group companies do not enter into significant amounts of cross border transactions. The gain arising in the Group during 2002 in respect of transactional exposures amounted to £24,000 (2001: £43,000).

Maturity of financial liabilities

	Borrowings	
	2002 £000's	2001 £000's
In one year or less	31,863	20,624
In more than one year but not more than two years	4,102	11,738
In more than two years but not more than five years	10,487	2,104
In more than five years	90,486	85,210
Total	136,938	119,676

Borrowing facilities

	Borrowings	
	2002 £000's	2001 £000's
Expiring in more than one year but not more than two years	25,000	28,772
Expiring in more than two years but not more than five years	10,589	-
Expiring in more than five years	-	15,000
Total	35,589	43,772

16 Provision for liabilities and charges

	Group		Company	
	2002	2001 Restated	2002	2001
	£000's	£000's	£000's	£000's
Deferred tax	1,609	1,089	(8)	-
Other provisions and onerous lease contracts	2,697	2,613	-	-
	4,306	3,702	(8)	-

Deferred tax**Prior year adjustment**

The Group has adopted FRS 19 Deferred tax with effect from 1 January 2002. FRS 19 requires deferred tax to be recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. The Group's previous policy was to recognise deferred tax to the extent that a deferred taxation liability was expected to arise in the foreseeable future. This change has been accounted for as a prior year adjustment and previously reported figures have been restated accordingly.

The effect of this change in accounting policy on profit after taxation, net assets and earnings per share is as follows:

Group

	2001 £000's
Decrease in profit after taxation	790
Decrease in intangible fixed assets (note 10)	261
Increase in deferred tax provision (see below)	245
Decrease in net assets (Note 18)	506
Decrease in basic earnings per share (pence)	0.7p

The impact of adoption of FRS 19 in 2002 has been an increase in the deferred tax charge of £0.175m. The cumulative effect on net assets at 31 December 2002 is £0.681m.

	Group			Company	
	2002	2001 Restated	2001 Original	2002	2001
	£000's	£000's	£000's	£000's	£000's
Deferred tax	1,609	1,089	844	(8)	-
Deferred tax analysis:					
Capital allowances in excess of depreciation	962	490	544	(8)	-
Short term timing differences	766	(152)	300	-	-
Losses	(9,756)	(5,314)	-	-	-
Goodwill	9,637	6,065	-	-	-
	1,609	1,089	844	(8)	-

The movement during the year was as follows:

Beginning of year	1,089	365	649	-	-
On acquisition of subsidiaries	(211)	(343)	(67)	-	-
Charge/(credit) for the year	712	1,067	277	(8)	-
Exchange differences	19	-	(15)	-	-
End of year	1,609	1,089	844	(8)	-

16 Provision for liabilities and charges continued

The movement on other provisions during the year was as follows:

Group

Onerous lease contracts	2002 £000's	2001 £000's
Beginning of year	1,457	2,205
Released	(322)	(537)
Utilised	(164)	(421)
New provisions	653	219
Exchange difference	14	(9)
End of year	1,638	1,457

The Group has provided for the rental payments due over the remaining term of existing operating lease contracts where a period of vacancy is either ongoing or foreseeable. The provision has been calculated after taking into account both the periods over which properties are likely to remain vacant and the likely income from existing and future sub lease agreements. The provision covers potential transfer of economic benefit over the full range of current lease commitments disclosed in Note 22.

Group

Other provisions	2002 £000's	2001 £000's
Beginning of year	1,156	1,197
Credit for the year	(173)	(7)
Exchange difference	76	(34)
End of year	1,059	1,156

Other provisions consists of provision for post retirement benefits of £0.901m (2001: £1.012m) in accordance with local statute in two foreign subsidiary undertakings and a provision against outstanding claims of £0.158m (2001: £0.144m).

17 Called up share capital

	2002 £000's	2001 £000's
Authorised:		
190,000,000 ordinary shares of 10p each (2001: 190,000,000)	19,000	19,000
Allotted, called up and fully paid:		
119,683,995 ordinary shares of 10p each (2001: 118,645,739)	11,968	11,865

Cash consideration received by the Company for shares allotted during the year amounted to £1,735,000 (2001: £384,000).

17 Called up share capital continued

At 31 December 2002 the following share options were outstanding:

Scheme and date of grant		Number of shares				Exercise dates		
	At 1 January 2002	Granted	Exercised	Lapsed	At 31 December 2002	Option price per 10p share	Date from which option may be exercised	Date on which option expires
1989 Share Option Scheme								
19/04/1994	318,000	-	(114,000)	-	204,000	261.00p	19/04/1997	18/04/2004
17/10/1994	200,000	-	(200,000)	-	-	250.00p	17/10/1997	16/10/2004
11/03/1994	27,948	-	-	(27,948)	-	258.00p	11/03/1997	10/03/2004
Long Term Incentive Plan								
27/04/1998	14,143	-	(14,143)	-	-	10.00p	27/04/2001	26/04/2005
01/04/1999	101,368	-	(95,441)	-	5,927	10.00p	01/04/2002	31/03/2006
11/04/2000	72,999	-	-	-	72,999	10.00p	11/04/2003	10/04/2007
17/04/2001	79,715	-	(3,785)	-	75,930	10.00p	17/04/2004	17/04/2008
19/04/2002	-	55,223	(3,115)	-	52,108	10.00p	19/04/2005	19/04/2009
01/10/2002	-	15,168	-	-	15,168	10.00p	02/10/2005	02/10/2009
1997 Executive Share Option Scheme								
30/05/1997	167,500	-	(10,000)	-	157,500	309.50p	30/05/2000	29/05/2007
27/04/1998	197,000	-	(101,634)	(500)	94,866	212.50p	27/04/2001	26/04/2008
01/04/1999	232,500	-	(94,500)	(22,500)	115,500	158.50p	01/04/2002	31/03/2009
11/04/2000	150,500	-	(5,000)	(30,000)	115,500	232.50p	11/04/2003	10/04/2010
11/09/2000	9,000	-	-	-	9,000	261.00p	11/09/2003	11/09/2010
17/04/2001	172,500	-	(5,000)	(5,000)	162,500	251.00p	17/04/2004	17/04/2011
19/04/2002	-	203,500	-	-	203,500	321.00p	19/04/2005	19/04/2012
Savings Related Schemes								
13/11/1995	2,800	-	-	-	2,800	223.00p	30/11/2000	29/05/2003
13/05/1997	22,554	-	(18,697)	(3,857)	-	166.00p	31/05/2002	30/11/2004
06/06/1997	24,514	-	(10,015)	(14,499)	-	254.00p	01/07/2000	31/12/2002
21/05/1998	294,757	-	(12,128)	(5,822)	276,807	166.00p	01/07/2001	31/12/2003
11/05/1999	1,086,024	-	(349,258)	(31,643)	705,123	122.00p	01/07/2002	31/12/2004
02/05/2000	346,070	-	(608)	(49,907)	295,555	186.00p	01/07/2003	31/12/2005
04/05/2001	626,981	-	(932)	(152,493)	473,556	201.00p	01/07/2004	31/12/2006
17/05/2002	-	682,787	-	(65,205)	617,582	257.00p	01/07/2005	31/12/2007
Total	4,146,873	956,678	(1,038,256)	(409,374)	3,655,921			

18 Reserves

	Group		Company	
	2002	2001 Restated	2002	2001
	£000's	£000's	£000's	£000's
Share premium account	14,131	12,499	14,131	12,499
Merger reserve	-	-	21,655	21,655
Capital redemption reserve	347	347	347	347
Special reserve	22,113	17,278	130,365	130,365
L-TIP reserve	326	306	326	306
Profit and loss account	146,642	128,997	71,007	97,185
Exchange reserve	(1,471)	(6,312)	-	-
Total reserves	182,088	153,115	237,831	262,357

The Company's loss for the financial year includes an exchange loss relating to repayment of intercompany loans of £15,239,000, before an associated tax credit of £4,572,000 and write-off of intercompany indebtedness of £27,191,000.

The movement in reserves during the year was as follows:

	Share premium account	Special reserve	L-TIP reserve	Profit and loss account Restated	Exchange reserve
Group	£000's	£000's	£000's	£000's	£000's
At 31 December 2001 as previously reported	12,499	17,278	306	129,503	(6,312)
Prior year adjustment (Note 16)	-	-	-	(506)	-
At 31 December 2001 as restated	12,499	17,278	306	128,997	(6,312)
Premium on allotments	1,632	-	-	-	-
Retained profit for the year	-	-	-	17,491	-
Loss on foreign currency translation	-	-	-	-	269
Tax credit arising on repayment of overseas intercompany loans	-	-	-	-	4,572
Adjustment to goodwill	-	4,835	-	-	-
Credit to L-TIP reserve	-	-	174	-	-
Transfer on L-TIP exercise	-	-	(154)	154	-
End of year	14,131	22,113	326	146,642	(1,471)

In 1996, £18.013m of goodwill arose on the acquisition of H.Golinski GmbH & Co. KG which was written off to the Special reserve in accordance with the accounting standard in force at that time. In 2002, an adjustment has been made to reduce the cost of this investment and the associated goodwill arising by £4.835m following a review of amounts provided by the Group for liabilities to a former shareholder, which are no longer required.

The cumulative amount of goodwill resulting from acquisitions in earlier years which has been written-off directly against reserves, net of goodwill relating to undertakings disposed of, is £133.431m (2001: £138.266m).

	Share premium account	L-TIP reserve	Profit and loss account
Company	£000's	£000's	£000's
Beginning of year	12,499	306	97,185
Premium on allotments	1,632	-	-
Credit to L-TIP reserve	-	174	-
Loss transferred to reserves	-	-	(26,332)
Transfer on L-TIP exercise	-	(154)	154
End of year	14,131	326	71,007

19 Reconciliation of operating profit to net cash inflow from operating activities

	Group	
	2002 £000's	2001 £000's
Operating profit	53,399	56,312
Depreciation charge	16,028	14,300
Amortisation of goodwill	4,524	2,801
Profit on sale of tangible fixed assets	(451)	(504)
Increase in stocks	(4,010)	(3,704)
Increase in debtors	(5,675)	(7,463)
Increase/ (decrease) in creditors	884	(10,810)
Net cash inflow from operating activities	64,699	50,932

The acquisitions during the year had the following effects on the Group's cash flows: net cash inflow from operating activities, £1.2m; interest paid, £0.4m; capital expenditure, £0.3m; taxation paid, £0.4m.

20 Reconciliation of net cash flow to movements in net debt

	Group	
	2002 £000's	2001 £000's
Increase in cash in the year	21	38,645
Cash inflow from increase in debt	(10,609)	(76,427)
Changes in net debt resulting from cash flows	(10,588)	(37,782)
Acquisitions	(151)	(84)
Exchange differences	(3,313)	935
Movement in net debt in the year	(14,052)	(36,931)
Net debt at 1 January 2002	(109,328)	(72,397)
Net debt at 31 December 2002	(123,380)	(109,328)

21 Analysis of net debt

	At 1 January 2002 £000's	Cash flows £000's	Acquisitions (excluding overdrafts) acquired £000's	Exchange differences £000's	At 31 December 2002 £000's
Cash	10,348	4,031	-	(821)	13,558
Overdrafts	(15,845)	(4,010)	-	1,257	(18,598)
	(5,497)	21	-	436	(5,040)
Debts due within one year	-	(7,819)	-	-	(7,819)
Debts due after one year	(94,866)	(2,467)	-	(3,596)	(100,929)
Finance leases and hire purchase agreements	(8,965)	(323)	(151)	(153)	(9,592)
	(109,328)	(10,588)	(151)	(3,313)	(123,380)

22 Guarantees and other financial commitments

a) Capital commitments

	Group	
	2002	2001
	£000's	£000's
Contracted but not provided for	1,133	3,433

The Company has no capital commitments (2001: £ nil).

b) Lease commitments

The Group leases a number of its premises under leases which expire between 2003 and 2049.

The rentals payable are subject to renegotiation at various dates. The minimum annual rentals under the foregoing leases are as follows:

	2002	2001
	£000's	£000's
Operating leases which expire:		
- within 1 year	2,377	1,639
- within 2-5 years	11,183	6,733
- after 5 years	8,642	10,039
	22,202	18,411

The Group also leases certain items of plant and machinery whose minimum annual rentals are as follows:

	2002	2001
	£000's	£000's
Operating leases which expire:		
- within 1 year	1,065	1,151
- within 2-5 years	2,585	1,965
- after 5 years	10	11
	3,660	3,127

c) Guarantees

The Company has cross guaranteed overdrafts of subsidiary undertakings amounting to £12.133m (2001: £21.632m).

d) Pension scheme

The Group operates a number of pension schemes, four (2001: four) of which provide defined benefits based on final pensionable salary, the assets of which are held in trustee administered funds. The others are defined contribution schemes all of which are independently managed.

The valuations of the UK defined benefits pension schemes are assessed by an independent actuary every three years who recommends the rate of contribution payable each year.

The main actuarial assumptions in the pension assessments were that over the long term the annual investment return would be 2.5% higher than the annual increase in pensionable salaries, and 1% higher than the annual increase in pensions.

The last formal actuarial valuations of two of the defined benefits schemes (including the main scheme) were conducted at 1 January 2001, and showed that the market value of the scheme's assets were £24.6m and £2.1m and their actuarial values covered 83% and 117% respectively of the benefits accrued to members after allowing for expected future increases in pensionable salaries.

The last formal actuarial valuation of the third defined benefit scheme was at 30 June 2001 and showed that the market value of the scheme's assets was £9.47m and its actuarial value covered 117% of the benefits accrued to members after allowing for expected future increases in pensionable salaries.

The last formal actuarial valuation of the fourth defined benefit scheme was at 6 April 2001 and showed that the market value of the scheme's assets was £1.507m and its actuarial value covered 87% of the benefits accrued to members after allowing for future expected increases in pensionable salaries.

Pensions for employees of overseas subsidiaries are provided in accordance with local requirements and practices.

22 Guarantees and other financial commitments continued

d) Pension scheme continued

As required by SSAP 24 Accounting for pension costs, the figures included in the accounts in respect of the Group's pension schemes are based on actuarial valuations carried out at 1 January 2001, 30 June 2001 and 6 April 2001. This does not take into account any impact of the fall in general stock market values since that date. Any such impact will be reflected in the next triennial valuations, based upon which subsequent pension costs will be determined until adoption of FRS 17.

The pension charge for the year relating to the main scheme was £1.577m (2001: £1.830m) and for the other schemes was £2.613m (2001: £1.872m). The charge for the main scheme has been calculated on the basis that the shortfall within the scheme as at 1 January 2001 will be recognised over the average expected remaining service lives of the active membership of 11 years. The Group contribution to the main scheme during the year amounted to 25.5% of pensionable salaries up to 31 July 2002 and 20.7% thereafter, following agreement with the members to increase employee contribution levels and reduce future benefits in order to limit future scheme liabilities.

Included in Group prepayments and accrued income at 31 December 2002 is £3.9m, (2001: £3.5m) arising from the accumulated difference between contributions paid and pension costs charged.

Additional disclosures regarding the Group's defined benefit pension schemes are required under the transitional provisions of FRS 17 Retirement benefits and these are set out below. The disclosures relate to the second year of the transitional provisions. They provide information that will be necessary for full implementation of FRS 17 in the year ending 31 December 2005.

The actuarial valuations described above have been updated at 31 December 2002 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value.

The major assumptions used for the FRS 17 actuarial valuation of the main scheme were:

	2002	2001
Rate of increase in salaries	4.3%	4.5%
Rate of fixed increase of pensions in payment	5%	5%
Rate of increase of LPI pensions in payment	2.3%	2.5%
Discount rate	5.6%	6%
Inflation assumption	2.3%	2.5%

The fair value of the assets in the main scheme, the present value of the liabilities in the main scheme and the expected rate of return at the balance sheet date were:

	2002 %	2002 £000's	2001 %	2001 £000's
Equities	7.5	17,306	8.0	19,800
Bonds	5.1	6,746	5.0	6,600
Other	4.5	62	5.0	200
Total fair value of assets		24,114		26,600
Present value of scheme liabilities		(39,700)		(34,800)
Deficit in the scheme		(15,586)		(8,200)
Related deferred tax asset		4,676		2,460
Net pension liability		(10,910)		(5,740)

Future joint contribution rates for the main scheme have been agreed at 18% of pensionable salaries plus fixed monthly company contributions of £86,430.

All defined benefit schemes are closed to new members, have an age profile that is rising and therefore under the projected unit method the current service cost will increase as the members of the schemes approach retirement.

In respect of the three other defined benefit schemes the net FRS 17 pension liability at 31 December 2002 amounted to £3.047m (2001: net asset £0.327m).

22 Guarantees and other financial commitments continued

d) Pension scheme continued

Analysis of the amount that would have been charged to operating profit under FRS 17 in relation to the main scheme:

	2002 £000's
Current service cost	1,170
Past service cost	100
	<u>1,270</u>

Analysis of the amount that would have been charged to net finance income under FRS 17 in relation to the main scheme:

	2002 £000's
Expected return on pension scheme assets	1,989
Interest on pension scheme liabilities	(2,120)
	<u>(131)</u>

Analysis of the actuarial loss that would have been recognised in the statement of total recognised gains and losses in respect of the main scheme:

	2002 £000's
Actual return less expected return on assets	(6,093)
Experience gains and losses on liabilities	-
Changes in assumptions	(1,919)
Actuarial loss recognised in STRGL	(8,012)
Adjustment due to surplus cap	-
Net loss recognised	<u>(8,012)</u>

Movement in deficit during the year in respect of the main scheme:

	2002 £000's
Deficit in main scheme at beginning of year	(8,200)
Movement in year:	
Current service cost	(1,170)
Contributions	2,027
Past service costs	(100)
Net interest cost	(131)
Actuarial loss	(8,012)
Deficit in main scheme at end of year	<u>(15,586)</u>

History of experience gains and losses of the main scheme:

	2002
Difference between expected and actual return on scheme assets:	
Amount (£'000's)	(6,093)
Percentage of scheme assets	-25%

22 Guarantees and other financial commitments continued**d) Pension scheme** continued**Experience gains and losses on scheme liabilities:**

Amount (£000's)	-
Percentage of present value of scheme liabilities	-%

Total amount recognised in statement of total recognised gains and losses:

Amount (£000's)	(8,012)
Percentage of present value of scheme liabilities	-20%

The analysis of reserves that would have arisen if FRS 17 had been fully implemented in relation to the main scheme is as follows:

	2002	2001
	£000's	Restated £000's
Profit and loss reserve excluding pension liability	146,642	128,997
Amount relating to main defined benefit pension scheme deficit, net of related deferred tax	(10,910)	(5,740)
Profit and loss reserve	135,732	123,257

e) Contingent liabilities

As at the balance sheet date, the Group had outstanding obligations under customer guarantees, claims and discounted bills of up to £912,000 (2001: £767,000).

Principal Trading Subsidiaries

At 31 December 2002 the Company's principal trading subsidiaries, all of which are wholly owned except where stated, were as follows:

Name of Company	Principal Activity	Country of Registration
SIG Trading Limited (formerly CPD Distribution PLC)	Distribution of insulating materials and associated products, roofing materials, ceiling tiles, personal protective equipment, and the design, manufacture and distribution of partitioning.	England & Wales
Société de l'Ouest des Produits Isolants SA (Ouest Isol)	Distribution of insulating materials and associated products, ceiling tiles, partitions and associated products, and roofing products.	France
WKT Dämmstoffe GmbH & Co. Holding OHG	Distribution of insulating materials and associated products.	Germany
H Golinski GmbH & Co. KG	Distribution of insulating materials and associated products.	Germany
WKT Polska sp.ZO.O.	Distribution of insulating materials and associated products.	Poland
SIG (Southwest) Inc.	Distribution of insulating materials and associated products.	USA
BWI Distribution Inc.	Distribution of insulating materials and associated products.	USA
Miller Pattison Limited	Installation of loft and cavity wall insulation.	England & Wales
SIG Nederland B.V. (formerly Nouwens Groep B.V.)	Distribution of ceiling tiles, partitions and associated products.	The Netherlands
Capco Holdings Limited	Distribution of ceiling tiles, partitions and associated products, roofing products, insulating materials and office furniture.	Republic of Ireland
CP Supplies (Ireland) Limited	Distribution of ceiling tiles, partitions and associated products.	Republic of Ireland
Insulation Distributors Limited	Distribution of insulating materials and associated products.	Republic of Ireland

On 31 December 2002 the trade and net assets of Sheffield Insulations Limited, SIG Roofing Supplies Limited, Support Site Limited, Komfort Office Environments plc, Capco Interior Supplies Limited and Safety Distribution Limited were transferred into SIG Trading Limited (formerly CPD Distribution PLC).

All the above companies operate principally in the UK except for Ouest Isol (France), WKT Dämmstoffe GmbH & Co. Holding OHG and H. Golinski GmbH & Co. KG (Germany), SIG (Southwest) Inc and BWI Distribution Inc (USA), CP Supplies (Ireland) Limited (Republic of Ireland), Insulation Distributors Limited (Republic of Ireland and UK), WKT Polska sp.ZO.O. (Poland), SIG Nederland B.V. (The Netherlands) and Capco Holdings Limited (UK and Republic of Ireland).

WKT Dämmstoffe GmbH & Co. Holding OHG and H. Golinski GmbH & Co. KG are wholly owned by WKT Dämmstoffe Holding GmbH & Co KG (an intermediate German holding company).

SIG Roofing Supplies Limited is wholly owned by Warm A Home Limited (an intermediate holding company).

SIG (Southwest) Inc and BWI Distribution Inc are wholly owned by SIG USA Inc (an intermediate holding company).

Support Site Limited and SIG Nederland B.V. are wholly owned by Fibreglass Insulations Limited (an intermediate holding company).

The Group owns 80% of the ordinary share capital of Insulation Distributors Limited.

Principal Addresses



For further information visit:
www.sigplc.co.uk/subsids

SIG plc
SIG Trading Limited
Sheffield Insulations Limited
CPD Distribution PLC
Miller Pattison Limited
Warren Insulation plc
Kitsons Insulation Products Limited
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Ouest Isol
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France

SIG Southwest Inc
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USA

SIG Nederland B.V. (formerly Nouwens Groep B.V.)
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BWI Distribution Inc
10942 Beaver Dam Road
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M02130
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SIG Roofing Supplies Limited
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PE17 4YJ

Komfort Office Environments plc
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Capco Holdings Limited
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Safety Distribution Limited
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West Midlands
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Support Site Limited
BBM (Materials) Limited
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Cardiff
CF24 5HF

CP Supplies (Ireland) Limited
Unit 3A
Kylmore Industrial Estate
Kileen Road
Dublin 10

Insulation Distributors Limited
Unit 15
Parkwest Industrial Estate
Nangor Road
Dublin 12

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the members of the Company will be held at Aston Hall Hotel, Worksoop Road, Aston, Sheffield, S26 2EE on the 2nd May 2003 at 12 noon for the following purposes:

- 1 To receive and adopt the financial statements for the year ended 31 December 2002 together with the reports of the Directors and Auditors thereon.
- 2 To receive and adopt the Directors' remuneration report for the year ended 31 December 2002.
- 3 To declare a final dividend on the Ordinary shares.
- 4 To re-elect Mr G W Davies as a Director.
- 5 To re-elect Mr D A Haxby as a Director.
- 6 To re-elect Mr L O Tench as a Director.
- 7 To re-elect Mr B Cottingham, who retires by rotation, as a Director.
- 8 To re-appoint Deloitte & Touche as auditors and authorise the Directors to fix their remuneration.

To consider, and if thought fit, pass the following Resolutions of which Resolution 9 will be proposed as an Ordinary Resolution and Resolutions 10 and 11 will be proposed as Special Resolutions:

- 9 That the Directors be and they are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Companies Act 1985) up to an aggregate nominal value of £3,989,744 provided that this authority shall expire at the close of the next Annual General Meeting of the Company following the passing of this resolution, save that the Directors may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and may allot relevant securities pursuant to such an offer or agreement as if the authority conferred hereby had not expired.
- 10 That the Directors be empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the Act) for cash as if Section 89(1) did not apply to any such allotment, provided that this power shall be limited:
 - a) to the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as possible) to the respective numbers of ordinary shares held or deemed to be held by them, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient, to deal with legal or practical problems in respect of overseas shareholders, fractional entitlements or otherwise; and
 - b) to the allotment (other than under sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £598,461.

and shall expire at the close of the next Annual General Meeting after the passing of this resolution or, if earlier, not more than 15 months after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement if the authority conferred hereby had not expired.

- 11 That;
 - a) In accordance with Article 48 of its Articles of Association and Chapter VII of Part V of the Companies Act 1985 ('the Act') and subject to paragraph (b) of this Resolution, the Company be and is hereby granted general and unconditional authority (pursuant to Section 166 of the Act) to make purchases (as defined in Section 163 of the Act) of its own shares on such terms and in such manner as the Directors of the Company may from time to time determine.

- b) The authority conferred by paragraph (a) of this Resolution shall:
- 1) expire on the earlier of 1 August 2004 and the conclusion of the 2004 Annual General Meeting;
 - 2) be limited to the purchase of a maximum of 11,969,200 Ordinary shares;
 - 3) not permit the payment per Ordinary share of more than five per cent above the average of the middle market quotations for an Ordinary share derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which any purchase by the Company of Ordinary shares is made;
 - 4) not permit the payment of less than 10p per Ordinary share; and
 - 5) before its expiry entitle the Company to enter into any contract for the purchase of Ordinary shares which might be executed and completed wholly or partly after its expiry and to make purchases of Ordinary shares in pursuance of any such contract.
- c) This authority shall only be capable of variation, revocation or renewal by the Company in general meeting.

By order of the Board:


J.R. Symnerton, Secretary

10 March 2003

Notes

- 1 Members must be registered as the holders of shares 48 hours before the time fixed for holding the meeting or adjourned meeting in order to be able to attend and vote at the meeting in respect of those shares.
- 2 A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
- 3 The Register of Directors' Interests in the Company's shares will be available for inspection at the registered office of the Company during usual business hours from the date of this notice until the date of the meeting and at the place of the meeting from 11.45 am until the end of the meeting.
- 4 It is a requirement of Section 80 of the Companies Act 1985 that the Directors' power to allot shares be authorised by the Articles or by an ordinary resolution. Accordingly Resolution No. 9 to be proposed at the Annual General Meeting gives the Directors a general authority to allot shares up to a maximum nominal value of £3,989,744 (representing one-third of the issued ordinary share capital of the Company). This authority will expire at the conclusion of the 2004 Annual General Meeting. It is a requirement of Section 89 of the Companies Act 1985 that any shares being issued for cash must in general be offered to existing shareholders pro-rata to their existing holdings. However, where the Directors have been granted a general authority to allot shares they may be given power by the Articles or by a special resolution to allot shares pursuant to such authority as if the statutory pre-emption rights (described above) did not apply. Resolution No. 10 to be proposed at the Annual General Meeting accordingly gives the Directors power to make allotments of shares in connection with a rights issue and otherwise to make allotments to a maximum aggregate nominal amount of £598,461 (representing approximately 5 per cent of the issued ordinary share capital of the Company) as if the relevant provisions of the Companies Act 1985 regarding pre-emption rights did not apply. This power will expire at the conclusion of the 2004 Annual General Meeting. The Directors have no current intention of using these powers but consider it advisable to pass both resolutions in order that they can be prepared to take advantage of future situations which may arise. It is a requirement of Section 166 of the Companies Act 1985 that a company shall not make a market purchase of its own shares unless the purchase has first been authorised by the company in general meeting. Accordingly, Resolution No. 11 to be proposed at the Annual General Meeting as a special resolution gives the Directors power to make market purchases of the Company's shares up to a maximum of 11,969,200 (representing approximately 10 per cent of the issued ordinary share capital of the Company). This power will expire on the earlier of 1 August 2004 and the conclusion of the 2004 Annual General Meeting. It is intended that purchases will only be made on the London Stock Exchange. This is not intended to imply that shares will be purchased. The Directors believe that it is in the best interests of all shareholders that the Company should have the flexibility to make market purchases of its own shares. The effect of such purchases would be to reduce the number of shares in issue and, accordingly, the Directors would make such purchases only if it would be in the best interests of shareholders generally and, in any case, if it would result in an increase in earnings per share.
- 5 Mr Davies (age 39) joined the Group on 15 November 1993 as Group Financial Controller, having previously been a senior manager with Arthur Andersen. He was appointed to the main Board on 1 August 2002 as Finance Director.

Mr Haxby (61) is currently a non-executive director of Cattles plc and Cyberes plc, positions he has held since 1999 and 2000 respectively. From 1991 until his retirement in 1995 he was the London Office managing partner of Arthur Andersen and since then has served on the board of a number of public and private companies. Since becoming a director, he has been appointed chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

Mr Tench (57) joined CRH plc in 1992, and since 1998 until his retirement in December 2002 was managing director of CRH-Europe, Building Products. He is a non-executive director of the privately owned Shepherd Building Group Limited, a position he has held since 1994. Since becoming a director, he has taken on the role of senior independent director and has been appointed a member of the Remuneration, Audit and Nomination Committees.

Mr Cottingham (age 69) became a non-executive director in August 1993 and chairman in April 1996. He is chairman of the Nomination Committee and a member of the Remuneration and Audit Committees. He was chairman of the Audit Committee until 1 March 2003. He is a former senior partner of Coopers & Lybrand, chartered accountants. He is non-executive chairman of Cattles plc, a non-executive director of Vp plc and non-executive deputy chairman of Dew Pitchmastic plc.

Financial Calendar

Final dividend 2002	➤ Paid May 2003
Half year results 2003	➤ Announcement September 2003
Interim dividend 2003	➤ Paid November 2003
Full year results 2003	➤ Announcement March 2004
Report and accounts 2003	➤ Posted to shareholders March 2004
Final dividend 2003	➤ Paid May 2004

Five Year Financial Summary

	1998 £000's	1999 £000's	2000 £000's	2001 £000's	2002 £000's
Turnover	795,780	841,304	931,927	1,037,258	1,154,968
Operating profit	37,530	44,207	50,874	56,312	53,399
Net interest payable	2,184	1,902	2,703	5,045	7,051
Profit before taxation	35,346	42,305	48,171	51,267	46,348
Profit after taxation	24,043	29,072	32,949	34,250*	31,702
Earnings per share	20.1p	24.4p	27.7p	28.8p*	26.3p
Dividend per share	8.4p	9.3p	10.2p	11.0p	11.6p

* Restated for the adoption of FRS 19 Deferred tax (see Note 16).



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