

SIG plc
Annual Report and Accounts 2009

REGISTERED NUMBER
Registered in England
998314

THE CONSTRUCTION INDUSTRY'S **FIRST CHOICE** FOR SPECIALIST PRODUCTS

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COMPANIES HOUSE

SIG plc is a leading European supplier of insulation, exteriors, interiors and specialist construction products.

SIG's strategy is to develop and grow the Group as a leading supplier of specialist products to the construction and related markets, in order to achieve sustainable long term growth in shareholder value.

The core principles of SIG are:

- **FOCUS**
- **SPECIALISATION**
- **SERVICE**

These principles enable the Group's businesses to offer expert advice and know-how, wide product choice and a fast and efficient delivery service.

AT A GLANCE: PERFORMANCE

* Underlying figures are stated before the amortisation of acquired intangibles impairment charges restructuring costs and gains and losses on derivative financial instruments

† Recalculated in accordance with IAS 33 "Earnings per Share" see note 8 on page 82 for details

* Like for like is defined as the business excluding the impact of acquisitions and disposals made in the current and prior year

Revenue

£2,744m

07	£2 455m
08	£3 054m
09	£2,744m

Underlying* operating profit

£80.9m

07	£159.4m
08	£169.8m
09	£80.9m

Underlying* basic earnings per share

9.0p

07	74.8p
08	58.9p*
09	9.0p

Basic (loss)/earnings per share

(9.7p)

07	66.3p
08	3.8p*
09	(9.7p)

AT A GLANCE: PERFORMANCE

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Read more about our company
www.sigplc.com/About-Us.htm

Like for like* sales (11.6%)

07	10.9%
08	6.5%
09	(11.6%)

Operating (loss)/profit (£32.5m)

07	£142.2m
08	£107.0m
09	(£32.5m)

Underlying* profit before tax £60.6m

07	£140.1m
08	£137.3m
09	£60.6m

(Loss)/profit before tax (£55.3m)

07	£124.3m
08	£33.1m
09	(£55.3m)

Trading sites as at 31 December 2009 753

07	779
08	807
09	753

Employees as at 31 December 2009 11,800

07	12,100
08	13,300
09	11,800

AT A GLANCE: ACTIVITIES

Insulation and Building Environments

SIG is the largest specialist supplier of insulation and related products in Europe. It holds leading market positions in the UK, Ireland, Germany and Poland and is the leader in industrial insulation in France.

SIG also operates in The Netherlands, Belgium, Austria, Czech Republic, Slovakia and Hungary.

Exteriors

SIG is the largest specialist supplier of exterior roofing products in the UK, Ireland and France and is a key regional supplier in Germany and Poland.

SIG supplies products and systems to every sector of the roofing industry for both new projects and repair and maintenance.

Interiors

SIG is a leading supplier in the UK and Ireland of purpose-made partitions and performance doorsets for all types of commercial and other non-residential buildings. It is also the leading distributor of branded complementary products for the interior fit out of non-residential buildings with trading sites in the UK, Ireland, Germany, France, Poland, The Netherlands, Belgium, Austria, Czech Republic, Slovakia and Hungary.

Specialist Construction Products

SIG is a leading supplier of specialist construction products in the UK and Ireland and offers a wide portfolio of products including concrete accessories, waterproofing systems and chemicals, brickwork support systems, specialist fixings, safety products and tools. SIG also supplies specialist construction products in Poland, Germany and France.

UK AND IRELAND

£1,326.2m

48.3%

of total revenue

KEY

- Principal countries of operation
(see page 7 of the business review)

MAINLAND EUROPE

£1,417.3m

51.7%

of total revenue

£1,086.4m

39.6%

of total revenue

£749.0m

27.3%

of total revenue

£685.9m

25.0%

of total revenue

£222.2m

8.1%

of total revenue

CHAIRMAN'S STATEMENT

2009 was an exceptionally challenging year for SIG, with the global economic downturn significantly reducing construction activity and hence demand for the products and services supplied by the Group.

GLOSSARY OF TERMS

LIKE FOR LIKE

is defined as the business excluding the impact of acquisitions made since 1 January 2008

UNDERLYING

is before the amortisation of acquired intangibles, impairment charges, restructuring costs and gains and losses on derivative financial instruments

Like for like sales declined by 11.6% in Sterling and 15.6% in constant currency

The continued weakness of Sterling throughout 2009 against the Euro resulted in foreign exchange rate movements having a beneficial impact on reported sales on a year on year basis, adding £125m to sales

UNDERLYING PROFITS

Total underlying operating profit fell by £88.9m (52.4%) to £80.9m (2008: £169.8m). On a constant currency basis underlying operating profit was £75.9m (2008: £169.8m)

Underlying net finance costs reduced by £12.2m to £20.3m (2008: £32.5m)

Underlying profit before tax reduced by £76.7m (55.9%) to £60.6m (2008: £137.3m).

LES TENCH

NON EXECUTIVE CHAIRMAN

HIGHLIGHTS:

- Extremely challenging trading conditions in 2009
- Comprehensive package of measures including significant restructuring implemented in 2008 and 2009 to deliver annualised net savings of £100m
- Significantly strengthened financial position

2009 was an exceptionally challenging year for SIG, with the global economic downturn significantly reducing construction activity and hence demand for the products and services supplied by the Group. The scale of the decline varied by geography and market sector, with a number of SIG's Mainland European countries of operation less heavily affected than the UK and Ireland. Against the backdrop of these challenging trading conditions, the Group has remained focused on its cost saving and restructuring programme as well as initiatives to improve cash generation and reduce the Group's level of net debt.

Since the middle of 2008, the Group has achieved total annualised cost savings of £100m, and following the equity raise in 2009, net debt has reduced by £442.6m to £254.5m (2008: £697.1m). Underlying profit before tax for the year of £60.6m is in line with market expectations.

RESULTS

For the year ended 31 December 2009, compared with the corresponding period in 2008

SALES

Total sales decreased by £310m (10.2%) to £2,744m (2008: £3,054m)

OTHER ITEMS

The Group continued its cost saving and restructuring programme, which commenced in July 2008, throughout 2009. The primary objective has been to realign the Group's cost base to current and anticipated levels of market demand but also to drive operational and commercial efficiencies within the Group. One-off restructuring costs incurred in 2009 amounted to £54.8m, taking the total one-off costs since the inception of the programme in 2008 to £77.0m. The restructuring programme in total has delivered annualised net hard cost savings of £100m of which £30m is incremental in 2010.

Amortisation of acquired intangibles increased by £2.2m to £28.6m (2008: £26.4m). In addition, the carrying value of goodwill in respect of the Group's Irish business has been written down by a further £30m during the year. Net losses on derivative financial instruments were £2.5m (2008: £41.4m).

(LOSS)/PROFIT BEFORE TAX

The Group recorded a loss before tax of £55.3m (2008: profit before tax £33.1m) after accounting for the other items noted above.

MARGINS

The underlying operating profit margin for the Group fell from 5.6% to 2.9% during the year. This decline principally arose as the sales decline in 2009 outpaced the Group's reduction in operating costs. In addition, the reduction in the Group's gross margin from 26.5% to 25.3% was a significant factor.

In the UK and Ireland, the underlying operating profit margin fell from 6.7% to 2.8% reflecting the decline in like for like sales of 21.7% and also the reduction in the gross margin by 2%.

In Mainland Europe, the underlying operating profit margin reduced from 4.9% to 3.5%.

EARNINGS AND DIVIDENDS

The underlying basic earnings per share reduced by 49.9p (84.7%) to 9.0p (2008: 58.9p). Basic EPS amounted to a loss per share of 9.7p (2008: earnings per share 3.8p) as a result of charging the other items noted above to profit after tax.

Focus, Specialisation and Service

RESULTS CONTINUED

EARNINGS AND DIVIDENDS CONTINUED

The Board has determined not to propose a final dividend in respect of 2009. This follows no interim dividend being declared.

The Board remains committed to a progressive dividend policy and SIG will resume dividend payments when markets stabilise and it believes it is prudent to do so taking into account the Group's earnings, cash flow and balance sheet position.

CAPITAL STRUCTURE

In order to reduce the Group's level of debt from £697m at 31 December 2008 and in light of the increasingly challenging outlook for 2009, in April 2009 the Group raised £325m (net of expenses) through the issue of 455,047,973 ordinary shares via a placing and open offer and firm placing of new shares. The equity share issue enabled SIG to preserve its existing attractive debt financing arrangements and increase headroom against debt covenants. The reduction in debt also provides greater resilience and financial flexibility in the current environment.

FINANCIAL POSITION

Overall, the Group's level of net debt at 31 December 2009 has reduced by £442.6m to £254.5m (2008: £697.1m). This reduction in debt can be analysed as follows:

- intense focus on cash management continued throughout the year and the Group implemented a range of operational measures to reduce working capital and minimise non-essential capital expenditure. As a result of these measures, despite lower trading volumes, trading cash generated has increased from £156.0m in 2008 to £174.1m in 2009.
- as detailed above, in April 2009 the Group raised £325m (net of expenses) via a placing and open offer and firm placing of new shares. The Group has used these equity proceeds to reduce the Group's overall level of net debt.
- interest and taxation payments in 2009 reduced by £25.5m to £37.9m (2008: £63.4m).
- following the appreciation of Sterling against the Euro in 2009, the Group benefited from foreign exchange rate gains on the Group's reported net debt position of £20m. However, these gains were more than offset by fair value movements associated with the Group's derivative financial instruments which added a further £25m to the Group's net debt at 31 December 2009.

ACQUISITIONS

No acquisitions have been made in the year.

COST SAVING INITIATIVES

2009 was characterised by massive upheavals and uncertainty in construction markets which began in earnest in 2008 but which gathered momentum during the year. Against this backdrop, SIG instigated a comprehensive range of measures to minimise the impact of the macroeconomic crisis on its various businesses, aimed at protecting profits by reducing costs promptly in light of rapidly shifting market conditions whilst simultaneously defending its strong market positions and maintaining the integrity of its customer service proposition. At the same time as implementing very substantial change programmes most of the Group's operating units succeeded in delivering a sales performance ahead of their respective individual markets, an achievement which is of great credit to the professionalism and commitment of the Group's operational management and staff.

The following table sets out the impact of the restructuring and cost saving programme since inception in 2008. The table also separately details the cost saving measures introduced since 1 January 2009.

	Total actions 1 July 2009 – To 30 June 31 December 2009			2009 actions		
	2009	2009	Cumulative	H1 2009	H2 2009	Cumulative
Annualised net hard cost savings	£74m	£26m	£100m	£39m	£26m	£65m
Branches closed/merged	124	28	152	44	28	72
Headcount reduction	2,000	794	2,794	980	794	1,774
Associated one-off costs	£40m	£37m	£77m	£18m	£37m	£55m

BOARD

During the year SIG appointed Chris Geoghegan, Vanda Murray OBE and Jonathan Nicholls to its Board as Non-Executive Directors. Mr Geoghegan and Mrs Murray joined the Board on 1 July 2009 and Mr Nicholls joined on 6 November 2009.

Peter Blackburn and Michael Borlenghi (both Non-Executive Directors) retired from the Board on 30 September 2009. Following Mr Blackburn's retirement, Mr Geoghegan was appointed Chairman of the Remuneration Committee. Mr Nicholls was appointed Chairman of the Audit Committee on 12 November 2009. In addition, David Haxby, Senior Independent Director, has advised the Company of his intention to retire as a Director at the conclusion of the Company's Annual General Meeting on 13 May 2010.

I would like to thank Peter, Michael and David for their many years of service and their significant contribution to the success of SIG.

EMPLOYEES

On behalf of the Board I wish to thank all our employees throughout the Group for their efforts during an exceptionally challenging year.

OUTLOOK

With macroeconomic conditions remaining uncertain, the prospects for recovery in construction markets are unclear with regard to both timing and degree. SIG's outlook for 2010 therefore remains challenging in all of the Group's markets, although it is generally expected that as macroeconomic conditions improve, the rate of decline in construction in most of SIG's different market sectors and countries of operation should gradually level out as the year progresses.

The extreme cold weather conditions and snow experienced across the UK and Mainland Europe in January and February, and in parts of Mainland Europe in March to date, have impacted SIG's business with deliveries unable to be made and construction site activity inhibited for prolonged periods, resulting in a particularly slow start to trading in 2010. The Group estimates that as a result of the bad weather it has lost around £30m of sales in the first two months of 2010.

It remains to be seen whether these lost sales are retrieved over the next few months. However, it is management's expectation that the shape of the year is now more likely to be significantly more weighted towards the second half and that the pre-tax profit for the first six months will be well below the result for the equivalent period last year.

In general, excluding the effects of the extreme cold weather experienced this winter, the level of market activity and the decline in like-for-like sales since the corresponding period last year has been in line with management's expectations.

Management action over the last 18 months has improved the Group's long-term operational efficiency, reduced its fixed cost base and significantly strengthened its balance sheet. Accordingly, SIG is well positioned to deal with the likelihood of a number of its end markets continuing to weaken in the coming months and to take advantage of their subsequent later recovery and of any growth opportunities which may emerge. In the meantime, management remains resolutely focused on customer service, driving operational efficiencies and cash generation.

SIG's position as Europe's leading distributor of insulation grouped with its operational expertise and track record mean it is exceptionally well placed to take advantage of the long-term demand drivers for energy efficiency, carbon reduction and sustainability throughout all regions in which it trades and to pursue at the appropriate time other organic opportunities.

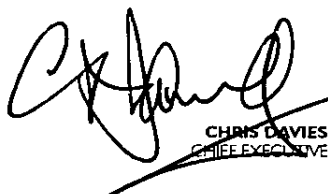
LES TENCH
CHAIRMAN

BUSINESS REVIEW

SIG plc is a leading supplier of specialist products to professionals in the building, construction and related industries, with 753 trading sites throughout the UK and Ireland and Mainland Europe.

GLOSSARY OF TERMS

LIKE FOR LIKE	is defined as the business excluding the impact of acquisitions made since 1 January 2008
UNDERLYING	is before the amortisation of acquired intangibles impairment charges, restructuring costs and gains and losses on derivative financial instruments
TRADING CASH CONVERSION	is defined as cash flow from operations before pension movements divided by underlying operating profit



CHRIS DAVIES
CHIEF EXECUTIVE

This Business Review has been prepared by the Board solely for the members of SIG plc. It is intended to provide Shareholders with a summary of the development, performance and financial position of the Group for 2009. It also provides details of the main trends and factors underlying the year's results and which are likely to affect future performance and describes the Group's business and its key objectives, strategies, values and resources, together with the principal risks and uncertainties it faces. A cautionary comment relating to forward looking statements is provided on page 27.

INTRODUCTION TO SIG

SIG plc is a leading supplier of specialist products to professionals in the building, construction and related industries, with 753 trading sites throughout the UK and Ireland and Mainland Europe and employed 11,800 people as at 31 December 2009.



GARETH DAVIES
FINANCE DIRECTOR

Founded in 1957 in Sheffield, UK, SIG has grown from a single site insulation distribution business into a multi-national specialist supplier operating in four different market sectors. The Company was listed on the London Stock Exchange in May 1989 and is a constituent member of the FTSE 250 index, listed within the Support Services Sector.

On 17 March 2010 the share price closed at £1.274. At this date there were 590,829,339 shares in issue, giving a market capitalisation at that date of £753m.

SIG'S ORGANISATIONAL STRUCTURE

SIG's operations are managed on a country-by-country basis. Within each country there is dedicated divisional management focusing on each market sector. This is critical to the success of the business, ensuring that focus is provided to the specific requirements of the customer and the supply chain required to service the customer. Back office functions such as HR, IT, finance, property and fleet management are provided on a country-by-country basis and are shared across business units in each country where it is appropriate and economic to do so.

The Parent Company of the Group, SIG plc, oversees and supports the strategic development of each business via the activities of the Group Board, the Corporate Development Department and the Group Finance Department.

Focus, Specialisation and Service

INTRODUCTION TO SIG CONTINUED

SIG'S BUSINESS MODEL

SIG is the market leader in most of the specialist markets in which it trades. SIG is positioned as a leading player in the respective specialist market or seeks to grow its market position through targeted development initiatives.

Specialist markets are characterised by the need to hold a broad and comprehensive range of stock, supported by technical advice and extensive service and delivery capability.

SIG's leading position in specialist markets has enabled the Group's sales growth to outperform the general construction output index in recent years, both on an organic basis and including acquisitions.

Specialist markets provide opportunity for superior growth as they tend to be more fragmented in nature and require technical product and application knowledge which provide entry barriers to the general merchanting community. SIG's strategy in fragmented markets is to build scale and market share whilst generating superior purchasing power and achieving economies of scale in back office activities thereby delivering superior returns.

The supply of specialist products requires a proactive sales approach rather than a passive retail approach together with a more collaborative process of supply chain management.

SIG'S MARKET SECTORS

Over the last two decades SIG has continuously expanded the range of products it sells to specialist contracting companies and professional trades. SIG now sells different lines of specialist construction products across a number of different countries. The principal countries from which SIG trades are:

	Insulation and Building Environments	Exteriors	Interiors	Specialist Construction Products
United Kingdom	•	•	•	•
Ireland	•	•	•	•
Germany and Austria	•	•	•	•
France	•	•	•	•
Poland	•	•	•	•
Benelux	•		•	
Czech Republic, Slovakia and Hungary	•		•	

In addition to SIG's principal countries of operation as stated above, the Group also has a small trading presence in six other jurisdictions, being Turkey, Romania, Bulgaria, UAE, Spain and Luxembourg. The operations in these six jurisdictions amount in total to less than 1% of Group turnover and have therefore not been included in the table above.

SIG'S PRODUCTS

Insulation and Building Environments	Exteriors	Interiors	Specialist Construction Products
Thermal insulation	Flat roofing	Suspended ceilings	Mechanical engineering fixings and accessories
Fire protection	– Roofing felts – glass, polyester and torch-ons	Partitioning	Fixings and fastenings
Acoustic insulation	– Bitumen	Doors and doorsets	Groundwork products
Dry lining	– Roof lights and domes	Category lighting	– Shoring equipment
Refrigeration and cold storage	– Solar reflective paints	Dry lining	– Geotextiles
Flooring	Slating and tiling	Fire protection	– Reinforcement products
Installation of insulation	– Concrete tiles	Insulation	– Ground stabilisation products
High temperature insulation	– Clay tiles	Architectural glass	Temporary fencing and scaffolding
Air tightness testing	– Promenade tiles	Toughened and laminated glass	Masonry components
Heating and ventilation products	– Slates – natural and man-made glass	Raised access floors	Construction chemicals
Industrial lining	– Shingles	Office/acoustic screens	Safety helmets
Pipe insulation	Sheeting and cladding	Noise control	Protective clothing
Roofing insulation	– Fire cement sheeting	Fixing products	Safety glasses
Waterproofing	– Mastic asphalt	Temporary protection products	Safety boots
Air handling and treatment	– Profiled metal sheeting	Floor coverings	Ear plugs
Air conditioning	– Insulated panels	Washroom systems	Gloves
	Rainwater goods		Dust respirators
	Roofline products		Tools (including power tools and accessories)
	– Soffits		Concrete accessories
	– Facias		Waterproofing
	– Barge boards		Render
	Ventilation		Precast
	Building Plastics		Steel support systems
	– UPVC windows and doors		Site set-up equipment
	– Plastic cladding		
	Photovoltaic solar kits/panels		

BUSINESS REVIEW CONTINUED

SIG provides a diverse range of specialist products from manufacturers to support specialist contractors.

THE CORE SIG BUSINESS OFFERING: SUPPLY SPECIALIST CONTRACTORS WITH SPECIALIST PRODUCTS ACROSS A NUMBER OF DIFFERENT COUNTRIES

- Insulation and Building Environments
- Exteriors
- Interiors
- Specialist Construction Products

INTRODUCTION TO SIG CONTINUED

SIG'S ACTIVITIES

SIG is primarily a distributor handling and supplying specialist products manufactured by other companies. In markets where the supply chain requires bespoke products to be made and supplied direct to the end user, SIG's route to market is by manufacturing products for its specialist customer contractors to fit. SIG currently manufactures partition systems and doorsets in the UK and fabricates certain custom products across the Group. Fabrication involves adding value by cutting, reshaping or attaching two or more core products together. The largest fabrication activities are the cutting and shaping of industrial insulation, the cutting and processing of glass products and the assembly of roofing panels.

In addition, in the UK SIG also installs loft and cavity wall insulation in residential properties and where customer demands dictate it installs certain interior products.

SIG operates under a wide variety of trading names. Many of these brands are widely recognised throughout their respective market sectors or countries as the leading supplier of specialist products and services to the construction trade.

SIG'S ROLE IN THE SUPPLY CHAIN

The products that SIG supplies are specialist in nature and are provided to specialist contracting companies and professional trades, both for new construction and for Repairs, Maintenance and Improvement ("RMI"). Whilst general jobbing builders may purchase some items from SIG, they are more broadly served through the general builders merchant supply chain.

SIG provides a crucial role in the specialist building products supply chain by

- **PROVIDING ACCESS TO A BROAD AND DIVERSE CUSTOMER BASE**
SIG provides a diverse range of specialist products from manufacturers to support specialist contractors. Manufacturers deliver products in bulk to SIG's trading sites throughout each country of operation. SIG then focuses upon delivering a packaged range of products in job specific quantities on a time critical basis to a broad and diverse customer base as required by the construction cycle. SIG provides an efficient channel by which manufacturers can access thousands of specialist contractors.
- **PROVIDING "IMMEDIATE" AVAILABILITY OF PRODUCT CLOSE TO SITE LOCATION**
Through SIG's 753 trading sites, contractors are able to obtain product in rapid timeframes to meet the demands of a fast moving construction site. The majority of construction sites do not have a large area to store product safely and securely and so the ability to source product quickly overcomes the problems caused by such a space constraint.
- **HAVING THE MOST EXTENSIVE DELIVERY FLEET IN THE INDUSTRY**
SIG delivers over 70% of its goods sold to the construction site. SIG has a wide range of delivery vehicles, including a number of mechanical offload and crane facilities to deliver the product to exactly where it is needed.
- **PROVIDING TECHNICAL ADVICE AND PRODUCT EXPERTISE**
As Building Regulations, environmental issues and modern methods of construction become ever more complex, SIG's customer base values the comprehensive technical knowledge that SIG's sales staff have of each product's specific application to ensure their suitability for purpose and that legal and safety standards are met in buildings and industry. Where particularly complex queries arise, SIG is able to call upon advice from its supplier base. This is an important value-added element of the service offered by SIG. No other European company has the depth of experience and expertise that SIG has in its product fields.

Focus, Specialisation and Service

REVIEW OF THE YEAR

INTRODUCTION TO SIG CONTINUED

SIG'S ROLE IN THE SUPPLY CHAIN CONTINUED

• ENABLING CONTRACTORS TO MAXIMISE EFFICIENT USE OF LABOUR

It is estimated that there is up to a 40% loss of efficiency whilst skilled labour waits for material delivery. SIG's ability to deliver product at short notice enables contractors to flex their work schedule depending upon the daily needs of the construction site thus minimising this inefficiency. This part of the service offering is highly valued by SIG's customer base and ensures SIG maintains its critical role in the supply chain.

• PROVIDING CREDIT TERMS TO CONTRACTORS

SIG's typical customer is relatively small to medium sized. SIG provides credit to enable a contractor generally to fit goods before they are paid for to ensure continuity of the supply chain. SIG has very well established and rigorous credit control procedures that limits its risk exposure whilst having regard to the needs of the customer base.

These activities have enabled SIG to build businesses that are able to differentiate themselves from mainstream competitors.

MARKETS SUPPLIED BY SIG

SIG is well diversified, serving a wide range of industries and markets. The following table provides an indicative estimate based upon SIG's analysis of market information, of the breakdown of the 2009 Group sales into the different end markets.

	Total % of Group	New build % of sub-Group	RMI % of sub-Group
Non-residential	55%	55%	45%
Residential	35%	43%	57%
Industry (non-construction)	10%	52%	48%

Source: SIG estimates

The Non-residential market is SIG's largest market. This includes both private and public expenditure on schools, hospitals, prisons, warehouses, leisure complexes, retail developments, sports stadia, airports and offices.

Residential is SIG's second largest market. In this market, SIG is more heavily weighted to the essential repairs and maintenance market which is less sensitive to the economic fluctuations which can impact the new-build sector and provides an underlying market in periods of economic downturn.

The smallest market for SIG is Industry (non construction). SIG predominantly supplies industrial (technical) insulation to this market which includes, for example, power stations and process industries where heat is an important part of the production process.

DEMAND FOR SIG'S PRODUCTS

Demand for the products sold by SIG is influenced by a wide range of factors. Overall economic GDP growth drives construction activity on a long term basis. As the economy grows and contracts, construction activity reflects this trend. New build is driven by the economic cycle whilst RMI activity is more constant in nature and in certain markets can be counter cyclical offering a more constant level of activity.

In addition, construction activity is also largely dependant on both the level and cost of credit available in order to finance large construction projects. Over the last 18 months, the availability of credit has reduced and the cost of credit has increased significantly, thus having a dampening effect on construction activity.

The current economic downturn is inevitably affecting the short term demand for SIG's products. However, the medium to long term prospects for SIG's market sectors remain strong. The current low levels of residential and private non-residential building activity across certain parts of Europe are not sustainable when set against demographic growth trends. Given that SIG enjoys leading positions in the majority of its markets and geographies and is active in a number of emergent Central European markets, the Group is in a prime position to benefit from any upturn in market demand over the medium term.

BUSINESS REVIEW CONTINUED

INTRODUCTION TO SIG CONTINUED

DEMAND FOR SIG'S PRODUCTS CONTINUED

Whilst demand is principally influenced by the macroeconomic conditions described on page 9 other factors by product range are detailed below

Business	Sector-specific market drivers
Insulation and Building Environments	• Demand for products that reduce energy consumption in both new and existing residential and non-residential buildings to reduce the impact of high energy costs and to reduce carbon dioxide ("CO₂") emissions • Demand for insulation products will be driven by regulation in addition to environmental and economic factors • Public sector and Private Finance Initiatives ("PFI") Insulation usage in new construction is affected by the Building Regulations in operation in each country. Over time it is expected that Governments, businesses and the public will increasingly focus on reducing energy consumption more vigorously than in the past and that as a result, insulation demand will continue to rise. Government expenditure on infrastructure projects and residential developments, some of which will be funded under Private Finance Initiatives, will help support demand for insulation products in the current economic climate.
Exteriors	• A regular and essential RMI requirement for roofs subject to increasingly variable and severe weather conditions • Demand for new products to reduce building exterior maintenance costs • Growth of specialist distribution as the main supply route • Government incentives surrounding solar energy feed-in tariffs providing significant impetus to demand for Solar Photovoltaic Systems The age profile of roofs across the UK and Europe gives rise to an ongoing RMI requirement. This provides a core product demand. Certain products are used extensively for both new build and repair and maintenance in commercial property and demand over time is expected to increase as people look for low-maintenance products and energy efficient options. Recent reductions in new housing starts, particularly in the UK, will create a shortage of housing in these regions, exacerbated by an increasing population. In the UK and Ireland there is also an oversupply of multiple occupancy buildings, such as city centre flats, and an undersupply of detached single family buildings, which by their nature require more roofing product per person.
Interiors	• Rising standards of internal fit out and the growing importance of acoustic and fire safety standards • Increased demand for integrated solutions • Government expenditure to improve the internal environments of schools and hospitals and other public buildings SIG has experienced a trend towards higher quality internal working environments, for example, higher value glass partitions in non-residential buildings and higher quality doors to meet fire and acoustic regulations. Fire and acoustic regulations are set to become more stringent in the next few years. This will favour the larger suppliers with a depth of technical expertise such as SIG. New interiors are often required following a change of use or a change of occupancy within existing non-residential buildings, requiring refitting and removal of partitions, wall storage and ceiling systems.
Specialist Construction Products	• Government and utility investment in major infrastructure projects • Requirement for value engineered solutions on construction projects • "Just-in-time" approach to project management Complex major construction projects require specialist application and performance knowledge. This is provided by SIG's specialist businesses in this area. Over recent years, methods of construction have changed, leading to a requirement for new innovative specialist products which SIG is ideally placed to supply.
All Businesses	Convergence of trades and requirement from major contractors for 'bundled' solutions and supply chain management, thus benefiting businesses with significant scale and breadth of product offers such as SIG.

Focus, Specialisation and Service

SIG'S STRATEGY

The Group's core strategy is to continue the growth and development of SIG as a leading European specialist supplier to the building and construction industries in order to create growth in long term shareholder value

In light of current macroeconomic conditions and the associated reduction in demand for construction related products, SIG has reacted quickly to align the cost base of its businesses to current and anticipated levels of market demand. The Group has also taken a number of actions which drive operational and commercial efficiencies (e.g. the merger of the UK's insulation and interiors distribution businesses as detailed further on page 17). The actions taken to date in both 2008 and 2009 ensure that the Group is in good shape to deal with any further decline in a number of its markets but also to take advantage of the economic recovery when it arrives.

In order to reduce the Group's net debt, cash generation has been a key focus during 2009. This has been driven by a number of initiatives:

- strict management of working capital through the issue of stringent working capital targets to all business units,
- the deferral of non-essential capital expenditure and the redeployment of certain assets,
- an increased drive for process efficiency through the adoption of best practice principles,
- further cross business unit resource sharing and cost saving initiatives and
- procurement, logistics and property reviews.

SIG's long term growth plan is focused around five key growth strategies which are as follows:

- **consolidate and exploit existing market leading positions,**
- **market demand growth,**
- **wider product range,**
- **pipeline of development initiatives, and**
- **geographical development into attractive new markets**

Throughout 2009, despite a backdrop of extremely challenging market conditions and declining markets, SIG worked hard to gain market share in many of its markets. Details of the growth strategies in action during 2009 are set out below.

1. CONSOLIDATE AND EXPLOIT EXISTING MARKET LEADING POSITIONS

SIG's strategy is to develop its distribution footprint in order to achieve further penetration in core markets. SIG continually evaluates its existing trading site network and trading format structure to take advantage of synergistic opportunities within the Group.

Such opportunities include the sharing of trading sites across different trading brands, sharing of transport and inventory across multiple trading sites and combining purchasing capabilities across different business streams throughout the Group.

In light of a reduction in market volumes across SIG's end markets, SIG has reviewed rigorously the appropriate structure of its trading site networks and has quickly resized it to align to the latest forecast of market demand. This has resulted in the closure of 152 trading sites during 2008 and 2009.

SIG has ensured that it has retained its most profitable and successful trading sites across each of its businesses to ensure that it is well positioned to benefit from any future increases in market demand.

Furthermore, as part of the Group's cost saving and restructuring programme, a number of SIG businesses have been merged to deliver cost savings, but more importantly to deliver operational and commercial efficiencies including the enhancement of the Group's cross selling capabilities. This includes the merger of the UK's insulation and interiors distribution businesses and also the merger of the Group's Polish businesses into one entity.

Five year history – trading sites

753

trading sites as at 31 December 2009

05	496		
06		618	
07			779
08			807
09			753

The change in the number of the Group's trading sites over the last two years is shown below:

	UK and Ireland	Mainland Europe	Total
2007	461	318	779
Closures	(73)	(7)	(80)
Openings	9	34	43
Acquired	36	29	65
2008	433	374	807
Closures	(58)	(14)	(72)
Openings	3	15	18
2009	378	375	753

2. MARKET DEMAND GROWTH

The wider European market into which SIG already supplies is huge. Taking all the Mainland European countries together (except Russia), there is a population of c. 600m. The market size for the supply of building and construction products is estimated to be c. €750bn per annum. SIG is well placed to exploit its product and market knowledge to take a larger share of this market place.

SIG believes that the market demand growth for insulation products and sustainable construction products in particular will outstrip the demand for other building products as the world attempts to address the issues caused by climate change and increasing energy costs. SIG is ideally placed to serve this additional demand.

BUSINESS REVIEW CONTINUED

Following the Group's continued focus on working capital management, working capital reduced by £103.3m in 2009. As a result, despite a reduction in sales, the Group reduced its working capital to sales ratio by 1.7% to 9.0%, representing an excellent performance in the year.

SIG'S STRATEGY CONTINUED

3. WIDER PRODUCT RANGE

Extending the range of specialist products and services which SIG offers improves customer service and market penetration. Once SIG has identified a new product offering, consideration is then given to widening the supply of this product through the existing trading site network. In order to demonstrate SIG's diverse product offering, it is estimated that on a typical education project (c. £2.3m in value) in the UK, in excess of 35% of the total material cost can be supplied through SIG. In addition, SIG is at the forefront of product innovation and has developed a number of own brand product ranges.

4. PIPELINE OF DEVELOPMENT INITIATIVES

In support of SIG's long term growth objectives, SIG employs an active business development and portfolio management strategy. This involves identifying attractive growth opportunities for the Group where SIG's key skills and capabilities match with those necessary in developing attractive new market opportunities. This includes a targeted acquisition strategy as well as organic growth initiatives.

In light of the recent challenging market environment the Group ceased its acquisition programme in September 2008. In 2009, the Group has focused on cash generation and cost saving and restructuring initiatives.

Despite the temporary cessation of the Group's acquisition programme, the Group continues to maintain an excellent knowledge of its market place and has ensured that it remains aware of possible future acquisition opportunities across Europe. The Board will be very careful in its considerations regarding the most appropriate time to recommence this part of the Group's strategy.

In the meantime, the Group continues to develop and exploit the synergistic benefits that its historic acquisition programme has provided. These benefits include maximising cross business trading, selling new products to existing Group customers, selling existing products to new Group customers and the sharing of resources to enhance current cash flow and profitability.

5. GEOGRAPHICAL DEVELOPMENT INTO ATTRACTIVE NEW MARKETS

SIG is continually evaluating the construction market prospects of all countries within Europe to assess where the best growth prospects lie. SIG analyses the supply chain structure of each market and evaluates the future potential for SIG to enter the market as a specialist supplier within its chosen four market sectors.

Due to the economic downturn and the cessation of the Group's acquisition programme since September 2008, the Group has not extended its geographic coverage into new countries in 2009. Geographical development, however, remains an integral part of SIG's long term growth plan.

KEY LONG TERM OBJECTIVES

SIG remains committed to the following key long term objectives:

- create long term growth in shareholder value through a progressive dividend policy and capital growth
- develop and grow by applying the Group's core principles of Focus, Specialisation and Service
- expand the Group and its activities as a leading specialist supplier to professional trades in the construction and related industries,
- supplement organic growth with targeted acquisition and development initiatives, and
- be an employer of choice and provide a rewarding and fulfilling environment for its people.

DEVELOPMENT OF OUR PEOPLE

SIG is committed to ensuring that all employees and management know what is expected of them in their roles and that they receive the necessary training and development to be highly competent in what they do. In the UK, access to e-learning has been extended to include product, technical and management training programmes and the business continues to offer a range of NVQs. As well as acquisition of product knowledge, a great deal of emphasis is placed on on-the-job training and during the year, several coaching skills programmes were run across the Group to further improve the effectiveness of training. New training resource has been added to further strengthen our product and sales expertise.

The talent management process has been extended across the Group and within operating companies to marry the aspirations of talented people with future business requirements and expectations. This has led to continued investment in the Executive Development Programme run in conjunction with Sheffield Hallam University and the introduction of the SIG Young Manager of the Year Award to recognise the efforts and contribution of new managers within their businesses. The Group also continues to invest in graduate programmes across the Group.

KEY PERFORMANCE INDICATORS

The Group uses the following key performance indicators to evaluate the success of its business:

1. LIKE FOR LIKE SALES GROWTH

Like for like sales growth is defined as the percentage growth/(decline) in the sales of the Group excluding the impact of current year and prior year acquisitions. Given the significant exchange rate volatility in recent years, the percentage is calculated on a constant currency basis to provide a realistic understanding as to underlying performance.

Focus, Specialisation and Service

KEY PERFORMANCE INDICATORS CONTINUED

1. LIKE FOR LIKE SALES GROWTH CONTINUED

The measure reflects the underlying sales growth in the business which typically arises from increased sales volumes to both new and existing customers, product price inflation and selling new products through the existing infrastructure. The growth is supported by investment in new brownfield trading site openings and trading site relocations into larger premises with additional stockholding capability. Maintaining positive like for like growth in every business is a key target by which every business is measured and is a key component of being able to drive profit growth.

Like for like sales growth rates/(rates of decline) on a constant currency basis are set out below.

	2007	2008	2009
UK and Ireland	9.7%	(3.4%)	(22.2%)
Mainland Europe	12.3%	4.2%	(7.6%)
Group	10.5%	(0.8%)	(15.6%)

The like for like sales reduction in the UK and Ireland in 2009 reflects the continued reduction in market demand which was first noted in the second half of 2008 particularly in Ireland, where like for like sales in Euros were down 42.5% in 2009. Management believes that despite this reduction, most businesses have either held or grown their market share.

Despite strong comparator numbers for 2008, the like for like sales decline in Mainland Europe is much lower than that experienced in the UK and Ireland. The economic recession was less severe in the Group's Western European countries of operation (i.e. Germany, France and Benelux which represent c. 85% of the Group's Mainland European sales) than in the UK and Ireland.

The geographical spread of the business provides the Group with diversity and an ability to manage risk. As a result of the sales decline in Mainland Europe being less than in the UK and Ireland, coupled with the continued weakness of Sterling against the Euro, sales for the first time in 2009 from the Group's Mainland European businesses represented over 50% of Group sales.

2. UNDERLYING OPERATING PROFIT MARGIN

The underlying operating profit margin is defined as the ratio of underlying operating profit to sales. Underlying operating profit is defined as operating profit before the amortisation of acquired intangibles, impairment charges, restructuring costs and gains and losses on derivative financial instruments.

SIG works to improve its underlying operating profit margin by managing its selling prices in the local markets in which it operates and by controlling the cost base through operational efficiencies. Despite a significant reduction in the Group's cost base in 2009 driven by the Group's cost saving and restructuring programme, SIG has experienced a fall in its underlying operating profit margin in 2009.

The majority of operating costs in the business relate to people, property and transport and in light of the current macroeconomic environment, SIG has taken swift action to align these operating costs with the underlying market demand for its products.

The reduction in operating profit margin in 2009 is a result of the sales volume decline and gross margin pressures suffered in the majority of its markets outpacing the reduction in the Group's operating cost base.

SIG has historically experienced lower underlying operating profit margins in Mainland Europe than in the UK and Ireland. However, due to the greater sales volume and gross margin pressure experienced in the UK and Ireland compared to Mainland Europe and the resultant impact on operating margins, the operating profit margin in Mainland Europe is higher than in the UK and Ireland in 2009.

On an ongoing basis the mix of sales between these two regions will have an influence on the overall Group underlying operating profit margin.

	2007	2008	2009
UK and Ireland	8.0%	6.7%	2.8%
Mainland Europe	4.9%	4.9%	3.5%
Group (after Parent Company costs)	6.5%	5.6%	2.9%

3. WORKING CAPITAL TO SALES

Working capital to sales is defined as the ratio of working capital (including provisions) to annualised sales (i.e. after adjusting for acquisitions and disposals in the current and prior year) on a constant currency basis.

Working capital to sales

9.0%

07	10.2%
08	10.7%
09	9.0%

The ability of the Group to manage its working capital in relation to the value of sales made by each business is essential to ensure that the Group generates cash from its operations. Cash generation is important to enable the Group to pay its taxes and, particularly in the current environment, to ensure that the Group complies with its debt covenants.

Following the Group's continued focus on working capital management, working capital reduced by £103.3m in 2009. As a result, despite a reduction in sales, the Group reduced its working capital to sales ratio by 1.7% to 9.0% representing an excellent performance in the year. It is not envisaged that significant further improvement in the Group's working capital to sales ratio will be achieved in 2010.

CASH CONVERSION

Cash conversion is defined as cash flow from operations before pension movements divided by underlying operating profit. Cash conversion measures the Group's ability to convert its underlying operating profits into cash.

Over the medium term, the Group aims to have a minimum average cash conversion ratio of 100%. However, as the Group begins to benefit from the upturn in construction markets when it arrives, investment in working capital will be required making a cash conversion target of 100% more difficult to achieve.

Cash conversion

216%

07	103%
08	97%
09	216%

As noted above, due to the significant reduction in working capital achieved in 2009, the cash conversion percentage at 216% is well above the Group's long term average target of 100%. It is not envisaged that the cash conversion percentage of 216% achieved in 2009 will be replicated in 2010, rather a more normalised target of 100% is envisaged.

BUSINESS REVIEW CONTINUED

In the face of further reductions in demand for its products and services, as well as bearing down on day-to-day running costs and working capital, the Company continued in 2009 to implement a comprehensive range of cost reduction measures aimed at adapting resources to the evolving level of demand in its various market sectors and geographies.

TRADING PERFORMANCE

Exceptionally challenging trading conditions prevailed in all of SIG's market sectors and countries of operation throughout 2009 with the economic downturn significantly reducing construction activity and hence demand for the products and services which the Company supplies

The pace and the likely extent of market decline proved especially hard to gauge in the early part of the year, with abnormally harsh winter weather conditions which gripped Mainland Europe throughout Q1 restricting building site activity for all outside trades and severely depressing normal patterns of seasonal demand. Inconsistent trading from week to week across all of SIG's operations was a feature of the early months of 2009 but by mid year underlying trends were beginning to emerge in the Group's different sectors and geographies. It emerged that the heavy fall in demand experienced in the UK and Ireland towards the end of 2008 had gathered speed in the first half of 2009. The much reduced level of activity that the Group experienced from early 2008 onwards in the UK house building market was followed by a rapid slowdown in non-residential construction. By late spring 2009 new housing construction began to show signs of stabilisation, albeit at a historically low level, whilst an increased flow of work coming through from the publicly-funded non-residential sector proved insufficient to offset the decline in commercial new build.

The trading environment in Ireland remained extremely challenging during the year as the full effects of the country's economic difficulties impacted on all sectors of the construction market.

Trading conditions in the Group's Mainland European countries of operation had held up much better than in the UK and Ireland throughout 2008 and whilst none of these countries proved to be impervious to the strengthening macroeconomic headwinds, taken together they were also more resilient in 2009. In general terms, SIG's principal Western European markets of Germany, France and Benelux were less volatile than those of Poland and Central Europe and by early summer they began to emerge from recession. These Western European countries appear to have suffered less economic damage and as management had anticipated construction markets there seem to have escaped the depth of decline suffered by the UK and Ireland.

For the first time sales in Mainland Europe in 2009 represented over half of Group turnover. This along with the exchange gains on the translation of overseas earnings denominated in Euros (following the consistent strength of the Euro) and the relative stability in its European markets, proved beneficial to the Company's results.

The precipitous fall in volumes in many markets from 2008 onwards has exceeded most expectations and notwithstanding cuts in manufacturing capacity in many product groups and countries, surplus production continued to wash into the market in 2009, exerting downward pressure on factory gate prices and resulting in price deflation averaging a little over 2% for the Group as a whole.

Against this background, total Group turnover in 2009 was £2,744m, a decrease of 10.2% on prior year. Underlying profit before tax was 55.9% lower at £60.6m as a result of the more challenging trading conditions. The Group recorded a loss before tax of £55.3m (2008: profit before tax £33.1m) after accounting for other items amounting to £115.9m (2008: £104.2m).

In the face of further reductions in demand for its products and services as well as bearing down on day-to-day running costs and working capital, the Company continued in 2009 to implement a comprehensive range of cost reduction measures aimed at adapting resources to the evolving level of demand in its various market sectors and geographies and which included a significant number of further trading site closures and mergers.

Whilst management's main focus in the year was on optimising revenue and gross margins and delivering cost savings and efficiencies, the Group did selectively continue to allocate some modest additional resources to core operations where opportunities arose to extend market coverage which offered good value.

As a result of these various actions there was a net reduction of 54 in the total number of the Group's trading locations to 753 at the end of December 2009 (2008: 807) comprising:

- 18 new trading site openings of which 3 were in the UK, 11 in France, 2 in Benelux and 2 in Central Europe, and
- 72 closures or mergers of which 58 were in the UK and 14 across Mainland Europe.

TRADING HIGHLIGHTS

UK AND IRELAND (48% OF TOTAL SALES)

- Total sales decreased by £343.2m (20.6%) to £1,326.2m (2008: £1,669.4m)
- Like for like sales decreased by £342.4m (21.7%)
- In the UK only, like for like sales decreased by £296.2m (20.5%)
- Underlying operating profit decreased by £73.5m (66.1%) to £37.7m (2008: £111.2m)
- Underlying operating profit margin was 390 basis points lower at 2.8% (2008: 6.7%)
- In the UK and Ireland the Group recorded an operating loss of £61.6m (2008: profit of £60.4m) after accounting for other items amounting to £99.3m (2008: £50.8m)
- 3 trading sites were added in the year organically with 58 closures, taking the total at 31 December 2009 to 378 (31 December 2008: 433)

Focus, Specialisation and Service

TRADING HIGHLIGHTS CONTINUED

UK AND IRELAND (48% OF TOTAL SALES) CONTINUED

As a consequence of the worsening economic situation, construction activity in the UK weakened considerably again in 2009, following an accelerating decline which began in the Spring of 2008 in the house building sector and which subsequently spread to other parts of the market. New housing starts and completions again fell steeply in 2009 to levels not seen for decades, resulting from a powerful combination of negative factors including weak consumer confidence, falling house prices and lack of mortgage finance availability. By the Spring, however, demand in the house building sector began to stabilise and as the year progressed there were signs of a small but consistent improvement in demand for product from the major national house builders, although smaller regional and local builders were slower to see any signs of recovery.

Discretionary repair, maintenance and improvement ("RMI") demand in the types of higher value residential projects supplied by SIG such as home extensions and re-roofing work, showed a similar negative trend to residential new build construction.

The private sector component of the non-residential construction market contracted sharply in 2009, with the lack of new building projects in the office, retail and leisure segments since mid-2008 causing an acute shortage of work as existing projects under construction came to a finish. The publicly and PFI-funded sectors showed some positive development in programmes such as Building Schools for the Future and NHS infrastructure renewal projects, although this was insufficient to offset the steep drop in the private commercial new build and refurbishment segments.

In Ireland, the severe economic recession and Government austerity measures took a further toll on all areas of the construction market, which suffered an overall decline in 2009 approaching 50%.

Sales of **Insulation** and related products in the UK and Ireland decreased by 16.6% in total, 17.2% like for like, which was better than the overall annual decline in construction markets as a whole in those countries. In the UK, this was again partly due to the higher levels of thermal performance required by the 2006 changes to Building Regulations (Part L) feeding through into increased quantities of insulation being installed in new buildings. There was also some impact from the effects of the Carbon Emissions Reduction Target ("CERT") scheme, a three-year arrangement which came into effect in April 2008 and under which the Government obliges the UK power generation companies to fund CO₂ and therefore energy-saving programmes in existing homes. In Ireland, the sharply reduced level of construction activity resulted in correspondingly lower demand for insulation and all other types of building materials. In the latter part of the year, however, there was some modest improvement in insulation volumes stemming from Government supported energy saving initiatives.

The Group's Miller Patison subsidiary, whose main activity is the retrofitting of thermal insulation in the walls and lofts of houses, saw volumes under the CERT scheme grow strongly in the first half of the year but then fall away from summer onwards. This reflected a reduction in the flow of funding from the utility companies, pending the outcome of Government consultations to increase the value of work to be carried out during the lifetime of the current arrangements and to extend the scheme pro rata for a further year to 2012.

As well as thermal and acoustic insulation for buildings, SIG is the leading UK supplier of specialist insulation materials for a broad range of industrial process applications ranging from food processing through to power generation, petrochemical and pharmaceutical plant. Demand for insulation for industrial applications was less depressed in 2009 than for construction use, although the severe contraction in non-residential building adversely impacted sales into the Heating and Ventilation ("H&V") sector.

The number of Insulation trading sites decreased by 4 to 79 at the end of December 2009.

The **Exteriors** division through its sales of core roofing and building plastics products is the part of SIG most heavily exposed to the housing market. With both new residential construction and larger discretionary home improvement projects running at low levels, trading conditions remained challenging through the year, and sales in 2009 were down 20.1% on prior year in total and down 21.8% like for like.

The majority of sales in this division are generated from RMI works rather than new construction, and from the summer onwards there was a slight gradual but consistent increase in market activity partly due to the release of work under the Decent Homes scheme by local authorities in the Midlands and the North of England. Demand for roofing and cladding products into the non-residential building sector remained weak throughout the year.

In 2009 the Exteriors division extended the rationalisation of its trading locations which began in 2008, implementing a significant number of further site closures and merging the hitherto separate Roofing and Building Plastics businesses into a single operating unit. This streamlining has strengthened the commercial and operational efficiency of the Division and provides a solid platform for the future.

The number of Exteriors trading sites decreased by 35 to 218 at the end of December 2009.

The **Interiors** division had a very difficult year, with sales decreasing by 24.4% in total and 25.5% like for like. This division, through its several operating units, supplies a wide range of specialist products for the fit out of the interior space of all types of non-residential building, from offices, shops and hotels to schools, hospitals and other public buildings. The product portfolio encompasses resale items such as suspended ceilings and commercial floor coverings bought and sold through the division's distribution network, and partitioning and door sets made to order in the Company's own manufacturing units. SIG enjoys a leading market position in both distributed and manufactured interior products.

In the UK and Ireland, the steep decline in the commercial new build and renovation sector which commenced towards the end of 2008 continued again in 2009. Whilst there was some growth in the distribution businesses in public works such as schools and hospitals, the fall in the office, retail and leisure sectors resulted in a more significant reduction in sales and profitability in the manufacturing businesses. Gross margins came under pressure from a diluted product mix and from capacity underutilisation in the manufacturing businesses as well as external competition, and major restructuring measures were introduced to improve the commercial and operational efficiency of the division.

The number of Interiors trading sites decreased by 9 to 40 at the end of December 2009.

The **Specialist Construction Products** division supplies a wide range of specialist and niche products to building contractors, including brickwork accessories, access equipment, groundwork preparation products, power tools, fixings, personal protection equipment, cable ducting and other supplies for mechanical and electrical engineering contractors. A large part of the division's sales is into new construction, and with the severe curtailment in the number of new projects getting underway in both housing and non-residential development, sales in the year were down 24.4% in total and down 25.8% like for like. In the face of reducing market demand, significant steps were taken in 2009 to further reconfigure the operating structure, increasing the sharing of sites and other resources both within the division and with other SIG businesses.

As a result of these changes, the number of Specialist Construction Products trading sites decreased by 7 to 41 at the end of December 2009.

BUSINESS REVIEW CONTINUED

Management and staff across the Group are ready to deal with the challenges ahead, to continue to provide excellent service and value to our customers, to strengthen our position in our different markets, to look for opportunities for profitable growth, and to take full advantage of the upturn when it eventually comes.

TRADING HIGHLIGHTS CONTINUED

MAINLAND EUROPE (52% OF TOTAL SALES)

- Total sales in Sterling increased by £33.1m (2.4%) to £1,417.3m (2008: £1,384.2m) aided by a strengthening Euro
- Like for like sales on a constant currency basis decreased by 7.6%
- Underlying operating profit decreased by £17.7m (26.1%) to £50.2m (2008: £67.9m)
- Underlying operating profit margin fell 140 basis points to 3.5% (2008: 4.9%)
- Total operating profit reduced by £19.8m (35.4%) to £36.1m (2008: £55.9m) after accounting for other items amounting to £14.1m (2008: £12.0m)

Against a background of strong sales and profit performance in Mainland Europe in 2008, when like for like turnover was up 4% in the year and 5% in H2 2009's results were overall moderately encouraging. Although sales and profits were well down on 2008 the region as a whole saw construction activity less impaired by the economic downturn than the UK or Ireland, with SIG's main Western European countries of operation going into recession later and emerging from it earlier without the property bubble burst which was experienced in the UK and Ireland.

Broadly speaking, residential new build and RMI was down in Mainland Europe but tended to stabilise as the year unfolded, while non-residential activity declined less than many had expected. In part this was due to the effect of Government stimulus packages, notably in France although the major support measures put in place in Germany by the federal Government were much slower to take effect. Demand for industrial insulation from non-construction sectors also remained reasonably stable.

In **Germany and Austria** (42% of sales in Mainland Europe) total sales were 3.2% ahead of prior year in Sterling but down 7.2% in local currency and down 7.6% like for like in local currency. Overall construction activity in the region in the Group's segments is estimated to have been down around 10% on 2008 although the residential sector has been running at a low level for a number of years and experienced only modest further deterioration in 2009. Whilst our German operations outperformed the market again in all segments, the development of the Roofing division was particularly encouraging with like for like sales in Euros held at 2008 levels out of 4 fewer trading locations and up 6% in H2 on the same basis.

The number of trading sites decreased by 7 to 82 at the end of December 2009.

In **France** (37% of sales in Mainland Europe) total sales in Sterling grew 7.4% versus prior year, but were down 3.5% in local currency both in total and on a like for like basis. Lanvière continued to outperform the general French roofing market, with annual sales in Euros versus prior year down by 6.2% in a residential construction market down by more than 10%. Incremental sales from maturing trading sites opened in the previous three years as part of Lanvière's strategic development programme, and from a further 4 trading sites opened in 2009, contributed significantly to the positive sales development.

The Group's French Insulation and Interiors operations traded exceptionally well in challenging trading conditions achieving like for like sales in local currency in line with prior year levels in non-residential construction and process industrial insulation markets estimated together to be down around 10% versus 2008. As in the case of Lanvière these divisions benefited from organic sales growth from trading sites opened in the previous three years as well as from another 7 sites opened in 2009.

The number of trading sites increased by 11 to 175 at the end of December 2009.

In **Poland and Central Europe** (11% of sales in Mainland Europe) total sales in Sterling fell by 27.2% and by 23.8% like for like in local currency. As developing economies the majority of them recent European Union accession states, the countries in which SIG is present in this region offer the prospect of above average sales and profit growth in the medium term, but are prone to above average volatility.

In Czech Republic, Slovakia and Hungary a variety of local political and exchange rate issues complicated the global macroeconomic pressures on the region, severely reducing construction activity and leading to substantial price deflation. Like for like sales in local currency in this sub-region, which represented 2.4% of Mainland European sales in 2009, were down 42.3% against prior year. The larger core business in Poland, where the Group has been present since 1996 and which accounted for 8.6% of sales in Mainland Europe in the year, traded in an increasingly weak market and suffered a reduction in like for like sales in local currency of 20.5% compared with 2008. Gross margins across the whole region were adversely affected by a combination of significant price deflation and temporary arbitraging across national borders occasioned by exchange rate anomalies as well as by general competitive pressures.

Focus, Specialisation and Service

TRADING HIGHLIGHTS CONTINUED

MAINLAND EUROPE (52% OF TOTAL SALES) CONTINUED

In light of the unfolding trading environment and forward prospects, significant restructuring measures were implemented in Poland to secure greater operational efficiency and commercial effectiveness. Management continues to have full confidence in the medium term outlook for its businesses in this region.

The number of trading sites decreased by 5 to 92 at the end of December 2009.

Sales in **Benelux** (6% of total sales in Mainland Europe) were up by a substantial 11.8% in total in Sterling, and were held at 2008 level on a like for like basis in local currency. The core business in Benelux is focused on Industrial Insulation and Interiors, and both divisions continued to perform well in 2009 against background market conditions in Benelux which, in SIG's sectors combined, are estimated to have been around 6% lower than prior year.

The number of trading sites increased by 2 to 14 at the end of December 2009.

Sales in **Air Trade Centre**, the European-wide air conditioning and air handling business acquired in April 2008 and which is headquartered in Benelux, amounted to 4% of total sales in Mainland Europe. This business provides SIG with a platform for growth in the field of the energy management of buildings, which is highly complementary to the Group's insulation activities in energy saving and carbon reduction. Like for like sales in Euros in Air Trade Centre in 2009 were 11% lower than in 2008, not all of which period was under SIG ownership.

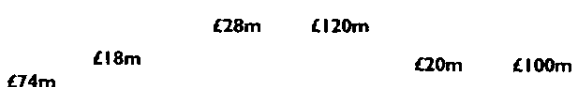
The number of Air Trade Centre trading sites at 31 December 2009 was 12.

COST SAVING AND RESTRUCTURING

With its individual operating divisions affected differently by the downturn and being at different points in their business cycle, the Group continued a differentiated approach to cost reduction whereby the performance, resources employed and forward prospects of individual trading locations were kept under regular review and pre-planned contingency measures implemented as these

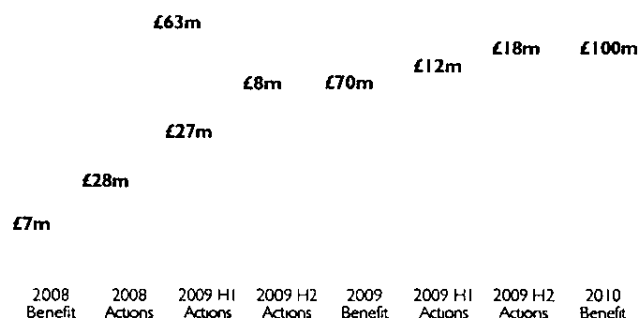
Annualised net cost savings of £100m implemented

Achieved savings by category



Staff	Trading sites	Others	Gross cost savings	Lost gross profit	Net cost savings
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Incremental net savings benefit by period



became warranted. Consistent with the overarching aims of maintaining customer service and defending market position, as appropriate, staffing and vehicles were cut back and trading locations merged or closed to protect profitability. Such actions were taken in all of the Group's countries and operating divisions, although given the scale of the decline and the density of market coverage the impact of such changes was heaviest in the UK and Ireland.

In addition to seeking efficiencies in the Group's operations on a standalone basis, a number of further initiatives were implemented to increase commercial and operational efficiencies between some of the UK divisions. These ranged from site sharing between several trading locations in different divisions to the full merger under single management of the insulation and interiors distribution businesses, and likewise of the previously separate roofing and roofline plastics operating units. In Poland, all of the Group's standalone businesses were merged into a single entity with a unified management structure. Furthermore, the Company embarked on the complete reconfiguration of its UK Interiors manufacturing operations, with four previously autonomous businesses being re-formed into a specialist UK Manufacturing Division, rationalising the product range and improving capacity utilisation by reducing the number of production facilities from twelve to six.

The impact of these carefully designed changes will become increasingly apparent in 2010, and will stand the Company in good stead to benefit from eventual market recovery.

OUTLOOK

2010 is set to be another challenging year, though one in which the rate of decline in most of SIG's different market sectors and countries of operation should gradually level out as the year unfolds. Management and staff across the Group are ready to deal with the challenges ahead, to continue to provide excellent service and value to our customers, to strengthen our position in our different markets, to look for opportunities for profitable growth, and to take full advantage of the upturn when it eventually comes.

BUSINESS REVIEW CONTINUED

Net borrowing costs benefited from the significant reduction in net debt in the period, reducing from £697.1m at 31 December 2008 to £254.5m at 31 December 2009. The reduction included:

- £325m of equity raised
- £103m reduction in working capital
- £43m reduction in capital expenditure

FINANCIAL REVIEW REVENUE

Sales fell by 10.2% overall or £310m to £2,744m (2008: £3,054m). On a constant currency basis, like for like sales fell by almost 16%. The deterioration in the macroeconomic backdrop noted in the second half of 2008 continued further in 2009 and affected the demand for SIG's products, with SIG experiencing a like for like constant currency reduction in sales in all countries of operation, with the exception of Benelux.

MARGINS

Gross profit margin decreased overall from 26.5% to 25.3%. This reduction was partly due to the change in sales mix (i.e. an increase in the proportion of sales being achieved in Mainland Europe where margins are inherently lower). In the UK and Ireland gross margin fell by 2% to 26.9% (2008: 28.9%) whilst in Mainland Europe the gross margin increased by 0.3% to 23.8% (2008: 23.5%). On a like for like constant currency basis the Group's gross margin fell by 1.2%.

Underlying operating costs as a percentage of sales increased from 20.9% to 22.3% as the sales volume decline outpaced the benefit from the comprehensive range of cost reduction programmes.

A combination of reduced gross margin and increased operating costs as a percentage of sales gave rise to a lower underlying operating margin of 2.9% (2008: 5.6%). As explained in the trading review section, the Group has taken actions in 2008 and 2009 to ensure the cost base is appropriate in the short to medium term.

OPERATING PROFIT

Underlying operating profit decreased by 52.4% or £88.9m to £80.9m. Tougher trading conditions throughout 2009 resulted in like for like underlying operating profit falling by 52.2% or £81.8m in 2009 to £74.8m (2008: £156.6m). The Group recorded an operating loss of £32.5m (2008: operating profit of £107.0m) reflecting a number of 'other items' that are described on page 19.

FINANCE COSTS

Net finance costs before gains and losses on derivative financial instruments and financing items relating to our defined benefit pension schemes (i.e. net borrowing costs) reduced by £13.6m to £19.0m in 2009. The net borrowing cost as a percentage of average debt in issue during the year reduced from 5.5% to 4.75%.

Net borrowing costs benefited from the significant reduction in net debt in the period, reducing from £697.1m at 31 December 2008 to £254.5m at 31 December 2009. The reduction in net debt of £442.6m in the year included:

- £325m of equity raised via the issuance of 455,047,973 ordinary shares,
- £103m reduction in working capital, and
- £43m reduction in capital expenditure.

Further details are provided in the "Cash Flow and Financial position" section on page 21.

In addition, given that 41% of the Group's borrowings are at variable rates of interest, the significant reduction in interest rates in 2009 (UK and Euro base rates are currently at 0.5% and 1% respectively) also had a beneficial impact on the Group's interest charge in 2009. Further details of SIG's interest rate policies are provided in the interest rate risk section on page 25. Finance costs relating to our defined benefit pension schemes amounted to £1.3m in 2009 (2008: net finance income of £0.1m). Further details are provided in Note 27c to the Accounts on pages 103 to 106.

Finance costs included in the "Other items" column of the Consolidated Income Statement amounted to £3.9m (2008: £41.4m) as outlined below.

Following the Group's equity issuance in H1 2009 and the subsequent reduction in the Group's level of net debt, SIG cancelled certain interest rate derivative contracts at a cash cost of £32m. This termination payment did not increase the Group's overall level of debt as this payment cancelled the mark-to-market liability already included in the Group's Consolidated Balance Sheet. The associated amounts held in reserves are being amortised through the Consolidated Income Statement over the life of the associated debt to 2018 in line with relevant accounting standards. This amortisation is included within the "Other items" column and amounted to £3.9m (2008: £nil).

Finance income included in the "Other items" column of the Consolidated Income Statement amounted to £1.4m (2008: £nil).

Focus, Specialisation and Service

REVIEW OF THE YEAR

FINANCIAL REVIEW CONTINUED

FINANCE COSTS CONTINUED

During 2009 the Group continued to hedge its foreign exchange rate loans against the net assets of its overseas subsidiaries, together with the associated tax effects. A £1.4m finance income credit (2008 cost of £41.4m) is included within the "Other items" column of the Consolidated Income Statement to account for hedge ineffectiveness arising from this structure. The Group has taken actions which will reduce the likelihood of being required to account for further hedge ineffectiveness in the Consolidated Income Statement from these arrangements going forward.

PROFIT BEFORE TAX

Underlying profit before tax decreased by 55.9% or £76.7m to £60.6m (2008 £137.3m). Profit before tax decreased by £88.4m to a loss before tax of £55.3m (2008 profit before tax of £33.1m).

OTHER ITEMS

Amounts included in the "Other items" column of the Consolidated Income Statement which in total amounted to £115.9m (2008 £104.2m) before tax are as follows:

- amortisation of acquired intangibles – £28.6m (2008 £26.4m). The accounting policies section on page 72 and Note 12 to the Accounts on page 90 provide details of what is included within intangible assets and over what periods the assets are amortised.
- impairment charge of £30.0m (2008 £14.2m) – following the continued significant decline of construction activity in Ireland in 2009, in addition to the goodwill impairment charge of £14.2m recognised in 2008 when reviewing the carrying value of goodwill associated with SIG's Irish business, the Group Board has concluded that in light of the anticipated medium term view of profitability in respect of this business unit, that the assets should be further impaired by £30m in 2009.
- restructuring costs of £54.8m (2008 £22.2m) – the Group has taken a number of actions to reduce operating costs in the year as described further on page 17. These one-off actions have resulted in redundancy costs of £16.4m, property closure costs of £23.2m, asset write down costs of £6.8m and other items of £8.4m, and
- net finance costs of £2.5m (2008 £41.4m). The finance costs section opposite explains this item.

FOREIGN CURRENCY TRANSLATION

Overseas earnings streams are translated at the average rate of exchange for the year whilst balance sheets are translated using closing rates. The table below sets out the principal exchange rates used.

	Average rate		Closing rate	
	2009	2008	2009	2008
Euro	1.12	1.25	1.12	1.03
Polish Zloty	4.89	4.38	4.62	4.26
Czech Koruna	29.86	31.23	29.72	27.45
Hungarian Forint	316.43	312.66	304.15	275.00

Fluctuations in exchange rates have and will continue to give rise to translation differences on overseas earnings streams when translated into Sterling. Whilst Sterling appreciated against the Euro at 31 December 2009 (£1.12/€) compared to 31 December 2008 (£1.03/€), on average, Sterling was weaker against the Euro during 2009 than in 2008.

As a result, the movement in average exchange rates compared to 2008 had a significant effect on total overseas earnings streams. Total sales increased by £125m and underlying operating profit increased by £5m due to foreign exchange rate movements. Further details of SIG's foreign exchange policies are detailed in the "Foreign currency risk" section on pages 25 and 26.

TAXATION

The income tax charge on underlying profits amounts to £18.0m (2008 £40.2m) which represents an underlying effective rate of 29.7% (2008 29.3%). The Group's underlying effective tax charge increased by 0.4% in 2009, driven principally by the increased proportion of Group profits attributable to the Group's Mainland European countries of operation which on average have higher corporation tax rates than the UK. Cash tax payments amounted to £16.5m, £1.5m below the £18.0m income tax charge on underlying profits primarily as a result of the restructuring costs incurred in the year included within "Other items", reducing UK taxable profits. In 2010, the Group's underlying tax rate will depend on the mix of Group profits from different jurisdictions, although it is anticipated that the Group's underlying tax rate in 2010 could exceed 30%. The Group however does anticipate cash tax payments in 2010 being below the income tax charge as the Group looks to utilise brought forward tax losses arising principally from 2008 foreign exchange rate losses in order to reduce UK taxable profits.

The effective income tax credit on the total loss before tax of £55.3m is 18.4% (2008 charge of 79.5%). These movements are a result of the other items in the year. In both 2009 and 2008 tax relief was not obtained in respect of the goodwill impairment charge and certain restructuring costs.

EARNINGS PER SHARE ("EPS")

Underlying basic EPS amounted to 9.0p (2008 58.9p), which represents a decrease of 84.7%. Basic EPS amounted to a loss per share of 9.7p (2008 earnings per share of 3.8p), which takes into account amortisation of acquired intangibles, impairment charges, restructuring costs and gains and losses on derivative financial instruments. The weighted average number of shares in issue in the period rose by 305.5m to 469.4m (2008 163.9m). This increase was primarily due to the placing and open offer and firm placing of 455,047,973 ordinary shares approved by shareholders on 9 April 2009.

- In accordance with paragraph 26 of IAS 33 "Earnings per Share" the Group has treated the discount element to the open offer part of the increase in share capital as if it were a bonus issue. The effect of this is to increase the weighted average number of shares for the reported prior period, with a resulting reduction in the reported basic and diluted earnings per share for the year ended 31 December 2008.

BUSINESS REVIEW CONTINUED

The Group's cash flow from operating activities amounted to £174.1m (2008: £156.0m).

This represents a trading cash conversion ratio of 216% and is a significant improvement on the 97% achieved in 2008.

FINANCIAL REVIEW CONTINUED

DIVIDENDS

The Board continues to review SIG's dividend policy in response to the ongoing challenging trading conditions that the Group continues to face. The Board has decided that it is in the best interests of Shareholders not to pay a dividend in 2009. The Board remains committed to a progressive dividend policy and SIG will resume dividend payments when markets stabilise and it believes it is prudent to do so taking into account the Group's earnings cash flow and balance sheet position.

ACQUISITIONS

Whilst acquisitions remain a key component of SIG's long term growth strategy as a result of the global financial crisis and difficult trading conditions in the majority of its markets, SIG temporarily ceased its acquisition programme in September 2008. The acquisition programme has remained on hold throughout 2009 and as a result, no acquisitions have been completed this year.

The Board will be very careful in its consideration regarding the most appropriate time to recommence its acquisitions programme.

In respect of prior year acquisitions, £3.9m was paid in 2009 relating to deferred/contingent consideration payments.

SHAREHOLDERS' FUNDS

Shareholders' funds increased by £212.6m to £829.6m (2008: £617.0m). The increase comprised the following elements:

	£m
Loss after tax attributable to equity holders of the Company	(45.6)
Exchange differences on assets and liabilities after tax	(43.3)
Movements attributable to share options	(1.3)
Actuarial loss on pension schemes (net of deferred tax)	(3.4)
Gains and losses on cash flow hedges	(18.8)
New equity share capital issued	325.0
Increase in Shareholders' funds	212.6

PENSION SCHEMES

In total, the Group operates five defined benefit pension schemes: the largest defined benefit pension scheme is a funded scheme held in the UK. The remaining four defined benefit pension schemes are unfunded book reserve schemes held in the Group's Mainland European businesses. Together the UK defined benefit scheme and the four book reserved schemes are referred to as "defined benefit pension schemes".

In addition to the defined benefit pension schemes, the Group also operates a number of defined contribution pension schemes.

SIG contributed £2.4m (2008: £10.2m) into its five (2008: five) defined benefit pension schemes during the year. The total charge in respect of defined benefit pension schemes to the Consolidated Income Statement was £2.9m (2008: £1.7m), of this total £1.6m (2008: £1.8m) was charged to operating expenses and £1.3m was charged to net finance costs (2008: £0.1m credited to net finance income).

The overall gross defined benefit pension schemes liability increased during the year by £4.9m to £24.0m. This can be broken down as follows:

	Increase/ (decrease) in pension scheme liability £m
Actual return less expected return on assets	(7.9)
Change in financial assumptions in all schemes*	12.6
Profit and loss charge above cash contributions to the schemes	0.5
Exchange gain	(0.3)
Increase in pension scheme liability	4.9

* There have been a number of changes in financial assumptions in 2009: the key items being a decrease in the discount rate used to value the pension scheme liabilities from 6.2% to 5.7% and changes in the assumptions relating to the settlement of liabilities.

The Group continues to monitor the life expectancy assumptions used to value its pension scheme liabilities. For the UK defined benefit pension scheme, the life expectancy for a male employee beyond the normal retirement age of 60 is 28.5 years (2008: 28.5 years), which is considered appropriate for a scheme of this nature.

Focus, Specialisation and Service

FINANCIAL REVIEW CONTINUED PENSION SCHEMES CONTINUED

The cost of the Group's defined contribution pension schemes decreased by 12% (£0.6m) to £4.3m. Details of the pension schemes operated by SIG are set out in Note 27c to the Accounts on pages 103 to 106.

CASH FLOW AND FINANCIAL POSITION

The Group has significantly reduced its level of net debt during the year via the raising of £325m of equity proceeds in April 2009 but also through excellent cash generation in the year. The following table explains the movement in SIG's net debt.

	2009 £m	2008 £m
Cash flow from operating activities	174.1	156.0
Interest and tax	(37.9)	(63.4)
Maintenance capital expenditure*	(9.5)	(42.6)
Free cash flow available for investment	126.7	50.0
Acquisition investment (including loan notes issued to vendors)	(3.9)	(123.2)
Investment capital expenditure*	-	(10.3)
Dividends (including minority dividends)	(0.2)	(37.2)
Proceeds from issue of share capital	325.0	1.1
Foreign exchange gains/(losses)	19.5	(154.3)
Other items (including fair value movements)	(24.5)	5.7
Movement in net debt	442.6	(268.2)
Opening net debt	(697.1)	(428.9)
Closing net debt	(254.5)	(697.1)

* Where capital expenditure is equal to or less than depreciation all capital expenditure is assumed to be maintenance capital expenditure. To the extent that capital expenditure exceeds depreciation the balance is considered investment capital expenditure. Capital expenditure shown above includes finance leases drawn down in each year.

Cash flow from operating activities

£174.1m

07	£160.3m
08	£156.0m
09	£174.1m

Key points to note are:

- included within "Cash flow from operating activities" is a significant reduction in working capital of £103.3m (2008: increase of £33.4m), which relates to a reduction in trade receivables and stock but also an increase in trade creditors;
- included within "Cash flow from operating activities" is a cash outflow representing the cash costs associated with the Group's cost saving and restructuring programme amounting to £27.1m (2008: £7.2m).

- as trading conditions continue to remain challenging the Group significantly reduced investment in new vehicles and new trading sites in the year. Net capital expenditure amounted to £9.5m in 2009 compared to £52.9m in 2008. For the year as a whole the net capital expenditure to depreciation ratio amounted to 0.24 times (2008: 1.24 times). Where possible the Group has redeployed certain assets from trading sites which have been closed in both 2008 and 2009 and

- as a result of the strengthening of Sterling versus SIG's foreign currencies during 2009 the Group's reported Sterling debt position benefited from an exchange gain of £19.5m during the year. The principal currency to which the Group has exposure is the Euro and this moved from €1.03 at the start of the year to €1.12 at the end of the year. During 2009 the Group converted €95m of Euro denominated debt into Sterling denominated debt at a blended rate of €1.10. However, these foreign exchange rate gains were more than offset by fair value movements associated with the Group's private placement derivative financial instruments of £24.5m, which increased the Group's reported debt position at 31 December 2009.

The Group's cash flow from operating activities amounted to £174.1m (2008: £156.0m). This represents a trading cash conversion ratio of 216% and is a significant improvement on the 97% achieved in 2008. Trading cash conversion is defined as cash flow from operating activities before pension movements divided by underlying operating profit and is a key measure that will continue to be a matter of high focus in 2010.

The key working capital ratios underlying the trading cash conversion are set out below on a like for like constant currency basis.

	2009	2008
Inventory days	40	39
Trade receivable days	44	43
Trade payable days	36	28

During 2009, SIG's working capital targets were successful in reducing inventory and trade receivables and increasing trade payables across the Group.

The Group's bad debt charge (being both bad debts written off and the movement in the allowance for bad debt) amounted to 0.8% of sales (2008: 0.6% of sales). The Group is very mindful of the risk of bad debts increasing as the economies in which it operates continue to remain weak, construction activity remains subdued and that the Group's customer base is at risk of having credit withdrawn by banks. The Group's credit control policies and procedures are regularly reviewed and a number of the Group's businesses have credit insurance to protect them from bad debts rising above prescribed aggregate loss levels.

DEBT COVENANTS

The Company's debt facilities contain a number of covenants attached to SIG's committed debt facilities. The key covenants are leverage and interest cover and these are tested at 30 June and 31 December each year.

The leverage covenant is a requirement to maintain a ratio of net debt to annualised EBITDA of less than 3.5 times. Annualised EBITDA is defined as operating profit before amortisation of acquired intangibles, impairment charges, depreciation and restructuring costs, plus interest receivable and adjusted if applicable to annualise the EBITDA of acquisitions made during the previous twelve months.

BUSINESS REVIEW CONTINUED

The commitment, drive and enthusiasm of all SIG's employees are its greatest asset and SIG's ability to meet the demands of its customers, suppliers and Shareholders is dependent upon their efforts.

FINANCIAL REVIEW CONTINUED DEBT COVENANTS CONTINUED

The interest cover covenant is a requirement to maintain a ratio of the previous twelve months' underlying operating profit to underlying net finance costs (excluding pension scheme finance income and costs) of greater than 3.0 times

The ratio for each of the debt covenants is set out below

	Year ended 31 December 2009	Year ended 31 December 2008
Leverage covenant		
Annualised EBITDA	£127.1m	£227.0m
Closing net debt	£254.5m	£697.1m
Leverage ratio	2.0x	3.1x

	Year ended 31 December 2009	Year ended 31 December 2008
Interest cover covenant		
Underlying operating profit	£80.9m	£169.8m
Underlying net finance costs*	£19.0m	£32.6m
Interest cover ratio	4.3x	5.2x

* Excluding pension scheme finance income and costs

The Company is in compliance with its financial covenants in all respects and has not requested or gained any waivers thereof

CAPITAL STRUCTURE

The Group manages its capital structure to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 17, cash and cash equivalents and equity attributable to equity holders of the Parent Company comprising issued capital, reserves and retained earnings as detailed in the Consolidated Statement of Changes in Equity on page 70.

The main measure used to assess the appropriateness of the Group's capital structure is its net debt to EBITDA ratio (i.e. leverage), thus ensuring that the Group's capital structure is aligned to the Group's debt covenants. As at 31 December 2008,

the Group's leverage was 3.1x against a maximum covenant of 3.5x. Given the uncertainty that surrounded the Group's trading environment for 2009, in order to ensure that the Group did not breach its debt covenants, SIG raised £32.5m following the issuance of 455,047,973 new ordinary shares of 75p each through a placing and open offer and firm placing approved by shareholders on 9 April 2009. On a pro-forma basis, this reduced the Group's leverage position from 3.1x at 31 December 2008 to 1.6x at that date. At 31 December 2009, the Group's leverage position is 2.0x.

OUTLOOK

The Directors' view of the outlook and prospects for the Group are set out in the Chairman's Statement on page 5.

RESOURCES EMPLOYEES

The commitment, drive and enthusiasm of all SIG's employees are its greatest asset and SIG's ability to meet the demands of its customers, suppliers and Shareholders is dependent upon their efforts. Throughout SIG, regardless of country or sector, we believe our people are recognised as the best in their particular field. SIG's policy and strategy towards its employees is detailed further in the Corporate Responsibility Report on page 43. Training, coaching and the opportunity for personal career advancement within the Company are important features of how SIG seeks to recruit, retain and develop skilled staff.

BRAND STRENGTH

SIG operates under a wide range of trading names in the respective markets and countries in which it has trading sites.

Many of these brands, including the original company name, Sheffield Insulations, are widely recognised throughout their respective market sectors or countries as the leading supplier, offering very focused products and services to customers.

SIG believes that the strength and market awareness of its brands are important assets.

COMPETITIVE POSITION

SIG aims to occupy leading positions as a specialist supplier in each of its main markets of insulation and building environments – exteriors, interiors and specialist construction products. A position of market leadership has been achieved in a number of specific markets. Operations in the other countries and market sectors are continuing to develop their position.

Focus, Specialisation and Service

RESOURCES CONTINUED INVENTORY

Immediate availability of a wide range of specialist materials is vital to the customers served by SIG

Materials are often required within hours on an emergency basis. For example, when a roof leaks and immediate repairs are necessary to prevent damage to the building and its contents or in a chemical processing plant where a pipeline becomes dangerously overheated due to a breakdown of the insulation. In both of these examples customers have an unplanned emergency need for specific and specialist products in order to prevent substantial damage and costs.

A fundamental feature of SIG's position in the supply chain is having these products, in depth, in strategically located trading sites to ensure customer requirements can be met.

TRADING SITES

SIG has an extensive network of trading sites as demonstrated in the chart on page 11. These are an important resource and an important feature of the SIG business model in each country of operation, as they enable the local market surrounding each trading site to be serviced on an immediate availability basis. As part of the Group's cost saving and restructuring programme, 72 sites have been closed in 2009 (152 since mid 2008). As part of the consultation process when identifying trading sites for closure, particular attention has been focused on ensuring that the closure of these trading sites has not affected the Group's service offering to its customers.

For customers conducting work on a regional or national basis in each country SIG can provide a full national service using locally held inventory, thus avoiding the time and cost penalties of shipping products over large distances.

FLEET DELIVERY CAPABILITY

SIG uses a mix of own delivery vehicles and external hire to deliver goods to customers. This enables availability and service to customers to be maximised whilst ensuring that the cost base is flexible to cope with periods of higher or lower daily demand.

The direct ownership of a large proportion of the fleet and the management of this resource on a local basis is an important feature of the speed, flexibility and responsiveness that SIG offers to customers.

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties which could have a material impact on SIG's long term performance. SIG has a comprehensive system of risk management installed in all parts of its business. The processes are described in detail on page 54 of the Corporate Governance Report.

LEVELS OF MARKET DEMAND IN THE BUILDING AND CONSTRUCTION MARKETS IN WHICH SIG OPERATES

Approximately 90% of SIG's sales are made to the building, construction and civil engineering industries.

These industries are driven by private and Government expenditure and include major new construction projects (e.g. airports, hospitals, schools and sports complexes), new residential housing developments and a wide range of renovation, upgrading and repair work on existing buildings.

SIG is exposed to changes in the level of activity and therefore demand from these industries. Government policy and expenditure plans, private investor decisions, the general economic climate and both business and (to a lesser extent) consumer confidence are all factors which can influence the level of building activity and therefore the demand for many of SIG's products.

Approximately 10% of SIG's sales are made into specific industrial applications, especially where there are temperature critical processes and the use of highly specialist insulation is an important part of the process plant itself. These industries include power generation, oil and gas processing, chemical, pharmaceutical and cold storage facilities.

SIG is exposed to activity levels and therefore demand for some of its products within these diverse industries. These industries would, in turn, be affected by the general economic climate, energy demand and energy costs and business investment decisions in major industries such as power generation and petrochemicals.

COMPETITORS

SIG has a mix of both direct specialist competition and some overlap with more general suppliers (such as general builders' merchants) in all its markets and countries of operation. As a distributor handling and supplying products manufactured by other companies, SIG is itself dependent upon other companies for in excess of 90% of the products that it sells. Some of SIG's competitors may be funded in such a way that they are willing to accept lower financial returns than SIG or have a greater breadth of resources than SIG in particular market sectors. Competition with these companies could adversely affect SIG's profitability and/or financial condition.

However, the majority of products that are sold by SIG are relatively bulky and inexpensive in relation to their mass and the cost of transport. This means that the risk faced by SIG of price disruption and possible cross border or international trading having a detrimental impact on prices in any particular country is low. Similarly, the risk posed by internet-based trading dependent upon parcel-carrier service is mitigated by the bulky nature of most of the products sold by SIG and the fact that specialist handling and delivery services are an important feature of the service provided by SIG to many customers.

INFORMATION TECHNOLOGY ("IT")

SIG uses a range of computer systems to provide order processing, inventory control and financial management within each country. Outages and interruptions could affect SIG's ability to conduct day-to-day operations. Any lengthy failure or disruption to the IT system in any business unit or country would result in loss of sales and delays to cash flow. Interruption to SIG's IT systems could be caused by a number of factors, including as a result of human error or malfeasance, malfunction, damage, fire or power loss. There can be no certainty that recovery plans and contingency plans will be effective in the event that they need to be activated. SIG's IT systems are not interdependent and there are dedicated support staff directly employed, together with external support service providers, to monitor the IT systems.

COMMERCIAL RELATIONSHIPS

SIG is exposed to changes in relationships with both customers and suppliers. Failure to negotiate competitive terms of business with its suppliers or failure to satisfy the needs of its customers could harm the Group's business. It is a key task for the operational management in each country and business unit to maintain and develop their relationships with customers and suppliers.

BUSINESS REVIEW CONTINUED

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

CREDIT RISK

SIG, by the nature of its position in the supply chain, buys products from highly reputable suppliers in bulk and sells the products to a wide variety of professional contractors on credit terms. There is a risk that customers do not pay as the typical customer does not have many assets. SIG has therefore developed well proven credit control guidelines and procedures that are designed to minimise its credit risk whilst trying to maximise sales potential. For the year ended 31 December 2009 bad debt expense increased to 0.8% of sales (2008: 0.6% of sales) reflecting the more challenging economic conditions faced by many of the Group's customers.

CREDIT INSURERS

A number of the Group's suppliers insure their credit exposure to SIG with a small number of credit insurers. Likewise SIG also insures its credit exposure in relation to a number of its customers. These credit insurers could withdraw their cover on SIG or its customers which would affect the trading relationship between SIG, its suppliers or its customers and potentially the profitability of SIG.

RESTRUCTURING OF SIG

Since 1 July 2008 the Group has actively taken steps to align its cost base in those markets where short to medium term demand is expected to remain subdued and also to drive operational and commercial efficiencies within the Group. There is a risk that the restructuring plans may not achieve their goals and may cost more than anticipated.

GOVERNMENT LEGISLATION

SIG operates in a number of countries across Europe, each with its own laws and regulations encompassing environmental, legal, health and safety, employment and tax matters. Changes in these laws and regulations could impact on SIG's ability to conduct its business, or make such conduct of business more costly.

SIG is committed to complying with all local legal requirements and the clear devolution of responsibility to local operating management, together with the employment of competent advisers. Changes to legislation are monitored locally and appropriate actions taken to ensure they are incorporated into the Company's business policies and procedures.

TRANSPORT AND FUEL PRICES

In excess of 70% of SIG's sales are delivered to customers. Prolonged disruption to road transport systems or the availability of vehicle fuel would result in reduced sales in any country in which this may occur. In addition, a significant increase in fuel prices can affect profitability.

PRODUCT AVAILABILITY AND PRODUCT PRICES

The availability and market prices of products that the Group supplies can change. These changes can adversely affect the Group's sales and operating profits.

If product demand outstrips supply, be it due to demand rising or supply falling, there could be a negative impact on the Group's ability to service its customers' needs. The factories that produce fibrous insulation products take a number of years to build and so if demand exceeds the production capacity, product shortages could result. The Group keeps in regular contact with its suppliers to ensure that it protects its position regarding product availability and product pricing. The Group also sources its products from a number of manufacturers in order to reduce its reliance upon any one manufacturer.

The Group negotiates purchase prices with its suppliers. The ability of SIG to secure satisfactory terms of trade in these negotiations is key to its ability to supply the products to its customers at competitive prices. Rising product prices are advantageous for SIG as the Group's standard gross margin is achieved on a higher selling price resulting in improved overhead recovery, thus providing a higher underlying operating profit margin. Rising prices may also provide SIG with the opportunity to benefit from inventory gains whereby inventory is bought at the lower price and sold on at the higher price.

Conversely, falling product prices are disadvantageous for SIG. In recent years product price inflation across the basket of SIG products has been positive rather than negative, although in 2009 the Group has experienced price deflation of 2.3%.

There is an additional risk that disruption in the supply chain, for example due to the insolvency of a supplier, industrial action or adverse weather conditions, could affect SIG's business. This could lead to SIG being unable to fulfil certain commitments and this could lead to a material adverse effect on SIG's reputation, business results of operations and overall financial condition.

IDENTIFICATION AND INTEGRATION OF ACQUISITIONS

The Group's long term growth strategy is partly dependent upon the identification of appropriate acquisition opportunities at appropriate prices and the successful integration of acquisitions into the Group. Failure to identify, acquire and integrate new acquisitions could adversely affect the growth of the Group's business in the long term.

SIG commits dedicated resources to the research of new markets, the origination of appropriate acquisition targets and the execution of appropriate due diligence and the contract negotiation process. Post acquisition, SIG constantly evaluates the management structures of its businesses to ensure that appropriate management time can be dedicated to new businesses.

LOSS OF KEY MANAGEMENT OR PERSONNEL

The Group's businesses are highly reliant on the continued services of its Senior Management, including its Executive Directors and other key personnel. These individuals possess sales and marketing, technical, manufacturing, financial and administrative skills that are important to the continued successful operation of the Group's business. SIG is also reliant on the ability to recruit and retain skilled and experienced labour available within the industry at an operational level.

Failure to retain such individuals, or the failure to attract and retain strong management and technical staff in the future, could have an adverse effect upon the Group's business results of its operations and financial condition.

PRODUCT DEFECT CLAIMS

High product quality is an important reason why customers buy products from SIG. The inadvertent supply of defective or inferior products by SIG to its customers could have an adverse impact on the Company's reputation and standing, thereby harming the Company's business and financial results. The Group takes care to source products selectively to ensure any possible risk associated with product quality issues is minimised.

Focus, Specialisation and Service

TREASURY RISK MANAGEMENT

TREASURY RISK

SIG enters into derivative financial instruments (principally foreign currency and interest rate swaps) to hedge certain currency risks arising from SIG's operations and to hedge interest expenses arising from SIG's sources of finance. SIG's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and various items such as trade receivables and trade payables that arise directly from its operations.

SIG's Finance and Treasury Policies set out the Company's approach to managing treasury risk. These policies are approved by the Board on a regular basis. It is Company policy that no trading in financial instruments or speculative transactions be undertaken. To minimise the credit risk associated with derivative financial instruments, SIG only enters derivative financial instruments with its principal UK banks.

SIG finances its operations through a mixture of retained profits, Shareholders' equity, bank, private placement and other borrowings. SIG uses derivative financial instruments to change the Group's currency and interest rate profile so managing SIG's exposure to exchange rate and interest rate fluctuations. A small proportion of SIG's assets are funded using fixed rate finance lease contracts. At 31 December 2009, outstanding liabilities in respect of such contracts amounted to £9.4m (2008: £12.6m).

The Group's financial liabilities (including derivative financial assets) at 31 December 2009 of £473.9m (2008: £768.8m) can be analysed as follows:

- £141.3m (2008: £151.3m) has a maturity profile of greater than five years. £217.0m (2008: £393.7m) is denominated in foreign currencies, held to partially hedge the assets of our overseas businesses;
- £151.2m (2008: £443.1m) carries a fixed rate of interest; and
- £460.2m (2008: £749.2m) is borrowed on an unsecured basis.

Details of derivative financial instruments are shown in Note 17 to the Accounts on pages 93 to 95.

INTEREST RATES

The Company's interest costs in respect of its borrowings will increase in the event of rising interest rates. To reduce this risk, the Company has a policy of fixing between 60% and 85% of its net debt by entering into appropriate derivative financial instruments. However, due to the unprecedented low interest rate environment which has prevailed throughout 2009, in order to reduce the Group's interest charge in 2009, the Group has held a greater proportion of its debt at variable rates of interest. At 31 December 2009, 59% (31 December 2008: 64%) of the Group's net debt is at fixed rates of interest.

LIQUIDITY RISK AND FINANCIAL FACILITIES

Liquidity risk is the risk that SIG is unable to meet its financial obligations as they fall due. In the longer term, a substantial reduction in operating performance and cash generation may result in the Group being unable to service its debt, which would have a material adverse effect on the Group's business.

In order to mitigate the risk of not being able to meet its financial obligations, SIG seeks a balance between certainty of funding and a flexible, cost-effective borrowing structure, using a mixture of sources of funding in order to reduce the risk of being over-reliant upon any one provider. The key sources of finance are private placement note providers, being mainly US-based pension funds and principal bankers. The Royal Bank of Scotland plc, Barclays Bank plc and Lloyds TSB Bank plc. The last private placement transaction completed on 1 November 2006 increased the certainty of the Group's debt funding, providing a committed 7, 10 and 12 year facility.

There is a risk that funding will not be made available to the Group or that the cost of accessing and servicing the funding may be prohibitive. The significant reduction in net debt in 2009, driven largely by the raising of £325m via a placing and open offer and firm placing, increases the Group's ability to raise and service appropriate debt funding.

As at 31 December 2009, SIG had undrawn UK committed borrowing facilities from its debt providers of £210.0m (2008: £79.6m). In addition, at 31 December 2009, the Group held positive cash on deposit of £219.4m (2008: £71.7m) which it can call upon to meet any future financial obligations.

The Group has £145m of bank borrowings due for repayment in 2010. In order to meet this repayment requirement, the Group has undrawn UK committed facilities expiring in 2011 and 2013 of £175m and also £219m cash held on deposit at 31 December 2009, creating a funding surplus of £249m. The Group therefore does not envisage refinancing its debt facilities which mature in 2010.

The year-end maturity profile and value of undrawn committed borrowing facilities are set out in Note 18 to the Accounts on pages 96 to 97.

FOREIGN CURRENCY RISK

SIG has a number of overseas businesses whose revenues and costs are denominated in the currencies in which the operations are located. 55% of SIG's 2009 revenues were in foreign currencies, being primarily Euros, Polish Zloty, Czech Koruna and Hungarian Forint. The vast majority of SIG's sales and purchases are not cross-border. When cross-border transactions occur, it is SIG's policy to eliminate currency exposure at that time through forward currency contracts, if the exposure is considered to be material.

SIG faces a translation risk in respect of the local currencies of its primary foreign operations, being Euro, Polish Zloty, Czech Koruna and Hungarian Forint. Profits. SIG also faces a translation risk from the US Dollar in respect of its private placement borrowings.

The Consolidated Balance Sheet of the Group is inherently at risk from movements in the Sterling value of its net investments in foreign businesses and the Sterling value of its foreign currency net debt.

BUSINESS REVIEW CONTINUED

Gearing decreased during the year from 112.6% to 30.6%. The reduction in gearing was largely due to the increase in capital employed and subsequent reduction in Group debt arising from the Group raising £325m of equity proceeds.

TREASURY RISK MANAGEMENT CONTINUED FOREIGN CURRENCY RISK CONTINUED

For currencies where the Group has significant translational risk, SIG seeks to mitigate this risk by combining financial liabilities and derivatives in currencies that partially hedge the net investment values. The Group's policy is that for currencies where a material translational exposure exists, the Group will hold financial liabilities in that particular currency in proportion to the overall ratio of net debt to capital employed.

At 31 December 2009, SIG had net foreign currency borrowings (including cash and cash equivalents) amounting to €179.4m and HUF111.2m. The Group also had cash and cash equivalents amounting to PLN47.6m and CZK98.1m at that date.

Net Euro borrowings at 31 December 2009 therefore represent 63% of Group net debt.

Gearing, being net debt divided by net assets, decreased during the year from 112.6% to 30.6%. The reduction in gearing was largely due to the increase in capital employed and subsequent reduction in Group debt arising from the Group raising £325m of equity proceeds from the issuance of 455,047,973 shares via a placing and open offer and firm placing.

The net after tax effect on the Consolidated Balance Sheet of currency transaction and translation differences relating to our overseas subsidiaries in 2009 was a reduction in net assets of £40.6m (2008: increase of £37.9m). This reduction in net assets arose principally as a result of the 8.7% year on year appreciation of Sterling versus the Euro (€/£1.12 at 31 December 2009 versus €/£1.03 at 31 December 2008), thus decreasing the carrying value of SIG's net investments in its Euro denominated businesses.

DEBT COVENANTS

SIG's debt facilities provided by its private placement note holders and its three relationship banks in the UK contain certain covenants. The key covenants are leverage and interest cover and are tested at 30 June and 31 December each year. The leverage covenant is a requirement to maintain a ratio of net debt

to Annualised EBITDA of less than 3.5x. The interest cover covenant is a requirement to maintain a ratio of previous twelve-month underlying operating profit to underlying net finance costs (excluding pension scheme finance income and costs) of greater than 3.0x. At 31 December 2009, the Group's leverage was 2.0x (2008: 3.1x) and interest cover was 4.3x (2008: 5.2x).

SIG must manage its business and its capital structure so that it meets its debt covenants, thus ensuring it can meet its liabilities as they fall due.

GAINS AND LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS

The Group has a number of treasury hedging arrangements that attempt to eliminate foreign exchange, interest rate and associated tax risks under the terms of SIG's Treasury Policy. Where these hedges are deemed imperfect or where exceptional gains and losses arise, then these are included within "Other items" in the middle column of the Consolidated Income Statement. Further details are set out on in the "Finance costs" section on pages 18 and 19.

OTHER MATTERS SHAREHOLDER RETURN

SIG has delivered a 5.3% return on capital employed in 2009 (2008: 10.9%). The reduction in the return on capital employed compared to the prior year primarily reflects the reduced operating profits in the Group in light of the challenging trading environment and also the increased level of capital employed following the Group's raising of £325m additional equity through the placing and open offer and firm placing in April 2009.

SIG is mindful of this reduction in return and is confident that the restructuring actions it has taken and its ongoing actions will enable it to increase return on capital employed when building and construction activity upturns.

As at 17 March 2010, SIG's share price closed at £1.274 per share, representing a market capitalisation of £753m at that date. SIG monitors relative Total Shareholder Return ("TSR") for assessing relative financial performance. The Group's TSR performance has been detailed in the Directors' Remuneration Report on page 60.

Focus, Specialisation and Service

OTHER MATTERS CONTINUED GOING CONCERN BASIS

In determining whether the Group's 2009 Accounts can be prepared on a going concern basis, the Directors considered all factors likely to affect its future development performance and its financial position, including cash flows liquidity position and borrowing facilities and the risks and uncertainties relating to its business activities. These are set out in the Chairman's Statement and Business Review on pages 4 to 27 and in the Notes to the Group Accounts.

The key factors considered by the Directors were as follows:

- the implications of the challenging economic environment and continuing weak levels of market demand in the building and construction markets on the Group's revenues and profits. The Group prepares forecasts and projections of revenues profits and cash flows on a regular basis. Whilst this is essential for targeting performance and identifying areas of focus for management to improve performance and mitigate the possible adverse impact of a deteriorating economic outlook, these also provide projections of working capital requirements.
- the impact of the competitive environment within which the Group's businesses operate,
- the availability and market prices of the goods that the Group sells,
- the credit risk associated with the Group's trade receivable balances.
- the potential actions that could be taken in the event that revenues are worse than expected to ensure that operating profit and cash flows are protected and
- the committed finance facilities available to the Group. The Group has access to a variety of bilateral banking facilities to meet day-to-day working capital requirements. At 31 December 2009, the Group had undrawn facilities of £210m. The Group also had cash held on deposit at 31 December 2009 amounting to £219.4m.

Having considered all the factors above impacting the Group's businesses, including downside sensitivities, the Directors are satisfied that the Group will be able to operate within the terms and conditions of the Group financing facilities for the foreseeable future.

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Group's 2009 Accounts.

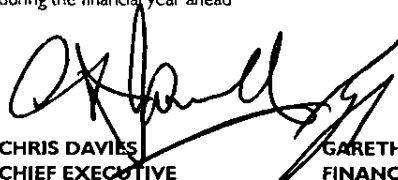
CAUTIONARY STATEMENT

This Business Review has been prepared to provide the Company's Shareholders with a fair review of the business of the Group and a description of the principal risks and uncertainties facing it. It may not be relied upon by anyone, including the Company's Shareholders, for any other purpose.

This Business Review and other sections of this Report contain forward looking statements that are subject to risk factors including the economic and business circumstances occurring from time to time in countries and markets in which the Group operates and risk factors associated with the building and construction sectors. By their nature, forward looking statements involve a number of risks, uncertainties and assumptions because they relate to events and/or depend on circumstances that may or may not occur in the future and could cause actual results and outcomes to differ materially from those expressed in or implied by the forward looking statements. No assurance can be given that the forward looking statements in this Business Review will be realised. Statements about the Directors' expectations, beliefs, hopes, plans, intentions and strategies are inherently subject to change and they are based on expectations and assumptions as to future events, circumstances and other factors which are in some cases outside the Company's control. Actual results could differ materially from the Company's current expectations.

It is believed that the expectations set out in these forward looking statements are reasonable but they may be affected by a wide range of variables which could cause actual results or trends to differ materially, including but not limited to: changes in risks associated with the level of market demand, fluctuations in product pricing and changes in exchange and interest rates.

The forward looking statements should be read in particular in the context of the specific risk factors for the Company identified on pages 23 to 26 of this Business Review. The Company's Shareholders are cautioned not to place undue reliance on the forward looking statements. This Business Review has not been audited or otherwise independently verified. The information contained in this Business Review has been prepared on the basis of the knowledge and information available to Directors at the date of its preparation and the Company does not undertake any obligation to update or revise this Business Review during the financial year ahead.


CHRIS DAVIES
CHIEF EXECUTIVE


GARETH DAVIES
FINANCE DIRECTOR

INSULATION AND BUILDING ENVIRONMENTS

Growth drivers:

- The need to reduce energy consumption
- More stringent Government regulation
- Public sector and Private Finance Initiatives

Focus, Specialisation and Service

SIG is the largest specialist supplier of insulation and related products in Europe. Insulation products have three main applications, being thermal management, fire protection and sound control. In the longer term, demand for insulation products, driven by continued and more stringent Government legislation and environmental issues, is expected to outperform overall construction demand.

The most widespread application for insulation is that of thermal management where insulation is most commonly used to retain heat within a building or industrial process. However, there are also applications, such as cold stores, where the requirement is to keep heat out. Fire protection is another important application for insulation where good design, material specification and installation are vital in protecting buildings from the ravages of fire and ultimately help save lives. The third application of insulation is that of sound control. Cities and towns are becoming increasingly dense and the ability to minimise the transmission of noise between dwellings is now an integral part of building design. The technical capabilities for this application

are developing apace and the Group has positioned itself as a leader within this area as well as the wider insulation market.

High energy costs and environmental concerns drive the use of insulation products across a wide range of construction and industrial applications. In general, insulation is used to control the transfer of heat and sound and provide resistance to fire, all of which are subject to the specific Building Regulations in each country. In addition, the goal of reducing carbon emissions driven by Government policy and regulation is placing increasing importance on the use of appropriate insulation materials and systems. As Building Regulations, environmental issues and modern methods of construction become ever more complex, customers increasingly rely upon the knowledge, support and impartial advice only a specialist distributor can provide. SIG's sales and technical staff receive continuous training in the latest legislation, building methods, products and applications.

Building methods and products are rapidly changing. SIG works closely with manufacturers to introduce wide ranges of new, specialist,

sustainable products to progress innovative building methods.

The Group has 224 trading sites (80 of which also supply interiors products in Mainland Europe) focused on the requirements of the insulation and building environment market and is able to provide expert advice, wide stock holding and rapid service and delivery. In the UK, the Group is also engaged in domestic insulation contracting, being predominantly the retrofitting of thermal insulation in the walls and lofts of houses, thus improving the efficiency of existing residential properties. Demand for domestic retrofitting of insulation is driven through a number of Government supported schemes such as the Carbon Emissions Reduction Target ("CERT") in the UK. SIG has built upon its extensive experience in the industrial and Heating, Ventilation and Air Conditioning ("HVAC") insulation market to develop into the adjacent and complementary area of air handling and air conditioning materials with activities spread across eight countries and twelve trading sites around Europe. This market offers excellent growth prospects driven by increasing regulation on thermal efficiencies in the non-residential environment.

Revenue

£1,086.4m
39.6%
 of total revenue

EXTERIORS

Growth drivers:

- Essential RMI requirement
- Growth of specialist distribution as the main supply route
- New products

Focus, Specialisation and Service

The roof is one of the most critical parts of any building. It protects the integrity of the building's structure and the building's contents from the elements. Repair and maintenance is often an urgent requirement and requires suitable products to be readily available on demand.

The 341 trading sites in this division offer materials from the leading manufacturers of roofing materials and supply products for pitched, flat, industrial and agricultural applications. As the largest specialist supplier of roofing materials in Europe, the Group is able to keep at the forefront of innovations and provide its customers with a level of technical know-how unrivalled in the market. In addition, for certain bespoke product solutions, the Group also has in-house manufacturing capability in the UK and Germany. As well as specialist roofing materials, each location offers a range of accessories such as tools and fixings, ventilation, access

equipment, safety products and insulation materials. Many of these accessories are core product areas for other Group businesses and the Exteriors business is able to draw on the experience and technical knowledge of its sister businesses as well as taking advantage of Group procurement.

SIG is also a leading supplier in the UK of reclaimed and pre-used roof tiles and slates which have two key advantages over newly manufactured products. Firstly, they remove the need for energy consuming manufacture and secondly, their aged and worn character provides an aesthetically pleasing appearance that matches that of the local environment, something that is increasingly important to local communities and planning agencies.

The on-going need for repair or replacement of existing roofs, whether as the result of natural wear and tear or of storm damage, creates a resilient market for roofing materials.

The emergency nature of some repairs requires materials to be readily available from local stock and these demands dictate the nature of the market, which is for a large number of depots holding a broad range of stock. For new-build applications, where consumers or designers require certain styles or finishes, SIG also provides "Roof Libraries" which offer a very wide selection of materials and facilitate the specification process. During the last few years, SIG has also broadened its product offering to include roofline products such as rainwater and guttering, soffit, fascia and barge boards.

SIG has also expanded its range of Photovoltaic products which are supplied through the Group's trading sites in France, Germany and the UK. Government initiatives are expected to support and drive demand for these products going forward.

Read more about our divisions
www.sigplc.com/About-Us.htm

Revenue

£749.0m
27.3%
of total revenue

INTERIORS

Growth drivers:

- Government investment (e.g. schools and hospitals)
- Rising standards of internal fit out
- Thermal, acoustic and safety standards

Focus, Specialisation and Service

SIG Interiors businesses are leading designers, manufacturers and specialist distributors of all products required for interior fit out projects. The Interiors market place is demanding, sophisticated and fast moving with product innovation being essential to respond to changing legislation and standards. Emphasis is on achieving a balance between efficient utilisation of space and the quality and comfort of the working environment. There is also an added requirement of flexibility to meet the changing business requirements of today's world.

The Group has a combination of businesses within the Interiors market sector, incorporating both distribution and manufacturing-based businesses

The core product areas for the Group are ceilings, partitioning, dry lining, floor coverings, glass and specialist door systems used in non-residential buildings, together with a wide range of ancillary products supplied to support individual contracts. All types of non-residential buildings such as schools, hospitals, hotels, offices and shops are supplied with products for either new build or refurbishment projects. The Group supplies leading-brand ceiling and dry lining products and manufactures its own door and partitioning systems

The Group has 222 trading sites (80 of which also supply insulation products in Mainland Europe) which blend the requirements of small, maintenance-orientated projects which require ready access to materials with those of larger, specification-based contracts where specialist advice, service and support are required to secure orders. Customer and client support may include technical design and development of visual appearance, together with logistics and delivery scheduling in order to meet the requirements of the fit out programme. Delivery service is an important element of project planning as city locations can often have difficult access and minimal space for holding stock. If materials are not available "on time" then contractors face lost "downtime" and potential time penalties

Read more about our divisions
www.sigplc.com/About-Us.htm

Revenue

£685.9m
25.0%
of total revenue

SPECIALIST CONSTRUCTION PRODUCTS

Growth drivers:

- Investment in infrastructure and non-discretionary spending by utilities
- Demand for high performance solutions and innovative products
- Supply chain efficiency and specific technical “just in time” project management

Focus, Specialisation and Service

REVIEW OF THE YEAR

SIG's Specialist Construction Products division distributes specialist, leading brand construction materials to a wide range of markets which are essential to the construction process. Detailed product knowledge and a keen understanding of specific technical applications are vital elements of customer support. A large part of SIG's sales in this market sector are into new construction projects.

SIG supplies a wide portfolio of specialist construction products such as concrete accessories, waterproofing systems, construction chemicals and admixtures, brickwork support systems, specialist fixings, safety products and tools from 46 trading sites. Typically, products are supplied to large commercial or civil engineering projects. Examples include tunnels and bridges, schools and hospitals, retail developments, hotels and office buildings.

The products supplied by SIG are often of critical importance to the whole building programme and must perform to tight specifications and be available for use at the right time and right location. Consequently, relationships throughout the supply chain with manufacturers, major contractors and specialist sub-contractors are vital. The capability to provide solutions with expert technical advice and the ability to offer rapid delivery times to maintain workflows on large projects is a big point of differentiation on time critical projects.

Public sector investment in large scale infrastructure projects together with non-discretionary spending by utility companies generates high levels of continuing opportunity for SIG's products in this sector.

Major construction contractors are increasingly looking to shrink their supplier base and to outsource more work to less suppliers. SIG's extensive range of products and service make it ideally positioned to take advantage of this opportunity.

Read more about our divisions
www.sigplc.com/About-Us.htm

Revenue

£222.2m
8.1%
 of total revenue

CORPORATE RESPONSIBILITY

SIG is continually developing its approach to Corporate Responsibility and is a constituent member of the FTSE4Good Index of socially responsible companies. As such, SIG fully recognises its corporate responsibilities to its Shareholders, employees, customers and suppliers and is committed to good practice in all its activities.

FTSE Group confirms that SIG plc has been independently assessed according to the FTSE4Good criteria and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index company FTSE Group, FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series have met stringent social and environmental criteria and are positioned to capitalise on the benefits of responsible business practice.

SIG is a member of Business in the Community in the UK and has worked with that organisation to develop its approach and practices.

SIG continues to develop its approach to Corporate Responsibility ("CR") and is pleased to be able to inform its stakeholders of the measures which it is taking to continue to monitor and improve its CR performance reporting. The Company is a constituent member of the FTSE4Good Index of socially responsible companies. 2009 was both difficult and economically challenging for the Group and whilst not deterring our commitment to the continued implementation of our CR programme, the extensive restructuring of the Group's operations has affected the speed and scale of the progress achieved in 2009. Nevertheless, the Group has put in place a three-year rolling CR plan with objectives to drive and demonstrate improvement in its CR performance.

SIG is able to confirm that the Board takes regular account of the significance of social, environmental and ethical matters to the business of the Group and that it has in place a comprehensive risk management and internal control process which identifies and assesses the significant risks to the Company's short and long term value arising from such matters. The Board receives a report on CR issues at each of its Board meetings. CR issues form part of the overall internal control process and are covered in the training of Directors.

SIG recognises its corporate responsibilities to its Shareholders, employees, customers and suppliers and is committed to good practice in all its activities. The Board believes that the progressive integration of CR across the Group and the inclusion of broader social and environmental issues into its decision making will help us to achieve our business goals and act as an essential building block for growth in Shareholder value. SIG has in place a Group-wide Ethics Policy which sets out a number of fundamental principles which all Group companies are required to follow. In addition, we have in place a Group-wide Anti-corruption Policy and Ethical Trading and Human Rights Policy. These policies underpin our CR programme and support our business integrity.

SIG has certification under ISO 14001:2004 (Environment) and OHSAS 18001:2007 (Health and Safety). This certification covers all of the Group's UK sites with Moody International and BSI being the appointed Assessors.

BUSINESS PRINCIPLES AND CODE OF ETHICS

The Group's Ethics Policy, which has been issued to all employees, sets out a number of fundamental principles, which all Group companies are required to follow. The policy can be viewed on the Company's website at www.sigplc.com. The Ethics and Anti-corruption Policies include the Company's prohibition on the giving or receiving of bribes or other payments. The key business principles contained in the Ethics Policy are set out below.

- SIG's policy is to operate within applicable laws
- discrimination or harassment of any kind will not be tolerated,
- SIG aims to be a responsible partner within its local communities
- the legal and moral rights of others will be taken into account in all SIG's business transactions,

Focus, Specialisation and Service

BUSINESS PRINCIPLES AND CODE OF ETHICS CONTINUED

- we will maintain a safe and healthy environment for people to work in,
- we will be proactive in managing our responsibilities to the environment,
- we will not knowingly make misrepresentations,
- as a matter of policy we do not make political donations,
- no bribes can be given or received,
- conflicts of interest must be avoided and in all cases must be reported, and
- employees are encouraged to report any suspected wrongdoings

ENVIRONMENT

The Chief Executive, Mr C. J. Davies is the Board Director responsible for the environmental performance of the Group. Each individual subsidiary Managing Director is responsible for the environmental performance of their own business. SIG is committed to minimising the environmental impact of its activities through good environmental management practices.

As a leading international supplier of insulation and related materials our core business is focused on the reduction of energy consumption and the subsequent reduction in harmful environmental impacts. The Group's Environmental Policy was reviewed in 2009. The policy is displayed in all trading sites and offices throughout the Group and on the SIG website. Environmental objectives and targets have been established at relevant functions and levels within the organisation.

SIG believes that it is in the Group's best interests to be aware of, and seeks to minimise the risks arising from, the social and environmental impact of its activities and is committed to conducting its activities and operations in line with current legislation and best environmental practice, seeking continual improvement and innovation within all Group businesses and activities.

All Group companies actively seek to

- minimise the use of all materials, supplies and energy – and wherever possible use renewable or recyclable materials,
- minimise the quantity of waste produced in all aspects of our business
- adopt an environmentally sound transport policy
- communicate our Environmental Policy to all staff and encourage them to participate in the achievement of our goals,
- supply and promote, wherever possible, those products which contribute to energy conservation and do not damage the environment, and
- ensure that the Company continues to meet present and future environmental standards and legislation

ENVIRONMENTAL MANAGEMENT

The Group has in place in the UK an Integrated Management System for Health, Safety and Environment, certified to ISO 14001 (Environment) and OHSAS 18001 (Health and Safety).

Throughout 2009 SIG has continued to progress towards being a "Carbon Managed" business. During 2009 improved data capture procedures across the UK and Mainland Europe have resulted in significant improvements in the accuracy, quality and quantity of the data captured. During 2010 these procedures will continue to be strengthened and developed towards achieving the Group's strategy of reducing its carbon footprint.

2009 was the third year for quantitative benchmarking, with all of the Group's UK locations being internally audited by the Health, Safety and Environmental ("HSE") Advisers, with the average audit scores across all the divisions again increasing against the prior year.

During 2009 a pan-European policy was agreed, and a copy signed by the Group Chief Executive. Copies of the policy are displayed in the local language at each Mainland European trading location. Meetings were held at the head office of each country/region to agree procedures to enable the strengthening of our carbon footprinting data capturing and to review the progress of the 2009 objectives.

The Group has received no prosecutions relating to environmental matters during 2009.

In the UK, during 2010, the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) will be introduced, requiring SIG's UK operations to provide auditable records and evidence for energy and heating fuel consumption, leading to the purchase of carbon allowances in 2011. SIG has in place a Low Carbon Committee, which has assessed the impact of the CRC on its operations and is working with the Carbon Trust to identify ways to reduce its carbon emissions. Objectives and an agreed action plan have been identified to reduce carbon emissions from energy and fuel consumption in order to meet the Group's Low Carbon Policy. Any carbon reduction initiatives will be shared across the Group to ensure that the maximum benefits can be gained in this next step towards achieving a low carbon business.

The Group has identified the significant environmental impacts of its operations, which are summarised on pages 37 to 40.

ENERGY AND TRANSPORT

As a founder member of the Association for the Conservation of Energy, SIG is active in promoting and encouraging the raising of mandatory standards for thermal insulation.

Reducing energy consumption is a priority for all of our operations. This is targeted both through reducing the amount of fuel used in delivery, by increasing the efficiency of heating and lighting and maximising the use of natural light in the Group's properties and by environmental awareness training at UK sites. Throughout 2009 significant improvements were made in the recording and monitoring of electricity and gas consumption at each location, with sophisticated reporting technology being installed at larger locations. In the UK, energy brokers have been instructed to, where practicable, purchase energy from renewable sources.

- SIG has recently launched its own UK Road Risk Policy, the main objective of which is to ensure that our vehicles operate safely and efficiently throughout our organisation. As part of this policy we have launched a driver training programme provided by Mercedes-Benz. This training will be focused on economical/fuel efficient and safe driving as well as contributing to the Driver Certificate of Professional Competence.
- In 2010 SIG will be introducing Key Performance Indicators ("KPIs") to specifically monitor the performance of its drivers and vehicles in terms of their fuel economy. It is planned to use this information to support incentives for drivers and provide further training and support for those who are not performing to an acceptable level.
- The City Initiative in the UK, which commenced during 2009, is supporting collaboration across different business streams to make better use of vehicles and resources within SIG's branch network. This initiative looks at efficient sharing of vehicles, routes and collections to the branch network within a local geography, cutting down on empty running vehicles and duplication of delivery areas.
- SIG has a policy of introducing the most energy efficient vehicles commercially available (currently considered to be Euro V category engines), which the Company purchases, whenever possible.
- SIG employs staff to train drivers in driving techniques aimed at reducing accidents and damage (safe driving) and to drive vehicles using methods and practices which will reduce fuel consumption. In addition SIG is in the process of putting in place a structured driver risk assessment process which will be launched in 2010. Equipment is fitted to commercial vehicles to measure ongoing driver efficiency (in particular fuel and braking). All vehicles are regularly serviced to ensure that vehicle emissions are kept to a minimum.

CORPORATE RESPONSIBILITY CONTINUED

SIG has in place a Low Carbon Committee, which has assessed the impact of the Carbon Reduction Energy Efficiency Scheme on its operations and is working with the Carbon Trust to identify ways to reduce its carbon emissions.

ENVIRONMENTAL MANAGEMENT CONTINUED ENERGY AND TRANSPORT CONTINUED

- The Transport Co-ordinators at each trading site throughout the Group are required to make the most efficient use of vehicles, consistent with meeting customer requirements. Techniques used include maximising vehicle loading (within legal limits) so reducing vehicle numbers and route planning, to minimise distances travelled and thereby fuel usage.
- SIG continues to fit vehicles with logistics tracking systems and navigation planning equipment. This is aimed at using the most fuel efficient route for each journey.
- Video conferencing equipment is used in nine key locations across the Group in order to reduce, in particular, overseas travel with the consequent reduction in the Company's carbon footprint.

WATER

Water consumption throughout the Group is minimal as the majority of consumption is from welfare use. At present SIG is unable to provide consumption information relating to the water used throughout its operations, however as part of the ongoing data gathering process improvements it is envisaged that future reports will include this data.

CARBON (CO₂) EMISSIONS

SIG's disclosures of emission are for all of its operations with the exception of the Air Trade Centre business operations which represent 2% of Group turnover.

SIG has reported emissions of CO₂ according to the Greenhouse Gas Protocol which was jointly developed by the World Business Council for Sustainable Development and the World Resources Institute. The protocol differentiates between emissions for which businesses are directly responsible ("Scope 1 emissions") and indirect emissions from the generation of supplied electricity and supplied heat ("Scope 2 emissions"). Certain other indirect emissions ("Scope 3 emissions") do not form part of the pure carbon footprint. As it is impossible to know or control the negligible downstream emissions generated when products sold by the Group are used, they have been excluded from this report. Similarly, reporting on the upstream emissions of our business would currently rely heavily on estimates and, as a result, they have also been excluded from this analysis. However, given the nature of our operations, the Group does believe that it is appropriate to report on the emissions from third-party provided air and rail transportation. These Scope 3 emissions, together with our Scope 1 and Scope 2 emissions are included in the data reported below.

CO₂ EMISSIONS – SCOPE 1 – DIRECT

Source	Definition	Data source and calculation methods	Metric tonnes (Group) 2009
Road vehicle fuel	Emission from vehicle use	Fuel cards and direct purchase records in litres converted according to DEFRA guidelines	82,675
Plant vehicle fuel	Emission from vehicle use	Direct purchase records in litres converted according to DEFRA guidelines	1,973
Natural gas	Directly purchased gas, which generates greenhouse gases including CO ₂ emissions	Actual or estimated consumption in kWh converted according to DEFRA guidelines	4,481
Gas oil	Directly purchased gas oil, which generates greenhouse gases including CO ₂ emissions	Actual or estimated purchases in litres converted according to DEFRA guidelines	4,158
Coal/coke	Directly purchased coal/coke, which generates greenhouse gases including CO ₂ emissions	Actual or estimated purchases in tonnes converted according to DEFRA guidelines	55
Kerosene	Directly purchased Kerosene, which generates greenhouse gases including CO ₂ emissions	Actual or estimated purchases in litres converted according to DEFRA guidelines	38
Total			93,380

The data relating to CO₂ emissions has been collected from all of the Group's operations, with the exception of the Air Trade Centre businesses.

The above table does not include CO₂ emission data relating to the wood burning (generation of heat) at the Crawley, Nottingham and Barnstaple operations as these operations are deemed to be carbon neutral.

Focus, Specialisation and Service

ENVIRONMENTAL MANAGEMENT CONTINUED

CARBON (CO₂) EMISSIONS CONTINUED

CO₂ EMISSIONS – SCOPE 2 – INDIRECT

Source	Definition	Data source and calculation methods	Metric tonnes (Group) 2009
Electricity	Directly purchased electricity, which generates greenhouse gases including CO ₂ emissions	Actual or estimated consumption in kWh converted according to DEFRA guidelines	28,438
Total			28,438

The data above comprises of CO₂ emission data captured from businesses representing circa 98% of Group revenue for the year ended 31 December 2009

CO₂ EMISSIONS – SCOPE 3 – OTHER INDIRECT

Source	Definition	Data source and calculation methods	Metric tonnes (Group) 2009
Business travel	Third-party provided transport (air and rail)	Actual or estimated distance travelled converted according to DEFRA guidelines	244
Total			244

The data relating to Business travel has been collected from all of the Group's operations with the exception of the Air Trade Centre businesses

Emissions per £m of revenue (Scope 1, 2 and 3)	45.5 metric tonnes
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The scale of the Group's operations has changed significantly over the previous year as a result of the economic environment, the consequential effect on the Group's business markets and the significant restructuring programme in the UK. For these reasons, including the improved quality of data gathering since last year, it is deemed not to be useful to provide a direct comparison with the Group's environmental performance in previous years nor does it provide a useful indication of future trends. We expect to improve the scope and integrity of the data that we collect to present a basis for year on year comparisons in future reports.

PACKAGING AND WASTE REDUCTION

SIG works with its suppliers to minimise primary and secondary packaging, while maintaining necessary levels of packaging to ensure that the product arrives with the customer in perfect condition. All of the Group's businesses comply with their applicable waste management regulations. As a break bulk supplier, SIG has recognised that the major impact of the organisation on environmental waste is through packaging and has taken a pro-active approach to minimise the amount of new packaging entering the market and the amount of waste generated at trading site level going to landfill.

This is achieved by

- environmental awareness training at all sites, including the distribution of energy reduction awareness information and reminder aids to all employees
- purchasing recycled and recyclable packaging where practicable including pallets and cartons,
- returning reusable pallets to suppliers and similarly recovering used pallets from customers
- reusing packaging for internal transfers and deliveries

- actively taking part in recycling and reclamation schemes through the Company's memberships with Valpak and Veolia working closely with suppliers to improve the accuracy of data. SIG meets its responsibilities under the packaging waste regulations in the UK through Valpak's compliance scheme. As part of the Company's ongoing development in this area, it has entered into a national agreement with Veolia for waste removal. Veolia operates its own waste recycling and reclamation compliance scheme.
- SIG embraces electronic communication within its businesses which has resulted in a significant reduction in internal and external paperwork throughout the Group and
- the continued expansion of the Group's waste paper and ink cartridge recycling activities at principal administrative centres and where practicable at site level.

SIG actively seeks to reduce the number of printed copies of its Annual Report and Accounts and will be actively encouraging Shareholders to elect to receive their communications from the Company in electronic form.

SIG's commitment to environmental issues is reflected in this Annual Report which has been printed on Satimatt Green and Revive 50 both recycled paper stocks comprising 75% recycled fibre and 25% virgin fibre. This document was printed by CPG using vegetable-based inks and water-soluble lacquers and all production processes used make the minimum demand on the environment and produce the minimum amount of waste. Both the printer and the paper mill are registered to ISO 14001 and FSC approved.

WASTE MANAGEMENT

SIG recognises its responsibilities to measure and minimise the waste generated by its business operations with over 42% of waste generated in the UK being diverted from landfill. In addition improved paper and cardboard recycling has resulted in saving over 35,921 trees based on the calculation that one tonne of waste recycled equates to the equivalent of 17 trees saved. Waste data is divided into hazardous and non-hazardous.

CORPORATE RESPONSIBILITY CONTINUED

SIG recognises its responsibilities to measure and minimise the waste generated by its business operations.

The Group has in place policies to ensure that its customers receive the level of service and the quality of product that they have come to expect from SIG.

ENVIRONMENTAL MANAGEMENT CONTINUED
PACKAGING AND WASTE REDUCTION CONTINUED
WASTE MANAGEMENT CONTINUED**HAZARDOUS WASTE**

	Definition	Data source and calculation methods	Absolute tonnes (Group) 2009
Landfill	Hazardous waste sent to landfill	Volume per annum converted to tonnes	33.5
Recycled	Hazardous waste diverted from landfill	Volume per annum converted to tonnes	761.5
Incinerated	Hazardous waste incinerated	Volume per annum converted to tonnes	13.2
Total			808.2
Hazardous waste per £m of revenue			0.3 absolute tonnes

NON-HAZARDOUS WASTE

	Definition	Data source and calculation methods	Absolute tonnes (Group) 2009
Landfill	Non-hazardous waste to landfill	Volume per annum converted to tonnes	17,696
Incinerated	Non-hazardous waste incinerated	Volume per annum converted to tonnes	160
Total			17,856

OTHER WASTE DIVERTED FROM LANDFILL

	Definition	Data source and calculation methods	Absolute tonnes (Group) 2009
WEEE (Waste Electrical and Electronic Equipment)	Diverted from landfill	Volume per annum converted to tonnes	11
Glass	Diverted from landfill	Volume per annum converted to tonnes	194
Wood	Diverted from landfill	Volume per annum converted to tonnes	5,260
Metal	Diverted from landfill	Volume per annum converted to tonnes	1,157
Plasterboard	Diverted from landfill	Volume per annum converted to tonnes	441
Paper/cardboard	Diverted from landfill	Volume per annum converted to tonnes	2,113
Plastic	Diverted from landfill	Volume per annum converted to tonnes	1,376
Other	Diverted from landfill	Volume per annum converted to tonnes	1,057
Total			11,609

The data above comprises of waste data captured from businesses representing circa 98% of Group revenue for the year ended 31 December 2009 and is based on a combination of actual and estimated data

Non-hazardous and other waste per £m of revenue	11.0 absolute tonnes
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Focus, Specialisation and Service

SUPPLIERS AND CUSTOMERS

The Group has in place a supplier audit programme. The programme is conducted by way of questionnaire and includes a request for details of the health, safety and environmental aspects of the suppliers' operations. Health, safety and environmental management will be one of the criteria considered when examining a suppliers' qualifications for Group orders. The Group has a policy that, when specified, timber purchased for use in its manufacturing activities must be from renewable resources. This is a relatively small part of the UK operations but where accreditation and forest stewardship schemes are applicable and available, SIG uses these in its sourcing procedures.

The Group has in place policies to ensure that its customers receive the level of service and the quality of product that they have come to expect from SIG.

HEALTH AND SAFETY

The Group has in place in the UK an Integrated Management System for Health, Safety and Environment, certified to ISO 14001 (Environment) and OHSAS 18001 (Health and Safety).

The Group is committed to high standards of health and safety for all of its employees and the Health, Safety and Environmental Policy was reviewed in 2009. The policy is displayed throughout the Group's workplaces and is available on the Company's website. Whilst Mr C. J. Davies, the Chief Executive, is the Board Director responsible for the health and safety performance of the Group, the SIG systems ensure that responsibility exists throughout all of the SIG businesses. Health and safety objectives and targets have been established within relevant functions and levels within the organisation.

During 2009 the management system was brought into line with the revised standard OHSAS 18001:2007 for all of the Group's UK Mainland operations as part of the certification renewal process.

The Group has received no prosecutions relating to health and safety matters during 2009.

In the UK, HSE Advisers who are either company or regionally based support the increased focus on health and safety education and awareness at workplace level. As part of the management system's audit process, each location is annually benchmarked, any corrective actions are identified and a plan put in place to address deficiencies raised. In the UK all locations were internally audited by the HSE Advisers in 2009 using a quantitative benchmarking system, with the average audit scores across all divisions improving against prior year. Within the Group the continuing improvement of health and safety performance is a key priority. A Health and Safety Training Manager is in place to ensure that all UK subsidiary company directors and managers receive appropriate training in health and safety in order to meet their responsibilities.

Following the benchmarking of the Mainland European and Ireland businesses in 2008 against the Group's established management system, objectives for 2009 were implemented across the business to achieve a pan-European policy and arrangements.

Forklift and commercial driver training form an important part of SIG's Workplace Safety Policy, which impacts on reduced insurance costs, enhanced pedestrian and site safety and an improved working environment. Daily inspections complement periodic training to keep the vehicle and driver at peak performance.

The Group's accident performance is monitored by the Board on a monthly basis. The overall rate of workplace accidents within the UK operations increased slightly in 2009 however the overall Group performance showed a slight improvement. There was a reduction in the number of major injuries both for the UK and the Group. The number of injury accidents reportable to the HSE under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations ("RIDDOR") was 16.8 per 1,000 employees in 2009 compared with 15.0 per 1,000 employees in 2008.

CORPORATE GOVERNANCE

ACCIDENT AND INCIDENTS

UK

Rate per 1,000 employees	2009	2008	2007
Major injury	2.5	2.9	1.8
Injury resulting in over three absence days from work	13.2	11.7	13.2
All RIDDORS	16.8	15.0	15.5
Average UK headcount	7,211	8,230	6,845
Lost work day rate – number of work days per 100 employees	33.4	28.5	33.3

GROUP

Rate per 1,000 employees	2009	2008
Major injury	2.0	2.6
Injury resulting in over three absence days from work	18.7	19.0
All RIDDORS	21.4	21.8
Average Group headcount	12,348	13,520

CORPORATE RESPONSIBILITY CONTINUED

SIG has Group-wide ethics and anti-corruption policies in place to underpin the Corporate Responsibility programme and includes broader social and environmental issues in its decision making process to help achieve business goals.

COMMUNITY

The Group endeavours to contribute to the communities in which it operates particularly those neighbouring its sites. SIG is a member of Business in the Community in the UK and has worked with that organisation to help to develop its approach and practices. This is mainly achieved through charitable donations and other initiatives that help the community.

2009 saw the second year for which SIG Insulations was the main sponsor for the Sheffield Half Marathon event which raised a record breaking £95,000 for good causes.

The HR Director has responsibility for community issues within the Group and reports to the Chief Executive who is responsible for community issues at Board level.

DONATIONS

During the year the Group made donations of £138,000 (2008: £193,000). It is the Group's policy not to make political donations and no political donations were made in the year (2008: £nil).

The Group has a Charitable Donations Policy. The policy, in addition to supporting local causes where SIG employees are involved, is to provide support for three main charities for a period of three years. For the three years commencing January 2008 the three main charities that the Group will be supporting are Henshaws College (<http://www.henshaws.org.uk>) (a charity working with young people, all of whom are visually impaired with additional disabilities), Action For Kids, (<http://www.actionforkids.org>) (a national charity working with disabled children and young people, their parents and carers) and St Lazarus Hospice, (<http://www.hospicjum.krakow.pl>) (a charity providing assistance for terminally ill individuals and help and support for families in Krakow, Poland).

During 2009, SIG's donation funded a Henshaws College Volunteer Co-ordinator to facilitate the running of a volunteer service, that has been able to recruit, train and support volunteers who help people affected by sight loss to reach their true potential in life.

Through SIG's support Henshaws College now has 68 regular volunteers with specific roles, who during 2009 generously gave 6,200 hours of their time to help support the work of Henshaws Yorkshire. Volunteers can learn about volunteering opportunities and are able to have training sessions such as visual impairment awareness, sighted guides and health and safety for visually impaired people. This training has enabled new and existing volunteers to work safely and effectively.

From top to bottom:

1 Kevin Moore and Brian Raven competing in the Sheffield Half Marathon for Henshaws and Action for Kids

2 Presentation of artwork by Simon Haw, Henshaws Yorkshire Art-maker

3 Candidates and assessors for the Young Manager of the Year award 2009 at the Holt, Surrey

Focus, Specialisation and Service

DONATIONS CONTINUED

2009 saw the second year of SIG's partnership with Action For Kids – a national charity working to create independence, provide opportunities and offer support to disabled children, young people and their families all around the UK.

During 2009, SIG's funding continued to allow disabled young people to receive relevant training programmes focusing on office skills and preparation for entering the workplace. In addition access to SIG's E-Learning programme was made available to the charity enabling employees to enhance their computer based skills.

2009 was the second year of the Group's support of the St Lazarus Hospice in Krakow, Poland, which was nominated by European employees. SIG's support during the year enabled essential building repairs to be completed, modifications of the air supply system and the purchase of vital equipment such as Pulse Oximeters and anti-bedsores mattresses.

Staff are kept informed of charitable activities and are encouraged to attend events as appropriate, as a means of encouraging them to be personally associated with charitable work and in particular with the causes supported by the Group. This has included sponsorship for individuals entering specific events and support in kind for building projects.

The Group has in place a Payroll Giving Scheme which is available to all UK employees. Employees are free to choose one of the current SIG sponsored charities listed above or any other charity of their choice. Despite the challenges faced during the year donations of £25,682 were made through the scheme an increase of 53% on the previous year.

EMPLOYEES

2008 and 2009 have been difficult years for the Group requiring it to restructure and to downsize its operations particularly in the UK to match its resources against both current and anticipated future demand. Regrettably these actions have resulted in a significant number of job losses across all our operations, with around 2,800 employees having left the Group through redundancy. We endeavour to handle any job losses in a sympathetic and caring manner and in all cases we comply with local employment law when making an employee redundant.

SIG relies on the expertise and commitment of its employees whose knowledge and experience differentiate it in the market place. During 2009 significant restructuring took place in the UK providing a wide range of opportunities for employees to take up new positions and work within new product streams. In the UK the "City Initiative" was launched to bring individuals in different operating companies within the same geographic area closer together. This has provided opportunities for employees to be involved in project and cross-company working outside their normal responsibilities.

The Group operates a culture of openness and has in place a confidential hotline service so that employees can raise, on a confidential basis, any concerns about how we conduct our business. The service is provided by an independent third party and a full investigation is carried out on all matters raised and a report is prepared for feedback to the complainant. The confidential hotline service is available to all SIG employees.

The Group's policy is to provide equal opportunities to all existing and prospective employees. SIG recognises that its reputation is dependent on the quality, effectiveness and skill base of its employees and is committed to the fair and equitable treatment of all its employees and specifically to prohibit discrimination on the grounds of race, religion, sex, disability, sexual orientation, age, nationality or ethnic origin. A project to improve monitoring and reporting was undertaken within the UK during the year, from which organisational priorities have been established.

Employment opportunities are available to disabled persons in accordance with their abilities and aptitudes on equal terms with other employees. If an employee becomes disabled during employment the Group makes every effort to enable them to continue employment with retraining for alternative work where necessary.

The Group continues to enhance and expand talent management activities with a UK Talent Manager being recruited to develop further the links between business strategy and the identification and management of talent.

The Company continued its investment in Senior Management development mainly through the Executive Development Programme run in conjunction with Sheffield Hallam University. Sponsorship on specific external programmes was also provided where appropriate.

The Young Manager of the Year Award was launched and 84 managers with less than three years' experience were nominated from across the business. The careers of all of these people are being tracked through the talent management process.

The Group continues to invest in the future through the recruitment of graduates, and a new Regional Graduate Scheme was introduced in the UK providing individuals with an opportunity to work on development projects and across business streams. This is providing broader experience and a wider range of opportunities for permanent career moves.

The Sales Academy continued to provide coaching and support for sales professionals across the UK and Ireland, while in France a Management Development Programme was launched for Regional and Branch Managers across all of the Group's French businesses.

SIG has introduced a workplace E-Learning programme which provides an engaging way for all employees to increase their knowledge through online training courses such as Induction Training, Computer Literacy, Product and Data Protection Awareness, and it is envisaged that this form of training will increase further through performance reviews.

SIG recognises the importance of good communication with its employees and dedicated personnel were appointed during the year to focus on this. The Company introduced team briefing to provide structured two-way communication. Several new internal publications were also introduced. Considerable effort was made in upgrading the Company website, www.sigplc.com, as well as the content of internal intranets. Directors in operating businesses tended to focus on local roadshows and presentations to communicate to a wider audience rather than focus on management conferences. The SIG Basics programme was introduced to provide coaching and support for branch based personnel and the Chief Executive continued to update colleagues on business priorities and performance via webcasts, the publication of transcripts and the provision of question and answer opportunities.

Employees are encouraged to become Shareholders in the Company. The Group introduced a Share Incentive Plan ("SIP") in November 2005 in place of the Save As You Earn Scheme. The Company gives one matching share for each share purchased by the employee up to a maximum of four matching shares per month. At 31 December 2009 there were 1,352 employees saving under the Company's SIP.

The Group operates a number of employee pension schemes across its businesses. In the UK it operates a defined contribution scheme which is open to all employees. The Group's UK defined benefit scheme has been closed to new members since 1997.

The HR Director has responsibility for HR issues within the Group and reports to the Chief Executive who is responsible for HR issues at Board level.

BOARD OF DIRECTORS

BACK ROW DAVID HAXBY, JOHN CHIVERS, JONATHAN NICHOLLS, VANDA MURRAY AND CHRIS GEOGHEGAN
FRONT ROW GARETH DAVIES, CHRIS DAVIES AND LES TENCH

LES TENCH BSC

NON-EXECUTIVE CHAIRMAN

Les Tench (age 64) became a Non-Executive Director in March 2003 and was appointed Deputy Chairman in November 2003. He was appointed Chairman on 1 May 2004. He is a Non-Executive Director of Norcross plc and Lupus Capital plc. He joined CRH plc in 1992 and from 1998 until his retirement in December 2002 was Managing Director of CRH Europe – Building Products.

CHRIS DAVIES BA (OXON)

CHIEF EXECUTIVE

Chris Davies (age 56) joined Sheffield Insulations in 1994, having previously gained UK and overseas management experience of manufacturing, contracting and specialist distribution in the metals and construction industries. He moved to a Group role in 1996 and in 2001 took up the post of Managing Director Europe. He was appointed to the main Board on 12 February 2007 and was appointed Deputy Chief Executive on 10 January 2008. He was appointed Chief Executive on 1 July 2008.

GARETH DAVIES BA, ACA

FINANCE DIRECTOR

Gareth Davies (age 46) 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 in August 2002 as Finance Director.

JOHN CHIVERS

EXECUTIVE DIRECTOR

John Chivers (age 57) joined the Group in July 1975 and was appointed a Director of Sheffield Insulations in April 1989. He was appointed to the main Board in September 2001. He is Managing Director of UK Extensors.

DAVID HAXBY LL.B, FCA

NON-EXECUTIVE DIRECTOR

David Haxby (age 68) became a Non-Executive Director in March 2003. He is currently a Non-Executive Director of Catliss plc, a position he has held since 1999. 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.

VANDA MURRAY OBE, BA (HONS)

NON-EXECUTIVE DIRECTOR

Vanda Murray (age 48) became a Non-Executive Director on 1 July 2009. She is Deputy Chair of the North West Regional Development Agency, Chairs Business Link North West and is a Non-Executive Director of Canilion plc and the Manchester Airport Group. She previously held Executive positions as Chief Executive Officer of Bldc plc, President of Europe Stanley Security Solutions and Managing Director of Ultraframe (UK) Limited. She is a Fellow of the Chartered Institute of Marketing and was appointed OBE in 2002 for services to Industry and to Export.

CHRIS GEOGHEGAN FRAES

NON-EXECUTIVE DIRECTOR

Chris Geoghegan (age 56) became a Non-Executive Director on 1 July 2009 and is Chairman of the Remuneration Committee. He is currently Chairman of Hampson Industries plc and EZV Technologies plc and a Non-Executive Director of Volex plc and Kier Group plc. Prior to his retirement he was Chief Operating Officer of BAE Systems plc with responsibility for all European joint ventures and UK defence electronics assets. He is a Fellow of the Royal Aeronautical Society and a past President of the Society of British Aerospace companies.

JONATHAN NICHOLLS BA, ACA, FCT

NON-EXECUTIVE DIRECTOR

Jonathan Nicholls (age 52) became a Non-Executive Director on 6 November 2009 and is Chairman of the Audit Committee. He is a Non-Executive Director of DS Smith plc and Great Portland Estates plc. Most recently he was Group Financial Director of Old Mutual plc and prior to that he was Group Finance Director of Hanson plc.

BOARD COMMITTEES

AUDIT COMMITTEE

Mr J. C. Nicholls – Chairman
 Mr C. V. Geoghegan
 Mr D. A. Haxby
 Mrs V. Murray

REMUNERATION COMMITTEE

Mr C. V. Geoghegan – Chairman
 Mr D. A. Haxby
 Mrs V. Murray
 Mr J. C. Nicholls

NOMINATIONS COMMITTEE

Mr L. O. Tench – Chairman
 Mr C. V. Geoghegan
 Mr D. A. Haxby
 Mrs V. Murray
 Mr J. C. Nicholls
 Mr C. J. Davies

COMPANY INFORMATION

PRESIDENT

Sir Norman Adsetts OBE MA

SECRETARY

Richard Monro FCIS

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MARKET UK Listed
REFERENCE SHI L
SECTOR Support Services

COMPANY WEBSITE

www.sigplc.com

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Lloyds TSB Corporate Markets
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FINANCIAL PR FINSBURY GROUP

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CORPORATE GOVERNANCE

* Shareholders' enquiries should be addressed to the Registrars at the above address (Tel 0870 702 0000)

FINANCIAL CALENDAR

ANNUAL GENERAL MEETING	–	To be held on 13 May 2010
INTERIM RESULTS 2010	–	Announcement August 2010
FULL YEAR RESULTS 2010	–	Announcement March 2011
REPORT AND ACCOUNTS 2010	–	Posted to Shareholders April 2011

SHAREHOLDER ANALYSIS AT 31 DECEMBER 2009

Size of Shareholding	Number of Shareholders	%	Number of Ordinary Shares	%
0 – 999	1,378	37.78	697,937	0.12
1,000 – 4,999	1,293	35.44	3,022,641	0.51
5,000 – 9,999	275	7.54	1,968,003	0.33
10,000 – 99,999	379	10.39	11,953,871	2.02
100,000 – 249,999	95	2.60	15,446,725	2.61
250,000 – 499,999	74	2.03	26,699,236	4.52
500,000 – 999,999	55	1.51	38,707,969	6.55
1,000,000 +	99	2.71	492,332,957	83.34
Total	3,648	100.00	590,829,339	100.00

STATUTORY INFORMATION

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Group is the supply of specialist products to construction and related markets in the UK, Ireland and Mainland Europe. The main products supplied are insulation, exteriors, interiors and specialist construction and safety products.

The Chairman's Statement and Business Review on pages 4 to 27 contain a review of these activities and comments on the future outlook. The financial risk management objectives and policies of the Company are set out in the Business Review on pages 6 to 27.

As at the date of this report, there have been no important events affecting the business of the Company, or any of its subsidiaries, which have occurred since the end of the financial year.

Details of the Group's policies in relation to employees (including disabled employees) and information on charitable and political donations are disclosed on pages 42 to 43.

Details of the Group's policies in relation to corporate governance are disclosed on pages 51 to 54.

GROUP RESULTS AND DIVIDENDS

The Consolidated Income Statement for the year ended 31 December 2009 is shown on page 66. The movement in the Group reserves during the year is shown on page 70 in the Consolidated Statement of Changes in Equity. Segmental information is set out in Note 1 on pages 77 to 78.

The Board is not recommending a final dividend for the year ended 31 December 2009 (2008: nil). The Group is committed to a progressive dividend policy and will resume dividend payments when markets stabilise and it believes that it is prudent to do so taking account of the Group earnings, cash flow and balance sheet position.

DIRECTORS

The Directors who held office during the year were:

Mr L. O. Tench	Non-Executive Chairman
Mr C. J. Davies	Chief Executive
Mr G. W. Davies	Group Finance Director
Mr M. J. Chivers	Executive Director
Mr D. A. Haxby	Senior Independent Non-Executive Director
Mrs V. Murray	Independent Non-Executive Director (appointed 1 July 2009)
Mr C. V. Geoghegan	Independent Non-Executive Director (appointed 1 July 2009)
Mr J. C. Nicholls	Independent Non-Executive Director (appointed 6 November 2009)
Mr P. H. Blackburn	Independent Non-Executive Director (resigned 30 September 2009)
Mr M. J. C. Borlenghi	Independent Non-Executive Director (resigned 30 September 2009)

Biographical details of the Directors holding office at the date of this report appear on page 44.

There is no maximum number of Directors but there shall at no time be less than two. Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board shall hold office only until the next Annual General Meeting and shall then be eligible for re-appointment by the Shareholders. The Board may from time to time appoint one or more Directors as Managing Director or to fulfil any other Executive function within the Company for such term, remuneration and other conditions of appointment as they may determine and may revoke such appointment (subject to the provisions of the Companies Acts).

ELECTION AND RE-ELECTION OF DIRECTORS

All Directors are subject to election at the Annual General Meeting immediately following their appointment and to re-election every three years.

The Company may by ordinary resolution, of which special notice has been given in accordance with the Companies Acts, remove any Director before the expiration of his/her period of office. The office of a Director shall be vacated if: (i) he/she ceases to be a Director by virtue of any provision of law or is removed pursuant to the Company's Articles of Association or he/she becomes prohibited by law from being a Director; (ii) he/she becomes bankrupt or compounds with his/her creditors generally; (iii) he/she becomes of unsound mind or a patient for any purpose of any statute relating to mental health and the Board resolves that his/her office is vacated; (iv) he/she resigns; (v) he/she fails to attend Board meetings for six consecutive months without leave of absence from the Board and the Board resolves that his/her office is vacated; (vi) his/her appointment terminates in accordance with the provisions of the Company's articles; (vii) he/she is dismissed from Executive office; (viii) he/she is convicted of an indictable offence and the Directors resolve that it is undesirable in the interests of the Company that he/she remains a Director; or (ix) the conduct of the Director is the subject of an investigation and the Directors resolve that it is undesirable in the interests of the Company that he/she remains a Director.

The Directors standing for election are Mr C. V. Geoghegan and Mrs V. Murray (appointed 1 July 2009) and Mr J. C. Nicholls (appointed 6 November 2009). It is the view of the Board that each of the Non-Executive Directors standing for election brings considerable management experience and an independent perspective to the Board's discussions and is considered to be independent of management and free from any relationship or circumstance that could affect or appear to affect, the exercise of their independent judgement.

The Director standing for re-election at the Annual General Meeting is Mr M. J. Chivers. It is the view of the Board that Mr M. J. Chivers, an Executive Director, brings considerable management experience to the Board's discussions.

Full details of Directors' remuneration, interests in the share capital of the Company and of their share options are set out on pages 56 to 62 in the Directors' Remuneration Report.

RELATED PARTY TRANSACTIONS

Except for Directors' service contracts, the Company did not have any material transactions or transactions of an unusual nature with, and did not make loans to, related parties in the periods in which any Director is or was materially interested.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITIES

The Company purchases liability insurance cover for Directors and Officers of the Company and its subsidiaries which gives appropriate cover for any legal action brought against them. The Company has also provided an indemnity for its Directors to the extent permitted by the law in respect of liabilities incurred as a result of their office. The indemnity would not provide any coverage to the extent that a Director is proved to have acted fraudulently or dishonestly.

No claims or qualifying indemnity provisions and no qualifying pension scheme indemnity provisions have been made either during the year or by the time of approval of this Statutory Information Report.

FINANCIAL INSTRUMENTS

Information on the Group's financial risk management objectives and policies and on the exposure of the Group to relevant risks of financial instruments is set out on pages 25 to 26 and in Note 17 to the Consolidated Financial Statements on pages 93 to 95.

ACQUISITIONS AND DISPOSALS

There were no acquisitions or disposals of businesses during the year.

SHARE CAPITAL

The Company has a single class of share capital which is divided into ordinary shares of 10p each.

As detailed in the Business Review on page 22, on 14 April 2009 the Company issued 455,047,973 new ordinary shares by way of a placing and open offer and firm placing at 75p per new ordinary share raising approximately £325m (net of expenses). 213,345,345 new ordinary shares were issued through the placing and open offer and 241,702,628 new ordinary shares through the firm placing. All of the new ordinary shares issued rank pari passu with the Company's existing ordinary shares.

During the year ended 31 December 2009, options were exercised pursuant to the Company's share option schemes resulting in the allotment of 142,191 new ordinary shares. No new ordinary shares have been allotted under these schemes since the end of the financial year to the date of this report. Details of outstanding options under the Group's Employee and Executive Schemes are set out in Note 23 on page 101 which also contains details of options granted over unissued share capital.

RIGHTS ATTACHING TO SHARES

The rights attaching to the ordinary shares are defined in the Company's Articles of Association. The Articles of Association may be changed with the agreement of Shareholders. A Shareholder whose name appears on the Company's Register of Members can choose whether his shares are evidenced by share certificates (i.e. in certificated form) or held in electronic (i.e. uncertificated) form in CREST (the electronic settlement system in the UK).

Subject to any restrictions below, Shareholders may attend any general meeting of the Company and, on a show of hands, every Shareholder (or his representative) who is present at a general meeting has one vote on each resolution and, on a poll, every Shareholder (or his representative) who is present has one vote on each resolution for every ordinary share of which they are the registered Shareholder. A resolution put to the vote of a general meeting is decided on a show of hands unless before or on the declaration of the result of a vote on a show of hands, a poll is demanded by the Chairman of the meeting, or by at least five Shareholders (or their representatives) present in person and having the right to vote, or by any Shareholders (or their representatives) present in person having at least 10% of the total voting rights of all Shareholders, or by any Shareholders (or their representatives) present in person holding ordinary shares in which an aggregate sum has been paid up of at least one tenth of the total sum paid up on all ordinary shares.

Shareholders can declare final dividends by passing an ordinary resolution but the amount of the dividends cannot exceed the amount recommended by the Board. The Board can pay interim dividends on any class of shares of the amounts and on the dates and for the periods they decide provided the distributable profits of the Company justify such payment. The Board may, if authorised by an ordinary resolution of the Shareholders, offer any Shareholder the right to elect to receive new ordinary shares, which will be credited as fully paid, instead of their cash dividend.

Any dividend which has not been claimed for twelve years after it became due for payment will be forfeited and will then belong to the Company unless the Directors decide otherwise.

If the Company is wound up, the liquidator can, with the sanction of an extraordinary resolution passed by the Shareholders, divide among the Shareholders all or any part of the assets of the Company and he can value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator can also transfer the whole or any part of the assets to trustees upon any trusts for the benefit of the members. No Shareholders can be compelled to accept any asset which would give them a liability.

VOTING AT GENERAL MEETINGS

Any Form of Proxy sent by the Company to Shareholders in relation to any general meeting must be delivered to the Company whether in written form or in electronic form not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote.

No Shareholder is, unless the Board decides otherwise, entitled to attend or vote either personally or by proxy at a general meeting or to exercise any other right conferred by being a Shareholder if he or any person with an interest in shares has been sent a Notice under Section 793 of the Companies Act 2006 (which confers upon public companies the power to require information with respect to interests in their voting shares) and he or any interested person failed to supply the Company with the information requested within 14 days after delivery of that Notice. The Board may also decide that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered.

These restrictions end seven days after receipt by the Company of a Notice of an approved transfer of the shares or all the information required by the relevant Section 793 Notice, whichever is the earlier.

STATUTORY INFORMATION CONTINUED

TRANSFER OF SHARES

The Board may refuse to register a transfer of a certificated share which is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register a transfer of a certificated share unless (i) the instrument of transfer is lodged duly stamped (if stampable) at the registered office of the Company or any other place decided by the Board accompanied by a certificate for the share which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (ii) is in respect of only one class of shares, and (iii) is in favour of not more than four transferees.

Transfer of uncertificated shares must be carried out using CREST and the Board can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

The Board may decide to suspend the registration of transfers for up to 30 days a year, by closing the register of Shareholders. The Board cannot suspend the registration of transfers of any uncertificated shares without gaining consent from CREST. There are no other limitations on the holding of ordinary shares in the Company.

VARIATION OF RIGHTS

If at any time the capital of the Company is divided into different classes of shares the special rights attaching to any class may be varied or revoked either

- (i) with the written consent of the holders of at least 75% in nominal value of the issues shares of the class, or
- (ii) with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class.

The Company can issue new shares and attach any rights to them. If there is no restriction by special rights attaching to existing shares, rights attaching to new shares can take priority over the rights of existing shares, or the new shares and the existing shares are deemed to be varied (unless the rights expressly allow it) by a reduction of paid up capital or if another share of that same class is issued and ranks in priority for payment of dividend or in respect of capital or more favourable voting rights.

PUBLICATION OF UNAUDITED FINANCIAL INFORMATION

As part of the Group's placing and open offer and firm placing of new ordinary shares in April 2009 certain financial disclosures were included in the Prospectus dated 18 March 2009 ("the Prospectus") which were unaudited. Under the provisions of Listing Rule 9.2.18 'Publication of unaudited financial information the Company must

- reproduce the unaudited information in the following year's Annual Report and Accounts (i.e. 2009 Annual Report and Accounts)
- disclose the actual figures for the same period covered by the reproduced information and
- provide an explanation of any significant variations from the numbers actually achieved compared to those stated in the Prospectus.

The following unaudited financial information was included in the Prospectus:

"As set out in the Trading Statement and the Interim Management Statement in order to better align resources to anticipated levels of trading going into 2009 SIG implemented a comprehensive range of previously prepared contingency measures in the second half of 2008. These included the closure of 80 trading sites and a reduction in the number of employees in the Group including head office functions of 1,020 or 7% of total staffing. From these actions the Directors expect to deliver a total net cost saving in 2008 of around £3.5m. The cost reduction programmes is an ongoing process and, since December 2008 SIG has agreed and is in the process of implementing further cost saving initiatives, which are expected to deliver additional savings of £12m in 2009 (£15m annualised)."

In respect of the disclosures made above, in 2009 the Group achieved actual cost savings of £3.5m arising from restructuring actions implemented in 2008, in line with the unaudited figure stated in the Prospectus. The cost saving measures implemented up to 18 March 2009 delivered savings of £12m in 2009, also in line with the disclosures made in the Prospectus. In addition, the Group implemented further cost saving and restructuring measures throughout 2009 over and above those described in the Prospectus. Since the inception of the cost reduction programme in 2008 the Group achieved total annualised net cost savings of £100m. Further details on the cost saving measures can be found on page 5.

AGREEMENTS WITH EMPLOYEES AND SIGNIFICANT AGREEMENTS

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

The Company's banking arrangements are terminable upon a change of control of the Company. Certain other indebtedness becomes repayable if a change of control leads to a downgrade in the credit rating of the Company.

CREST

The Company's ordinary shares are in CREST the settlement system for stocks and shares.

2010 INTERIM REPORT

In 2007 the Company changed its Articles of Association to permit the use of electronic communications for all Notices documents and information to be sent to Shareholders in accordance with Shareholder preference. This would enable the Company to use website communication with Shareholders as the default position. The Company has at this time not made any decision as to whether to move to electronic communication as the default position. Shareholders will therefore for the time being continue to receive paper copies of all Company communications. Current regulations do however permit the Company not to have to send copies of its Interim Reports to Shareholders and therefore Interim Reports will no longer be sent to Shareholders. The Interim Report will be published on the Company's website at www.sigplc.com.

ACQUISITION BY THE COMPANY OF ITS OWN SHARES

Shareholder's authority for the purchase by the Company of 13,500,000 of its own shares existed at the end of the year. The Company has made no purchases of its own shares pursuant to this authority. The Company will seek to renew this authority at the 2010 Annual General Meeting.

SUBSTANTIAL SHAREHOLDINGS

At the date of this report the Company had received notification of the following material shareholdings pursuant to the Disclosure and Transparency Rules of the UK Financial Services Authority:

Shareholder	Number of ordinary shares of 10p each	% of issued voting share capital
Aviva plc	47,404,073	8.02
Blackrock Inc	43,085,680	7.29
Ameriprise Financial Inc	28,953,030	4.90
Schroders plc	28,422,670	4.81
IKO Enterprises Limited	24,824,804	4.20
Legal & General plc	23,547,821	3.98

PAYMENT TO SUPPLIERS

The Group follows the CBI's prompt payment code and operates and abides by a clearly defined policy which has been agreed with all major suppliers. As at 31 December 2009 the Company had no trade creditors as it does not trade in its own right. The Group's average number of days outstanding on a like for like constant currency basis as at 31 December 2009 in respect of trade payables was 36 (2008: 28).

STATEMENT OF THE DIRECTORS ON THE DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who held office at the date of approval of this Statutory Information confirm that:

- so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware; and
- each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

GOING CONCERN

After making enquiries the Directors have formed a judgement, at the time of approving the Accounts, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements. The key factors considered by the Directors in making this statement are set out on page 27 of the Business Review.

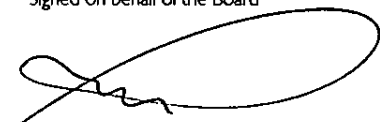
AUDITORS

On the recommendation of the Audit Committee in accordance with Section 489 of the Companies Act 2006, resolutions are to be proposed at the Annual General Meeting for the re-appointment of Deloitte LLP as Auditors of the Company and to authorise the Board to fix their remuneration. The remuneration of the Auditors for the year ended 31 December 2009 is fully disclosed in Note 4 to the Consolidated Financial Statements on page 80.

ANNUAL GENERAL MEETING

The Notice convening the Annual General Meeting to be held at the Aston Hotel, Britannia Way, Catcliffe, Sheffield S60 5BD at 12 noon on Thursday 13 May 2010, together with explanatory notes on the resolutions to be proposed and full details of the deadlines for exercising voting rights, is contained in a circular to be sent to Shareholders with this report.

Signed on behalf of the Board



RICHARD MONRO
COMPANY SECRETARY
17 MARCH 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the Accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements the Directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements International Accounting Standard 1 requires that Directors

- properly select and apply accounting policies
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the Company's ability to continue as a going concern.

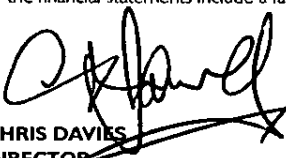
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

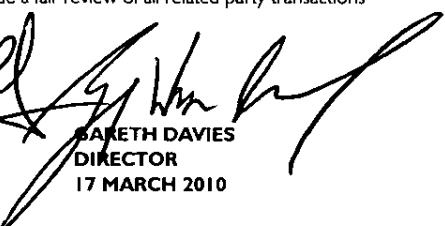
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the management report, which is incorporated into the Statutory Information, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the financial statements include a fair review of all related party transactions.


CHRIS DAVIES
DIRECTOR
17 MARCH 2010


GARETH DAVIES
DIRECTOR
17 MARCH 2010

CORPORATE GOVERNANCE

SIG is committed to business integrity, high ethical values and professionalism in all of its activities. As an essential part of this commitment the Group supports the highest standards in corporate governance. The Board is accountable to the Company's Shareholders for good governance and this report, the Directors Remuneration Report on pages 55 to 62 and the Report of the Audit Committee on pages 63 to 64 describe how the principles of good governance and this report set out in The Combined Code on Corporate Governance ("the Code") as published by the Financial Reporting Council and most recently revised in June 2008, are applied within SIG.

COMPLIANCE WITH THE COMBINED CODE

The Board considers that, throughout the year under review, the Company has complied with the governance rules and best practice provisions applying to UK listed companies as contained in Section I of the Code. The Combined code can be accessed at www.frc.org.uk/corporate/combinedcode.cfm

The Company's Auditors, Deloitte LLP, are required to review whether the above statement reflects the Company's compliance with the nine provisions of the Code specified for their review by the Listing Rules of the UK Listing Authority and to report if it does not reflect such compliance. No such report has been made.

THE BOARD

As at 31 December 2009 and at the date of this report, the Board was made up of eight members comprising the Chairman, three Executive Directors and four Non-Executive Directors. Mr C V Geoghegan and Mrs V Murray were appointed Non-Executive Directors on 1 July 2009 and Mr J C Nicholls was appointed a Non-Executive Director on 6 November 2009. Mr P H Blackburn and Mr M J C Borlenghi, both Non-Executive Directors, retired from the Board on 30 September 2009. Mr D A Haxby has advised the Company of his intention to retire as a Director at the conclusion of the Company's Annual General Meeting on 13 May 2010, having served as a Non-Executive Director since 2003. His intention to retire follows the handover of his Chairmanship of the Audit Committee to Mr J C Nicholls.

The Non-Executive Directors are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement. The Board has satisfied itself that there is no compromise to the independence of those Directors who have other appointments in outside entities. The Board considers that each of the Non-Executive Directors brings their own senior level of experience and expertise and that the balance between Non-Executive and Executive representation encourages healthy independent challenge to the Executive Directors and Senior Management. The Non-Executive Directors have been appointed for their specific areas of expertise and knowledge and their wide ranging experience and backgrounds ensure that they can debate matters constructively in relation to both the development of strategy and performance against objectives set out by the Board. Biographical details of each of the Directors, which illustrate their range of experience, are set out on page 44. The Company's policy relating to the terms of appointment and remuneration of both the Executive and Non-Executive Directors is detailed in the Directors Remuneration Report on pages 55 to 62.

The division of responsibilities between the Chairman and Chief Executive is clearly established and is understood by the Board. The Chairman at the time of his appointment met and continues to meet the independence criteria set out in the Code.

The Senior Independent Director is currently Mr D A Haxby. Mr P H Blackburn was the Senior Independent Director until 30 September 2009.

All Directors are subject to election at the Annual General Meeting immediately following their appointment and to re-election every three years.

BOARD PROCEDURES

The Board meets regularly during the year, as well as on an ad hoc basis as required by time-critical business needs. The Board met formally on 15 occasions during the year and individual attendance at those and the Board Committee meetings is set out in the table on page 52. All Board members are supplied with information in a form and of a quality appropriate to enable them to discharge their duties. Board and Committee papers are sent out seven days before meetings take place. There is an agreed schedule of matters reserved to the Board for collective decision and these include:

- determining the strategy and control of the Group,
- amendments to the structure and capital of the Company and Group
- approval of financial reporting and controls
- approval of capital and revenue expenditure of a significant size
- acquisitions and disposals above a prescribed level, and
- corporate governance matters and approval of Group policies and risk management strategies

The Board has formally delegated specific responsibilities to Board Committees, including the Nominations, Audit and Remuneration Committees. The Board will also appoint Committees to approve specific processes as deemed necessary. For example, during the year, Board Committees were established to approve bank documentation, certain matters relating to the placing and open offer and firm placing of new shares and the preliminary and interim announcements.

To enable the Board to perform its duties effectively all Directors have full access to all relevant information and to the services of the Company Secretary whose responsibility it is for ensuring that Board procedures are followed. The appointment and removal of the Company Secretary is a matter reserved for the Board. There is an agreed procedure whereby Directors wishing to take independent legal advice in the furtherance of their duties may do so at the Company's expense. Directors have the right to ensure that any concerns they raise about the running of the Company or a proposed action will be recorded in the Board minutes. Further, on resignation, if a Non-Executive Director had any such concerns, the Chairman would invite him to provide a written statement for circulation to the Board.

All Board Committees are provided with sufficient resources to undertake their duties. Appropriate training is available to all Directors on appointment and on an ongoing basis as required.

The Terms of Reference for each of the Board Committees are available on request from the Company Secretary or on the SIG website (www.sigplc.com).

From 1 October 2008, there has been a requirement that Directors must avoid a situation where they have, or can have, a direct or indirect interest that conflicts or possibly may conflict, with the Company's interests. Directors of public companies may authorise conflict and potential conflicts, where appropriate, if a company's Articles of Association permit and Shareholders have approved appropriate amendments.

Procedures have been put in place for the disclosure by Directors of any such conflicts and also for the consideration and authorisation of any conflicts by the Board. These procedures allow for the imposition of limits or conditions by the Board when authorising any conflict, if they think this is appropriate. These procedures have been applied during the year and are now included as a regular item for consideration by the Board at its meetings.

CORPORATE GOVERNANCE CONTINUED

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The following table shows the attendance of Directors at meetings of the Board, Audit, Remuneration and Nominations Committees during the year to 31 December 2009

	Board (15 meetings)	Meetings eligible to attend	Audit Committee (5 meetings)	Meetings eligible to attend	Remuneration Committee (6 meetings)	Meetings eligible to attend	Nominations Committee (4 meetings)	Meetings eligible to attend
P H Blackburn	12	(12)	3	(3)	4***	(4)	2	(2)
M J C Borlenghi	12	(12)	3	(3)	4	(4)	2	(2)
M J Chivers	15	(15)	N/A	N/A	N/A	N/A	N/A	N/A
C J Davies	15	(15)	N/A	N/A	N/A	N/A	4	(4)
G W Davies	15	(15)	N/A	N/A	N/A	N/A	N/A	N/A
C V Geoghegan	5	(5)	3	(3)	3***	(3)	2	(2)
D A Haxby	15	(15)	5**	(5)	6	(6)	4	(4)
V Murray	4	(5)	3	(3)	3	(3)	2	(2)
J C Nicholls	2	(2)	2**	(2)	2	(2)	0	(0)
L O Tench	13*	(15)	N/A	N/A	N/A	N/A	4*	(4)

* Chairman

** Mr D A Haxby was Chairman of the Audit Committee up until 12 November 2009. Mr J C Nicholls became Chairman from that date.

*** Mr P H Blackburn was Chairman of the Remuneration Committee up until 30 September 2009. Mr C V Geoghegan became Chairman from that date.

This table only shows those meetings which each Director attended as a member rather than as an invitee. Additional meetings were convened during the year at relatively short notice in relation to the placing and open offer and firm placing of new ordinary shares.

Where N/A appears in the table the Director listed is not a member of the Committee.

All of the Directors in office at the date of the Annual General Meeting on 13 May 2009 were in attendance at that meeting.

Directors do not participate in meetings when matters relating to them are discussed.

The Chairman also holds meetings with the Non-Executive Directors without the Executive Directors present. The Senior Independent Director also meets with the other Independent Non-Executive Directors without the Chairman present.

The Board arranges to hold at least two Board meetings each year at Group business locations to help all Board members gain a deeper understanding of the business. This also provides Senior Managers from across the Group the opportunity to present to the Board as well as to meet the Directors on more informal occasions. Board members also attend divisional management conferences whenever possible.

BOARD EFFECTIVENESS

The effectiveness of the Board and its Committees is vital to the success of the Company and during the year the Board continued its ongoing evaluation process to assess its performance and that of its three principal Committees.

In 2008, as part of this programme, the Board commissioned an independent third party to prepare a tailored Board Evaluation Questionnaire with the emphasis in addition to the evaluation of the performance of the Board and its Committees, being targeted at identifying the future needs of the Board, including Board composition and succession planning. Each Director completed their Questionnaire and these were then evaluated by the independent third party who then prepared a report for the Chairman. The Chairman and the independent third party presented the results of the evaluation to the Board, which discussed the results of the evaluation in detail. The discussions then focused on how the actions identified through the process should be implemented. The Board was satisfied that the evaluation of this performance was a worthwhile exercise and that the Directors had participated in an open and frank basis.

During the year a number of the Directors attended training courses and seminars on subjects and topics in conjunction with those that the Chairman had identified as being areas where training would increase the knowledge and effectiveness of the Director. By way of example the entire Board underwent training on Treasury Risk and Policy. Further training is programmed for 2010.

No formal Board evaluation exercise was carried out in 2009. This was solely due to the appointment of three new Non-Executive Directors during 2009: Mr C V Geoghegan and Mrs V Murray in July and Mr J C Nicholls in November and the retirement of Mr P H Blackburn and Mr M J C Borlenghi, both Non-Executive Directors, in September. It is intended that a tailored Board evaluation process will be carried out during the first half of 2010 in line with our normal timetable and the results of this process reported in our 2010 Annual Report.

The Non-Executive Directors, chaired by the Senior Independent Director, meet once a year without the Chairman present to assess his performance, taking into account the views of the Executive Directors.

RELATIONS WITH SHAREHOLDERS

The Company recognises the importance of communicating with its Shareholders, including its employee Shareholders, to ensure that its strategy and performance is understood. This is achieved principally through the Annual Report and the Annual General Meeting. The Group's annual and interim results, as well as all announcements issued to the London Stock Exchange, are published on the Company's website. The Company issues regular trading updates to the market and these, together with copies of the presentations made to analysts, can also be found on the Company's website. In addition, a range of other corporate information is available to investors on the Company's website (www.sigplc.com).

The Chief Executive and Finance Director are primarily responsible for direct investor relations. The Board is kept informed of investors' views through distribution and regular discussion of analysts' and brokers' briefings and a summary of investor opinion feedback. In addition, feedback from major Shareholders is reported to the Board by the Chairman and the Finance Director and discussed at its meetings. Formal presentations are made to institutional Shareholders following the announcement of the Company's annual and interim results. Contact is also maintained, where appropriate, with Shareholders to discuss overall remuneration plans and policies. The Chairman and the Senior Independent Director are available to discuss governance and strategy with major Shareholders if requested and both are prepared to contact individual Shareholders should any specific areas of concern or enquiry be raised. We respond throughout the year to correspondence received from Shareholders on a wide range of issues and also participate in a number of surveys and questionnaires submitted by a variety of investor research bodies. Although the Non-Executive Directors are not at present asked to meet the Company's Shareholders, they regularly attend presentations of the annual and interim results. The Board recognises that the Annual General Meeting is the principal forum for dialogue with private Shareholders and all Shareholders are invited to attend. All Directors attend the Annual General Meeting and are available to answer any questions that Shareholders may wish to raise. The Notice of Meeting is sent to Shareholders at least 20 working days before the meeting. The Company provides a facility for Shareholders to vote electronically and the Form of Proxy provides Shareholders with the option of withholding their vote on a resolution if they so wish.

Shareholders vote on a show of hands, unless a poll is validly called and after each such vote the number of Proxy votes received for or against the resolution together with the number of abstentions is announced. The Company Secretary ensures that votes are properly received and recorded. Details of the Proxies lodged on all resolutions are published on the Company's website immediately after the Annual General Meeting (www.sigplc.com).

THE REMUNERATION COMMITTEE

The Remuneration Committee operates under written Terms of Reference which are consistent with current best practice. The Committee comprises only independent Non-Executive Directors. The Chairman of the Committee attends the Annual General Meeting to respond to any Shareholder questions that might be raised on the Committee's activities. The Committee's Report is set out on pages 55 to 62.

NOMINATIONS COMMITTEE

The Nominations Committee operates under written Terms of Reference which are consistent with current best practice. Its principal duty is the nomination of suitable candidates for the approval of the Board to fill Executive and Non-Executive vacancies on the Board. Members of the Committee are not involved in matters affecting their own positions. The Nominations Committee comprises the Chairman, Chief Executive and the independent Non-Executive Directors. The meetings of the Committee are chaired by the Non-Executive Chairman. The Committee meets as appropriate but at least once a year, and as a quorum is four members, at least two of whom shall be independent Non-Executive Directors.

The Committee reviews the structure, size, diversity and composition of the Board and makes recommendations concerning the re-appointment of any Non-Executive Director at the conclusion of their specified term of office and in the identification and nomination of new Directors. The Committee retains external search and selection consultants as appropriate. The Committee also advises the Board on succession planning for Executive Board appointments although the Board itself is responsible for succession generally.

In general terms, when considering candidates for appointment as Directors of the Company, the Nominations Committee would, in conjunction with the Board, draft a detailed job specification and candidate profile. In drafting this, consideration would be given to the existing experience, knowledge and background of Board members as well as the strategic and business objectives of the Group. Once a detailed specification has been agreed with the Board, the Committee would then work with an appropriate external search and selection agency to identify candidates of the appropriate calibre and with whom an initial candidate shortlist could be agreed. The drawing up of this list is entirely consistent between external and internal candidates. Shortlisted candidates would then be invited to interview with members of the Committee and, if recommended by the Committee, would be invited to meet the entire Board before any decision is taken relating to the appointment. This process was followed in identifying the candidates for appointment as Non-Executive Directors.

Following the appointment of a new Director, the Chairman in conjunction with the Company Secretary is responsible for ensuring that a full, formal and tailored induction to the Company is given. Such induction programmes were operated for Mr C. V. Geoghegan, Mrs V. Murray and Mr J. C. Nicholas, all of whom were appointed in 2009.

AUDIT COMMITTEE

The Audit Committee operates under written Terms of Reference, which are consistent with current best practice. The Committee comprises only independent Non-Executive Directors. The Chairman of the Committee attends the Annual General Meeting to respond to any Shareholder questions that might be raised on the Committee's activities.

The Group does not have a dedicated internal audit function. The Board annually reviews the need for such a function. In 2006 the Audit Committee recommended and the Board accepted that the Group's internal control and risk management systems would be further strengthened by the appointment of an outsourced internal audit function and Ernst & Young LLP were appointed in April 2006 to provide an outsourced internal audit function for the Group.

The Committee's Report is set out on pages 63 to 64.

CORPORATE GOVERNANCE CONTINUED

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. It is the role of management to implement the Board's policies on risk and control through the design and operation of appropriate internal control systems.

For the whole of the year under review and up to the date of 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.

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 procedures, as well as financial. The review is undertaken on a six monthly basis.

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 Report "Internal Control: Guidance for Directors on the Combined Code". This 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 management is charged with the ongoing responsibility for identifying risks facing each of the operating units and for putting in place procedures to mitigate, manage and monitor risks.
- operating units formally review all business risks and set out the significant risks to the operations, the controls in place and additional controls which could be implemented. These proposals are approved by each operating unit's management and submitted in the form of risk action plans to Group Executive Management for review and approval. Any significant matters arising from this review are formally reported to the Board by the Finance Director to ensure that appropriate initiatives are developed and implemented to manage those risks. The Board is advised in this process by the Audit Committee.
- the risk and control identification and management process is monitored and periodically reviewed by Group Executive Management and
- operating units, both trading sites and central functions, complete comprehensive Control Self Assessment ("CSA") Questionnaires every six months. These Questionnaires require managers to respond to questions about procedures and controls in the unit for which they have responsibility. These are analysed by local and Group Management and all potential risks or control failure issues which are raised by the CSA process are classed in terms of escalation levels with any significant Group level issues being reported to the Audit Committee. Ernst & Young LLP as part of the process, provide an outsourced internal audit function report on the administration, management and reporting processes which support the CSA process.

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 divisional management and the Group's Executive Management on matters relating to risk and control;
- defined expenditure authorisation procedures;
- operating reviews covering all aspects of each business are conducted by Group Executive Management at least half yearly and
- 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 system of internal control 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.

The risk framework, as outlined above, gives reasonable assurance that the structure of controls in operation is appropriate to the Group's situation and that there is an acceptable level of risk throughout the business.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, that this has been in place for the year under review and up to the date of approval of the Annual Report and Accounts.



RICHARD MONRO
COMPANY SECRETARY
17 MARCH 2010

DIRECTORS' REMUNERATION REPORT INCLUDING THE STATEMENT OF REMUNERATION POLICY FOR THE YEAR ENDED 31 DECEMBER 2009

This report prepared by the Remuneration Committee on behalf of the Board sets out the policy and disclosures on remuneration for the Executive and Non-Executive Directors of the Board. It takes full account of the Combined Code and the latest ABI/NAPF guidelines and has been prepared in accordance with the provisions of the Companies Act 2006 ("the Act") and the Listing Rules of the Financial Services Authority. The Act requires the Auditors to report to the Company's Shareholders on the audited information within this report and to state whether, in their opinion, those parts of the report have been prepared in accordance with the Act. The Auditors' opinion is set out on page 107 and those aspects of the report which have been subject to audit are clearly marked. A resolution will be put to Shareholders at the Company's Annual General Meeting on 13 May 2010 inviting them to approve this report.

THE REMUNERATION COMMITTEE

The Board has a long established Remuneration Committee ("the Committee"), which meets as frequently as needed but at least twice a year. It is comprised solely of independent Non-Executive Directors. The Committee comprises the following Non-Executive Directors: Mr C. V. Geoghegan (who chairs the Committee), Mr D. A. Haxby, Mrs V. Murray and Mr J. C. Nicholls, all of whom are independent within the definition set out in the Code. Mr P. H. Blackburn was Chairman of the Committee until his retirement as a Director of the Company on 30 September 2009. Mr M. J. C. Borlenghi, who also retired as a Director of the Company on 30 September 2009, was a member of the Committee up to that date. Biographical details of the Committee members are set out on page 44. Both the constitution and operation of the Remuneration Committee comply with the principles incorporated in the Combined Code. The fees paid to Non-Executive Directors are determined by the Board. The Non-Executive Directors do not participate in any way in connection with the determination of their own fees.

The role of the Committee is to determine on behalf of the Board, the salary and benefits received by the Chairman and the Executive Directors and for overseeing the remuneration of other Senior Executives. The Committee's Terms of Reference, which are reviewed regularly, are set out on the Company's website www.sigplc.com. Its key responsibilities are:

- to determine the remuneration policy for Executive Directors and such other members of the Executive Management as it is designated to consider
- to design specific remuneration packages which include salaries, bonuses, equity incentives, pension rights and benefits,
- to review the Executive Directors' service contracts
- to ensure that failure is not rewarded and that steps are always taken to mitigate loss on termination within contractual obligations,
- to review remuneration trends across the Group, and
- to approve the terms of and recommend grants under the Group's incentive plans

The Chief Executive, Mr C. J. Davies, is consulted on the remuneration of Executive Directors and attends meetings by invitation but does not participate when his own remuneration is discussed. The Chairman of the Board also attends meetings by invitation but does not participate in any way in connection with the determination of his own salary. The Company Secretary provides information to the Committee and is in attendance at meetings. During the year the Committee met six times. Attendance by individual members of the Committee is disclosed in the table on page 52. The Committee also takes independent professional advice on an ad hoc basis, as required. The Committee reviews its own performance annually and considers where improvements can be made.

During the year the Committee conducted its annual review of remuneration to ensure that the overall remuneration structure continues to promote the Company's business strategy. The Company decided that against the current economic background and uncertainty over the state of the market in 2010, salary increases should be limited accordingly. The 2010 increase across the UK Group was limited to less than 2% of aggregate salaries in total. There were no increases in certain of the Mainland European businesses in 2010. This follows the pay freeze in 2009 for UK employees.

The Committee also reviewed the share scheme performance criteria to ensure its continued appropriateness prior to the grant of Awards under the Long Term Incentive Plans ("LTIP") and options under the Deferred Annual Bonus Scheme ("DABS"). For the LTIP Awards made in 2009, taking account of the substantial fall in the Company's share price, the Committee decided that the maximum award under the 2009 LTIP Award would be reduced from 100% to 50% of base salary. The Committee also decided that for the 2009 award an absolute Earnings per Share ("EPS") target would be set between a prescribed range to be achieved at the end of the three year performance period. Finally 25% (previously 30%) of the award would vest at the threshold level and pro-rata between the threshold (25%) and maximum (100%). The Committee consulted with the Company's major Shareholders and agreed that for 25% of the Award to vest the Company's underlying EPS for the year ending 31 December 2011 must be 10p and for the award to be exercisable in full underlying EPS of 13.5p must be achieved.

As stated in last year's Report, in view of the concern expressed by institutional investors at the level of the Company's net debt, the Committee reviewed the performance criteria for the operation of the 2009 annual bonus scheme and determined that 30% should be linked to debt management and working capital targets, 50% to profit before tax and 20% to personal objectives. For 2010 the Committee has decided that the maximum bonus that can be earned should remain at 100% of base salary for each Executive Director. The performance metrics for the annual bonus will continue to include elements for debt reduction, working capital improvements and the achievement of personal objectives in addition to underlying profit before tax.

Following a review of providers, in November 2009 the Remuneration Committee appointed Kepler Associates, a leading independent executive remuneration consultancy firm, in place of PricewaterhouseCoopers LLP ("PwC") as its adviser. PwC advised the Committee during the 2009 financial year particularly in relation to the operation of the Group's remuneration strategy and the provision of relevant market information for 2009. PwC also provides the Company with taxation advice and consultancy services. Kepler Associates has been commissioned to carry out a full benchmarking review and are advising the Committee on its policy for remuneration in 2010. Kepler Associates does not have any other connection to the Company.

Initially Kepler Associates was commissioned by the Remuneration Committee to carry out a full review of Executive remuneration and has advised the Committee on its remuneration policy going forward. Major Shareholders are being consulted on the Committee's proposed changes. For 2010 onwards, it is proposed that the EPS target attached to the LTIP Award is set with reference to three year cumulative EPS performance and that award sizes be made at their pre-2009 levels. The Committee believes that the use of three year cumulative rather than three year point to point EPS will provide a more robust measure of long term performance. The performance targets will be calibrated to be robust and stretching, with due consideration to the views of our Shareholders. Further, returning LTIP award sizes to their pre-2009 levels will provide Executive Directors with a more appropriate weighting within their total remuneration on long term variable pay. No other changes are proposed for 2010.

For 2011 the Committee anticipates proposing further changes to Executive remuneration and plans to consult with Shareholders later in the year.

DIRECTORS' REMUNERATION REPORT CONTINUED

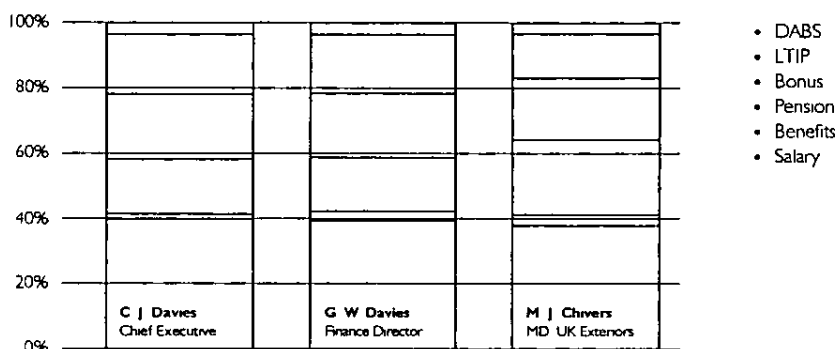
INCLUDING THE STATEMENT OF REMUNERATION POLICY FOR THE YEAR ENDED 31 DECEMBER 2009

POLICY ON REMUNERATION OF EXECUTIVE DIRECTORS

The Company's policy for 2009 and subsequent years is to provide remuneration packages that fairly reward the Executive Directors for the contribution they make to the business and are competitive enough to attract, retain and motivate Executive Directors and Senior Managers of the right calibre. The policy is designed to incentivise the Directors to meet the Company's financial and strategic objectives such that a significant proportion of remuneration is performance related. The Company's financial and strategic objectives are set out in the Business Review on pages 11 to 13.

The Remuneration Committee has the discretion to consider the Company's performance on environmental, social and governance issues when determining the overall reward for the Executive Directors.

The bar chart below explains the relevant importance of the elements of the remuneration package that are performance related and those that are not.



For the purposes of the chart set out above, salary, benefits and bonuses are the amounts received in 2009. LTIP and DABS awards are included at their face value.

In reviewing Executive Directors' salaries due consideration is given to the levels of increase granted to other employees within the Group and the Committee reviews and notes the total individual remuneration packages of each of the other Senior Executives. The Committee also considers the information from the Company's comparator group, which comprises 18 companies of broadly similar market capitalisation to the Company's (excluding finance and real estate companies) and 17 companies having broadly similar levels of turnover. Basic salaries are reviewed annually or when a change of responsibility occurs.

The Committee considers that the targets set for the different elements of performance related remuneration (including the share option schemes) are appropriate and demanding in the context of the Company's trading environment and the business challenges it faces.

The Committee believes that Earnings per Share (EPS*) continues to be a key measure of long term performance and is appropriate for its share incentive schemes (i.e. LTIP and DABS) as it requires substantial improvements in the underlying financial performance of the Company in order for the options to become exercisable. Deloitte LLP in their capacity as Auditors are required to review the calculations as to whether the performance targets for all relevant share schemes have been achieved before any exercise is permitted. For 2010 onwards, as previously stated, it is proposed that the LTIP performance measure should be changed to 50% on relative TSR and 50% on cumulative EPS.

The main components of Executive Directors' remuneration are given below.

BASE SALARY AND BENEFITS (AUDITED)

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, experience and market trends. The Chief Executive does not make recommendations to the Committee in respect of his own remuneration. The Committee takes into account published remuneration information on comparable companies and salary policy within the rest of the Group. During the year Kepler Associates provided the Committee with remuneration benchmarking analysis based on a number of reference points including international sector comparators and size comparators based on companies with a similar market cap and revenue to SIG. Benefits comprise a company car, medical and permanent health insurance. The value of benefits is not pensionable.

Chris Davies was appointed Deputy Chief Executive on 1 January 2008 and succeeded David Williams as Chief Executive on 1 July 2008 at which time his salary was increased from £365,000 p.a. to £465,000 p.a. This salary was set at the lower quartile of market data in recognition of the fact that he was new to the role and with the intention of moving his pay closer to market median as part of the next review, subject to his performance in the role. At the time of the annual pay review in November 2008, the Committee decided that the base salary of the Chief Executive should be moved closer to the market median with effect from 1 January 2009. The Independent Directors felt that his quality and contribution were clearly evidenced and warranted this increase. However, in line with the deferment of the January 2009 salary review for all UK employees and the subsequent pay freeze, the Chief Executive felt that it would be inappropriate for an increase in his salary to be made at that time and the Remuneration Committee agreed to defer the increase for a period of 12 months.

With effect from the end of 2009, the Committee decided that, in light of his personal contribution over the last 18 months, the Chief Executive's base salary should be increased to £532,875 p.a. which brings the value of his total package to around 90% of the market median. The Committee decided that the other two Executive Directors should receive base salary increases in line with the increase across the UK Group which was limited to below 2% as indicated in the table below.

The annual rates of base salary in force during the year are shown in the table below.

Name	Annual rate of salary 2009	Annual rate of salary 2010	Increase
C J Davies	£465,000	£532,875	14.60%
G W Davies	£300,000	£305,000	1.67%
M J Chivers	£270,000	£275,000	1.85%

POLICY ON REMUNERATION OF EXECUTIVE DIRECTORS CONTINUED

ANNUAL PERFORMANCE 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 metrics for the year under review and the following year are shown in the table below.

Name	Year	Debt management/ working capital improvement	Profit before tax % of salary	Personal objectives % of salary	Maximum bonus of % of salary
C J Davies	2009	30%	50%	20%	100%
	2010	30%	50%	20%	100%
G W Davies	2009	30%	50%	20%	100%
	2010	30%	50%	20%	100%
M J Chivers	2009	30%	50%	20%	100%
	2010	30%	50%	20%	100%

In an exceptionally difficult environment the Group's profit before tax in 2009 was not sufficient for any part of the profit element of the annual bonus to become payable. The debt management and working capital improvement targets were achieved in full resulting in payment in full for this element. It was agreed that as a result of the minimum profit before tax element of the bonus not having been achieved the maximum payment for the achievement of personal objectives for 2009 would be capped at 75% of the amount payable for this element.

For 2010 the Committee has agreed that the maximum bonus that can be earned should remain at 100% of base salary for each Executive Director. In addition the performance metrics and respective weightings will remain the same as in 2009 as the Committee believes these aspects of short term performance will continue to be key areas of focus in 2010.

PENSION SCHEMES

All Executive Directors are members of the Group's 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. Following consultation with the active membership of the scheme certain changes were made to the contribution levels and benefits in order to limit future liabilities and 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 ("RPI"). On death before retirement a lump sum equal to four 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.

In March 2006 the Board agreed that the rules of the Group's contributory defined benefit pension scheme should be amended to permit continued accrual in the scheme to age 65. All members will be permitted to take their benefits at age 60 without abatement if they so wish.

SHARE OPTION SCHEMES

LONG TERM INCENTIVE PLANS ("LTIP")

All Executive Directors are eligible to participate in the LTIP. Under the LTIP participating Directors and other designated Senior Managers are granted nil cost share options up to a maximum of 100% of base salary. In 2004 Shareholders approved the adoption of a new LTIP. Options were granted in each of the five years ended 31 December 2003 under the old Plan and in 2004, 2005, 2006, 2007, 2008 and 2009 under the new Plan. As set out on page 62 in the Directors' share options table under the heading "Long Term Incentive Plan" none of the Executive Directors have awards which had not vested at 31 December 2009 under the old Plan. Awards under the LTIP are not pensionable. Awards under both of the LTIPs are exercisable between three and seven years from the date of grant but 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 Remuneration Committee. There were no exercises of discretion by the Committee during the year.

All LTIP awards granted to date are subject to EPS performance conditions. The performance targets attaching to LTIP Awards that are still subject to performance are set out below.

In the case of the awards made in 2004, 2005 and 2006 the performance condition is based on real (in excess of RPI) annual compound growth in EPS as shown below. The three year performance period for awards starts at the beginning of the financial year in which the Award is made. There is no facility for retesting the performance condition after the end of the three year performance period. The performance target for the 2006 Award was not met and consequently all of these awards have lapsed.

	Real annual compound growth in Group EPS over three years	Percentage of Award vesting
Threshold	3%	30%
Maximum	10%	100%
Between threshold and maximum	3%–10%	Pro-rata between 30% and 100%

DIRECTORS' REMUNERATION REPORT CONTINUED

INCLUDING THE STATEMENT OF REMUNERATION POLICY FOR THE YEAR ENDED 31 DECEMBER 2009

POLICY ON REMUNERATION OF EXECUTIVE DIRECTORS CONTINUED

SHARE OPTION SCHEMES CONTINUED

LONG TERM INCENTIVE PLANS (LTIP) CONTINUED

In the case of the 2007 Award, the performance condition is based on real (in excess of RPI) annual compound growth in EPS as shown below. The three year performance period for awards starts at the beginning of the financial year in which the Award is made. There is no facility for retesting the performance condition after the end of the three year performance period.

	Real annual compound growth in Group EPS over three years	Percentage of Award vesting
Threshold	5%	30%
Maximum	10%	100%
Between threshold and maximum	5%–10%	Pro-rata between 30% and 100%

In the case of the 2008 Award, the performance condition is based on real (in excess of RPI) annual compound growth in EPS as shown below. The three year performance period for awards starts at the beginning of the financial year in which the Award is made. There is no facility for retesting the performance condition after the end of the three year performance period.

	Real annual compound growth in Group EPS over three years	Percentage of Award vesting
Threshold	5%	30%
Maximum	12%	100%
Between threshold and maximum	5%–12%	Pro-rata between 30% and 100%

The above performance conditions were chosen because they were 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 the employees and Shareholders. At the end of the relevant period the Remuneration Committee assesses whether the performance conditions have been satisfied.

In 2009 awards were made under the LTIP to Mr C. J. Davies and Mr G. W. Davies with a value of 50% of base salary at 1 January 2009 and to Mr M. J. Chivers with a value of 40% of base salary as shown in the table on page 62. The Award is subject to a performance target relating to the underlying EPS of the Company for the year ending 31 December 2011. For 25% of the award to vest the underlying EPS must be 10p and for the Award to vest in full then 13.5p must be achieved.

DEFERRED ANNUAL BONUS SCHEME (DABS)

In 2004 Shareholders approved the introduction of a DABS. Participants (including Executive Directors) are invited to use up to 50% of their annual performance related cash bonus (after income tax and national insurance) in respect of the preceding financial year to purchase shares in the Company. The purchased shares must be retained for three years. Participants purchasing such shares will be eligible to receive up to a maximum of one additional free matching share for every share purchased, providing certain pre-set real (in excess of RPI) annual compound EPS growth targets are met over a three year period. For 2005, 2006, 2007 and 2008 the performance targets for the DABS are shown below.

	Real annual compound growth in Group EPS over three years	Percentage of Award vesting
Threshold	3%	50%
Maximum	5%	100%
Between threshold and maximum	3%–5%	Pro-rata between 50% and 100%

For 2009 the performance target set for the DABS was the same as that for the LTIP as described above. The EPS target for the award of matching shares in respect of the 2006 scheme was not met and consequently no matching shares have been awarded.

The above performance conditions were chosen because they were 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. At the end of the relevant period the Remuneration Committee assesses whether the performance conditions have been satisfied.

Awards made under the DABS are not pensionable and are set out in the table on page 62.

Under the Rules of the LTIP and the DABS outstanding awards vest on termination for certain reasons such as death, retirement and redundancy or on a change of control on a time related, pro-rata basis subject to the satisfaction of the relevant performance criteria. If however, the termination of employment is for a reason other than one of those specified in the Rules, an individual's full award lapses.

EMPLOYEE SHARE SCHEMES

The Executive Directors are also eligible to participate in the Company's SIP which commenced in November 2005 and is open to all UK employees of the Group. This replaced the Savings Related Share Option Scheme ("SAYE") for UK employees as a decision has been taken not to operate both schemes at the same time.

NON-EXECUTIVE DIRECTORS

The Non-Executive Directors including the Chairman, do not have service contracts. The Company's policy is that Non-Executive Directors are appointed for specific terms of three years unless otherwise terminated earlier by and at the discretion of either party upon three months' written notice. Non-Executive Directors' appointments are reviewed at the end of each three year term. Non-Executive Directors will normally 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. The basic Non-Executive Director fee is calculated by reference to current market levels and takes account of the time commitment and the responsibilities of the Non-Executive Directors. Non-Executive Directors do not receive benefits from the Company and 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. Any reasonable expenses that they incur in the furtherance of their duties are reimbursed by the Company. The Chairman and Non-Executive Directors' fees are reviewed in May each year with any increase being payable from 1 June. These fees were reviewed in May 2009 and were left unchanged.

The dates of their letters of engagement and annual entitlement to fees are set out below.

	Original date of appointment	Date of letter of engagement	Basic fee £	Senior Independent Director Fee £	Chairman of Remuneration/ Audit Committee fee £	Total current annual fees £
L. O. Tench	01/03/2003	28/02/2003	145,000	—	—	145,000
C. V. Geoghegan	01/07/2009	08/05/2009	44,500	—	6,000	50,500
D. A. Haxby	01/03/2003	28/02/2003	44,500	2,000	—	46,500
V. Murray	01/07/2009	08/05/2009	44,500	—	—	44,500
J. C. Nicholls	06/11/2009	08/05/2009	44,500	—	8,000	52,500

Mr C. V. Geoghegan, Mr D. A. Haxby, Mrs V. Murray and Mr J. C. Nicholls as Non-Executive Directors did not hold or have granted any share options during the year.

SERVICE CONTRACTS

The Executive Directors have service contracts for a continuous term to retirement age providing for a rolling twelve months' notice period in writing by either party.

The service contracts for Mr M. J. Chivers, Mr G. W. Davies and Mr C. J. Davies are dated 1 January 1995, 1 August 2002 and 28 January 2009 respectively.

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. There are no agreements between the Company and its Directors or employees providing for additional compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that may occur in the event of a takeover bid.

SHARE OWNERSHIP GUIDELINES

To better align Executive Director interests with those of Shareholders the Company has established the principle of requiring Executive Directors to build up and maintain a beneficial holding of shares in the Company equivalent to a minimum of one times basic salary. Under normal circumstances it is expected that this should be achieved within five years of 31 December 2004, or within five years of appointment, whichever is the later. It is anticipated that the satisfaction of this target will be mainly achieved by the vesting of shares through the Company's share schemes.

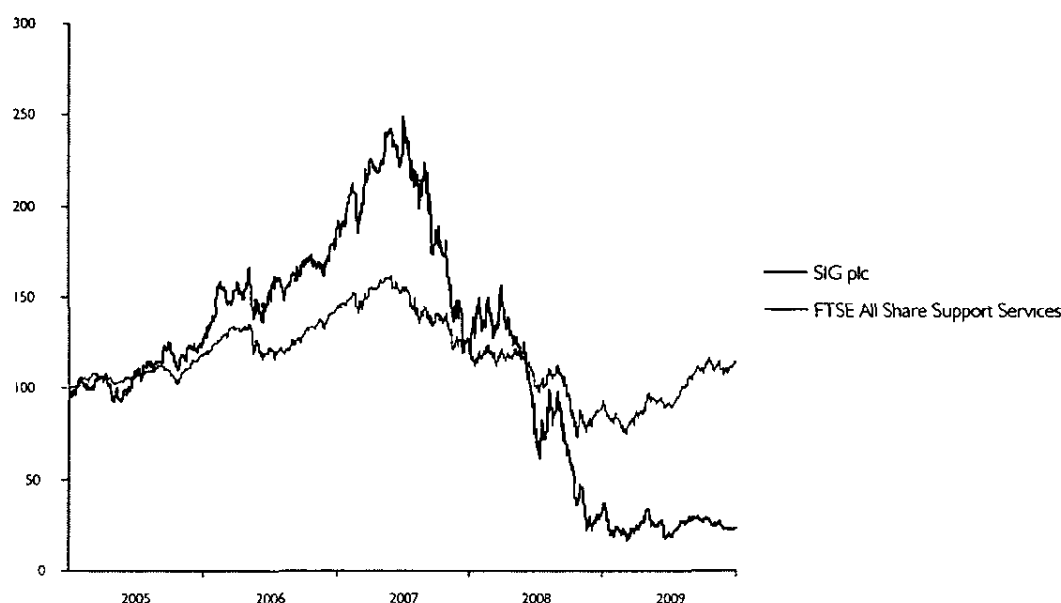
DIRECTORS' REMUNERATION REPORT CONTINUED

INCLUDING THE STATEMENT OF REMUNERATION POLICY FOR THE YEAR ENDED 31 DECEMBER 2009

PERFORMANCE GRAPH

The graph below shows the Company's TSR performance (share price plus dividends paid) compared with the performance of the FTSE All Share Support Services Index over the five year period to 31 December 2009. This index has been selected because the Company believes that the constituent companies comprising the FTSE All Share Support Services Index are the most appropriate for this comparison as they are affected by similar commercial and economic factors to SIG.

1 JANUARY 2005 TO 31 DECEMBER 2009



TSR (rebased = 100 at 1 January 2005)

DIRECTORS' INTERESTS IN THE SHARES OF SIG plc (AUDITED)

The interests of the Directors in office at 31 December 2009 and of their families in the ordinary shares of the Company at the following dates were:

	31 December 2009	1 January 2009 or date of appointment
M J Chivers	121,552*	53,679*
C J Davies	108,185*	41,409*
G W Davies	157,030*	89,156*
C V Geoghegan (appointed 1 July 2009)	40,000	Nil
D A Haxby	15,000	Nil
V Murray (appointed 1 July 2009)	11,500	11,500
J C Nicholls (appointed 6 November 2009)	14,220	14,220
L O Tench	87,428	34,000

* Includes shares purchased under the SIG plc SIP

All shareholdings were unchanged as at 17 March 2010 other than on 15 January 2010 Mr G W Davies, Mr C J Davies and Mr M J Chivers acquired a further 91 shares each under the SIG plc SIP; on 15 February 2010, Mr C J Davies, Mr G W Davies and Mr M J Chivers acquired a further 115 shares each under the SIP and on 15 March 2010 Mr G W Davies, Mr C J Davies and Mr M J Chivers acquired a further 99 shares each under the SIP.

DIRECTORS' EMOLUMENTS (AUDITED)

	Salary and fees £000	Annual performance related bonus £000	Benefits £000	2009 Total emoluments £000	2008 Total emoluments £000
Chairman					
L O Tench	145	–	–	145	141
Executive					
C J Davies	465	209	20	694	503
M J Chivers	270	100	24	394	322
G W Davies	300	135	22	457	360
Non-Executive					
P H Blackburn (resigned 30 September 2009)	39	–	–	39	52
M J C Borlenghi (resigned 30 September 2009)	33	–	–	33	44
C V Geoghegan (appointed 1 July 2009)	24	–	–	24	–
D A Haxby	52	–	–	52	52
V Murray (appointed 1 July 2009)	22	–	–	22	–
J C Nicholls (appointed 6 November 2009)	8	–	–	8	–
Total	1 358	444	66	1,868	1 829

The base salaries for the Executive Directors as at 1 January 2010 are Mr C J Davies £532 875, Mr G W Davies £305 000, and Mr M J Chivers £275 000.

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

There are no deferred bonuses.

The highest paid Director in the year was Mr C J Davies.

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 (AUDITED)

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	Increase in accrued benefits net of inflation £000	Transfer value of increase in accrued benefits net of inflation* £000	Accrued benefits at 31 December 2009 £000	Transfer value at 31 December 2009 £000	Transfer value at 1 January 2009 £000	Contributions made by Executive to the scheme in the year £000	Transfer value (decrease)/ increase after deducting Executive contributions £000
M J Chivers	10	2	19	163	3 811	3,810	20	(19)
C J Davies	36	33	678	99	2,167	1 440	39	688
G W Davies	7	4	20	79	1,212	1,142	23	47

* After deducting Executive contributions.

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 table above.

Mr C J Davies stopped accruing pension benefit in the main registered scheme from 1 January 2009 and began accruing benefit in the Employer Financed Retirement Benefits Scheme ("EFRBS"). The figures quoted in the table above represent his total entitlement in both schemes.

DIRECTORS' REMUNERATION REPORT CONTINUED **INCLUDING THE STATEMENT OF REMUNERATION POLICY FOR THE YEAR ENDED** **31 DECEMBER 2009**

DIRECTORS' SHARE OPTIONS (AUDITED)

Mr C V Geoghegan, Mr D A Haxby, Mrs V Murray, Mr J C Nicholls and Mr L O Tench 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 ended 31 December 2009 are set out below.

Date on which scheme interest was awarded	Market price when scheme interest was awarded	Number of shares						Market price at date of		Exercise dates		Date on which option expires		
		At 1 January 2009	Number of additional shares awarded on 14 April 2009 following open offer*	Granted	Exercised	Lapsed	At 31 December 2009	Exercise price per 10p share	Adjusted option price per 10p share	Vesting	Exercised		Earliest vesting date	Date exercised
Deferred Annual Bonus														
C J Davies														
13/04/2006	866 3p	1,447	305	—	—	(1 752)	—	Nil	Nil	—	—	13/04/2009	—	12/04/2016
17/04/2007	1 166 0p	1 072	226	—	—	—	1,298	Nil	Nil	—	—	17/04/2010	—	16/04/2017
Long Term Incentive Plan														
M J Chivers														
13/04/2006	911 7p	13 436	2 835	—	—	(16 271)	—	Nil	Nil	—	—	13/04/2009	—	12/04/2016
17/04/2007	1 300 8p	9,917	2,093	—	—	—	12,010	Nil	Nil	—	—	17/04/2010	—	16/04/2017
14/04/2008	801 1p	25 277	5,335	—	—	—	30,612	Nil	Nil	—	—	14/04/2011	—	13/04/2018
16/09/2009	138 2p	—	—	80 476	—	—	80,476	Nil	Nil	—	—	16/09/2012	—	15/09/2019
C J Davies														
13/04/2006	911 7p	5 765	1,216	—	—	(6 981)	—	Nil	Nil	—	—	13/04/2009	—	12/04/2016
17/04/2007	1 300 8p	8 649	1 825	—	—	—	10,474	Nil	Nil	—	—	17/04/2010	—	16/04/2017
14/04/2008	801 1p	45,562	9 616	—	—	—	55,178	Nil	Nil	—	—	14/04/2011	—	13/04/2018
08/09/2008	542 3p	9,220	1,948	—	—	—	11,168	Nil	Nil	—	—	08/09/2011	—	07/09/2018
16/09/2009	138 2p	—	—	173,248	—	—	173,248	Nil	Nil	—	—	16/09/2012	—	15/09/2019
G W Davies														
13/04/2006	911 7p	14,808	3,125	—	—	(17 933)	—	Nil	Nil	—	—	13/04/2009	—	12/04/2016
17/04/2007	1 300 8p	10,955	2,312	—	—	—	13,267	Nil	Nil	—	—	17/04/2010	—	16/04/2017
14/04/2008	801 1p	28 086	5 928	—	—	—	34,014	Nil	Nil	—	—	14/04/2011	—	13/04/2018
16/09/2009	138 2p	—	—	111 773	—	—	111,773	Nil	Nil	—	—	16/09/2012	—	15/09/2019
Savings Related Schemes														
M J Chivers														
10/05/2004	360 0p	5 450	1 150	—	—	(6,600)	—	300 0p	247 8p	—	—	01/07/2009	—	31/12/2009
C J Davies														
10/05/2004	360 0p	5 450	1,150	—	—	(6,600)	—	300 0p	247 8p	—	—	01/07/2009	—	31/12/2009
Total		185 094	39 064	365 497	—	(56,137)	533,518							

* Adjusted in accordance with the rules of the schemes.

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

The market price of the shares at 31 December 2009 was 112 1p and the range during 2009 was 86 4p to 219 0p.

The aggregate of the total theoretical gains on options exercised by the Directors during 2009 amounted to £nil (2008: £794,123). This is calculated by reference to the difference between the closing mid-market price of the shares on the date of exercise and the exercise price of the options, disregarding whether such shares were sold or retained on exercise and is stated before tax.

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

The Board of SIG plc has approved this Directors' Remuneration Report.

On behalf of the Board



CHRIS GEOGHEGAN
CHAIRMAN OF THE REMUNERATION COMMITTEE
17 MARCH 2010

REPORT OF THE AUDIT COMMITTEE

INTRODUCTION

This report to Shareholders has been prepared by the Audit Committee ("the Committee") on behalf of the Board in accordance with the Financial Reporting Council's "Guidance on Audit Committees" issued in October 2008 and the requirements of paragraph C3.3 of the Combined Code on Corporate Governance. The report gives details of the work of the Committee in discharging its responsibilities.

MEMBERSHIP

Throughout 2009 the Committee comprised the independent Non-Executive Directors of the Company. Mr P. H. Blackburn and Mr M. J. C. Borlenghi were members until their retirements on 30 September 2009. Mr C. V. Geoghegan and Mrs V. Murray joined the Committee on 1 July 2009 and Mr J. C. Nicholls on 6 November 2009. Mr J. C. Nicholls succeeded Mr D. A. Haxby as Chairman of the Committee on 12 November 2009. Mr D. A. Haxby will remain a member of the Committee until his retirement from the Board in May 2010. The Board considers that each member of the Committee is independent within the definition set out in the Code.

The Chairman of the Committee, from 1 January 2009 to 11 November 2009, was Mr D. A. Haxby, who is a Chartered Accountant (FCA) and is considered by the Board to have significant recent and relevant financial experience. He was a Partner in Arthur Andersen for 18 years (1977–1995) holding Senior Management positions in the UK Practice from 1985 to 1995. Since then he has served as Audit Committee Chairman of a number of UK listed companies. Mr J. C. Nicholls (ACA) became Chairman on 12 November 2009. He is a Chartered Accountant and was most recently Group Finance Director of Old Mutual plc and prior to that, Group Finance Director of Hanson plc. He is Audit Committee Chairman for Great Portland Estates plc and on the Audit Committee of DS Smith plc. The other members of the Committee have a wide range of business experience, which is evidenced by their biographical summaries on page 44. The Board makes appointments to the Committee. The Company Secretary acts as Secretary to the Committee.

Members of the Committee undertake ongoing training as required.

TERMS OF REFERENCE

The Committee operates under Terms of Reference which can be found on the Company's website and which are available on application to the Company Secretary at the registered office. They are reviewed annually by the Committee and changes are recommended to the Board for approval.

The main duties of the Committee set out in its Terms of Reference are:

- monitoring the integrity of the Company's Accounts including its Annual Report and Accounts and Interim Report
- reviewing the consistency of accounting policies, including any changes
- reviewing the effectiveness of the Company's internal control and risk management systems,
- reviewing the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters
- monitoring and reviewing the effectiveness of the Company's outsourced internal audit function,
- reviewing the annual audit plan and receiving the Auditors' Reports and the Company's response,
- considering and making recommendations to the Board in relation to the appointment, re-appointment and removal of the Company's external Auditors
- overseeing the relationship with the external Auditors, including (but not limited to) approving their remuneration, assessing annually their independence and objectivity, taking into account relevant professional and regulatory requirements and the relationship with the Auditors as a whole, including the provision of any non-audit services, and
- reporting to the Board and identifying any matters on which the Committee considers that action or improvement is needed and making recommendations as to the steps to be taken.

The Committee has the power to engage outside advisers if it considers it to be necessary.

The Committee reviews its own performance annually and considers where improvements can be made.

The Chairman of the Committee attends the Annual General Meeting to respond to any Shareholder questions that might be raised on the Committee's activities.

MEETINGS

The Committee meets regularly throughout the year with four planned meetings, and its agenda is linked to events in the Company's financial calendar. The agenda is mostly cyclical although each member of the Committee may request reports on matters of interest in addition to the regular items. In 2009 it met five times. Attendance by individual members of the Committee is disclosed in the table on page 52. The Finance Director attended all five of the meetings as did the external Auditors. The external Auditors have direct access to the Committee Chairman. The Chairman of the Board and the other Executive Directors attend the meetings of the Committee at the invitation of the Committee Chairman. The external Auditors had confidential discussions with members of the Committee without the Chairman of the Board and the Executive Directors being present on two occasions in 2009 and in March 2010 before the signing off of the 2009 Annual Report and Accounts. Ernst & Young LLP who provide an outsourced internal audit function for the Group are invited to meetings to present their reports and attended on three occasions in 2009. The Committee also meets with Ernst & Young LLP without the Executive Directors present and did so on two occasions in 2009.

REPORT OF THE AUDIT COMMITTEE CONTINUED

WORK OF THE COMMITTEE

The Committee discharged its obligations in respect of 2009 as follows

- Annual Report and Accounts and Interim Report – at its meetings in August 2009 and March 2010, the Committee reviewed the financial reporting issues and judgements contained in the Company's Interim Announcement and its Annual Report and Accounts respectively. At the March 2010 meeting the Committee received a report from the external Auditors setting out the accounting or judgemental issues which required its attention,
- accounting policies and standards – at its August 2009 meeting the Committee reviewed the application of any new accounting policies or standards that would be applicable to the Group's 2009 Annual Report and Accounts, in particular IFRS 8 "Operating Segments". The Committee is updated regularly on actual and pending changes to accounting standards,
- internal controls and risk management – in November 2009 and March 2010 the Committee considered detailed reports from the Group Finance Director on the operation of and issues arising from, the Group's internal control procedures together with observations from the external Auditors. It also monitored the effectiveness of the Group's risk management process, which considers the key risks, both financial and non-financial facing the Group and the effectiveness of the Group's controls to manage and reduce the impact of those risks,
- in August 2009 the Committee reviewed its Terms of Reference and Non-audit Services Policy. Following the appointment of PricewaterhouseCoopers as the Group's tax advisers in August 2006 and other preferred suppliers having been identified for due diligence services, Deloitte LLP's role is now solely that of Group Auditor for the whole of the SIG Group together with any Auditor permitted services which the Group considers appropriate
- external Auditors' work and relationship – the Committee reviewed the external Auditors' proposed audit plan in November 2009, considered its pre year-end issues report in December 2009, reviewed the fees paid for audit and for non-audit services in March 2010 and assessed the external Auditors' independence and objectivity in November 2009 and March 2010. The risk of Deloitte LLP leaving the market is considered remote since they are one of the top four accounting firms in the UK,
- internal audit function – in April 2006 Ernst & Young LLP were appointed to provide an outsourced internal audit function for the Group. During the year Ernst & Young undertook work on the Group's CSA procedures including the independent validation of CSA reporting at a number of businesses in the UK and Mainland Europe and a number of special projects. The Committee received reports from Ernst & Young at its meetings in March 2009, August 2009, November 2009, December 2009 and March 2010. In December 2009 the Committee agreed the scope of work of the internal audit function for 2010 and
- "Whistleblowing" Policy – in August 2009 the Committee reviewed the Whistleblowing Policy under which employees may in confidence notify the Company of any concerns relating to matters involving financial reporting. It also reviewed the procedures for investigating and resolving any such concerns. A copy of the Whistleblowing Policy is available on the Company's website. The Committee also reviewed the arrangements for the Group's confidential hotline which is available to all of the Group's employees and provides a facility for employees to bring matters to management's attention on a confidential basis. The hotline is provided by an independent third party. A full investigation is carried out on all matters raised and a report is prepared for feedback to the complainant.

INDEPENDENCE OF AUDITORS

The Board is aware of the need to maintain an appropriate degree of independence and objectivity on the part of the Group external Auditors. Both the Audit Committee and the external Auditors, Deloitte LLP, have safeguards in place to avoid the Auditors' independence and objectivity being compromised.

The Group policy with regard to the provision of audit and non-audit services by the external Auditors, which was operated during 2009, is based on the principles that they should only undertake non-audit services where they are the most appropriate and cost-effective provider of the service and where the provision of non-audit services does not impair or is not perceived to impair, the external Auditors' independence and objectivity. It categorises such services between

- Auditor permitted services – those services which it is acceptable for the Auditors to provide and the provision of which can be engaged without referral to the Committee (e.g. regulatory and other specialist financial reporting and accounting advisory services)
- Auditor excluded services – those engagements that the Committee and the Board do not consider appropriate for the Auditors to undertake (e.g. selection design or implementation of major financial systems, provision of internal audit services or risk management assessment and monitoring services), and
- Auditor authorised services – those services for which the specific approval of the Committee is required before the Auditors are permitted to provide the service (e.g. complex tax planning and structure advice, corporate finance and M&A activity)

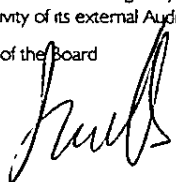
The policy defines the types of services falling under each category and sets out the criteria to be met and the internal approvals required prior to the commencement of any "Auditor authorised services". The Committee regularly reviews an analysis of all services provided by the external Auditors. The policy is reviewed annually by the Committee and is approved by the Board.

Details of the amounts paid to the external Auditors for audit and non-audit services in 2009 are set out in Note 4 to the Accounts on page 80.

The external Auditors report to the Committee each year on the actions they have taken to comply with professional and regulatory requirements and best practice designed to ensure their independence, including the rotation of key members of the external audit team. Deloitte LLP have formally confirmed their independence to the Board in respect of the period covered by these financial statements. Having reviewed and expressed satisfaction with the level of fees, independence, objectivity, expertise, resources and general effectiveness of Deloitte LLP, the Committee recommends (and the Board agrees) that a resolution for the re-appointment of Deloitte LLP as Auditors of the Company will be proposed at the forthcoming Annual General Meeting.

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of its external Auditors.

On behalf of the Board



JONATHAN NICHOLLS
CHAIRMAN OF THE AUDIT COMMITTEE
17 MARCH 2010

GROUP ACCOUNTS

PREPARED IN ACCORDANCE WITH IFRS

ACCOUNTS

GROUP ACCOUNTS

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CONSOLIDATED INCOME STATEMENT **FOR THE YEAR ENDED 31 DECEMBER 2009**

	Note	Before other items* 2009 £m	Other items* 2009 £m	Total 2009 £m	Before other items* 2008 £m	Other items* 2008 £m	Total 2008 £m
Revenue							
Existing operations		2,743 5	–	2,743 5	2,898 0	–	2,898 0
Acquisitions		–	–	–	155 6	–	155 6
Continuing operations	1	2,743 5	–	2,743 5	3,053 6	–	3 053 6
Cost of sales	2	(2,050 3)	–	(2,050 3)	(2,245 2)	–	(2 245 2)
Gross profit		693 2	–	693 2	808 4	–	808 4
Other operating expenses	2	(612 3)	(113 4)	(725 7)	(638 6)	(62 8)	(701 4)
Operating (loss)/profit							
Existing operations		80 9	(113 4)	(32 5)	156 6	(62 8)	93 8
Acquisitions		–	–	–	13 2	–	13 2
Continuing operations		80 9	(113 4)	(32 5)	169 8	(62 8)	107 0
Finance income	3	10 3	1 4	11 7	11 9	–	11 9
Finance costs	3	(30 6)	(3 9)	(34 5)	(44 4)	(41 4)	(85 8)
(Loss)/profit before tax	4	60 6	(115 9)	(55 3)	137 3	(104 2)	33 1
Income tax credit/(expense)	6	(18 0)	28 2	10 2	(40 2)	13 9	(26 3)
(Loss)/profit after tax		42 6	(87 7)	(45 1)	97 1	(90 3)	6 8
Attributable to							
Equity holders of the Company		42 1	(87 7)	(45 6)	96 6	(90 3)	6 3
Minority interests		0 5	–	0 5	0 5	–	0 5
Earnings per share ^							
Basic (loss)/earnings per share	8	9 0p	(18.7p)	(9 7p)	58 9p	(55 1p)	3 8p
Diluted (loss)/earnings per share	8	9 0p	(18 7p)	(9 7p)	58 7p	(54 9p)	3 8p

* "Other items" relate to the amortisation of acquired intangibles impairment charges restructuring costs and gains and losses on derivative financial instruments "Other items" have been disclosed separately in order to give an indication of the underlying earnings of the Group Further information is provided within the Statement of Significant Accounting Policies on page 71

^ In accordance with IAS 33 "Earnings per Share" has been recalculated to take into account the discount to the open offer element of the Group's equity issue completed in April 2009 Further details can be found in Note 8 on pages 82 and 83

The accompanying Statement of Significant Accounting Policies and Notes to the Accounts are an integral part of this Consolidated Income Statement

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME **FOR THE YEAR ENDED 31 DECEMBER 2009**

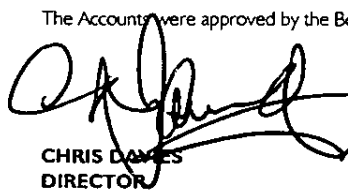
	2009 £m	2008 £m
(Loss)/profit after tax	(45.1)	6.8
Other comprehensive (expense)/income		
Exchange difference on retranslation of foreign currency goodwill and intangibles	(33.1)	97.0
Exchange difference on retranslation of foreign currency net investments (excluding goodwill and intangibles)	(21.2)	61.8
Exchange and fair value movements associated with borrowings and derivative financial instruments	16.5	(92.9)
Tax (charge)/credit on exchange difference arising on borrowings and derivative financial instruments	(5.5)	13.8
Gains and losses on cash flow hedges	(20.1)	3.5
Transfer to profit and loss on cash flow hedges	1.3	(1.4)
Current and deferred tax on share options	–	(0.7)
Actuarial loss on defined benefit pension schemes	(4.7)	(10.6)
Deferred tax movement associated with actuarial loss	1.3	3.0
Other comprehensive (expense)/income	(65.5)	73.5
Total comprehensive (expense)/income	(110.6)	80.3
Attributable to		
Equity holders of the Company	(111.1)	79.8
Minority interests	0.5	0.5
	(110.6)	80.3

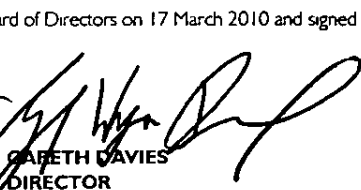
The accompanying Statement of Significant Accounting Policies and Notes to the Accounts are an integral part of this Consolidated Statement of Comprehensive Income

CONSOLIDATED BALANCE SHEET **AS AT 31 DECEMBER 2009**

	Note	2009 £m	2008 £m
Non-current assets			
Property, plant and equipment	10	213.5	259.3
Goodwill	11	506.9	567.1
Intangible assets	12	150.6	183.4
Deferred tax assets	21	27.5	18.7
		898.5	1,028.5
Current assets			
Inventories	13	227.7	268.6
Trade receivables	14	385.8	469.7
Other receivables	14	28.0	31.3
Derivative financial instruments	14	38.6	74.6
Cash and cash equivalents		219.4	71.7
		899.5	915.9
Total assets		1,798.0	1,944.4
Current liabilities			
Trade and other payables	15	340.7	373.2
Obligations under finance lease contracts	15	2.3	3.4
Bank overdrafts	15	2.5	18.8
Bank loans	15	173.5	345.3
Loan notes	15	0.1	0.1
Derivative financial instruments	15	0.1	60.6
Current tax liabilities	15	2.8	5.9
Provisions	15	9.5	8.3
		531.5	815.6
Non-current liabilities			
Obligations under finance lease contracts	16	7.1	9.2
Bank loans	16	12.1	6.4
Private placement notes	16	299.2	328.6
Loan notes	16	–	0.1
Derivative financial instruments	16	15.6	70.9
Deferred tax liabilities	16	38.9	49.5
Other payables	16	6.1	4.0
Retirement benefit obligations	16	24.0	19.1
Provisions	16	31.7	22.1
		434.7	509.9
Total liabilities		966.2	1,325.5
Net assets		831.8	618.9
Capital and reserves			
Called up share capital	23	59.1	13.6
Share premium account		447.0	167.5
Capital redemption reserve		0.3	0.3
Special reserve		–	22.1
Share option reserve		0.9	2.6
Hedging and translation reserve		46.1	89.4
Retained profits		276.2	321.5
Attributable to equity holders of the Company		829.6	617.0
Minority interests		2.2	1.9
Total equity		831.8	618.9

The Accounts were approved by the Board of Directors on 17 March 2010 and signed on its behalf by


CHRIS DAVIES
DIRECTOR


GARETH DAVIES
DIRECTOR

The accompanying Statement of Significant Accounting Policies and Notes to the Accounts are an integral part of this Consolidated Balance Sheet

SIG plc Registered No. 998314

CONSOLIDATED CASH FLOW STATEMENT **FOR THE YEAR ENDED 31 DECEMBER 2009**

	Note	2009 £m	2008 £m
Net cash flow from operating activities			
Cash inflow from operating activities	24	174.1	156.0
Borrowing costs paid		(27.4)	(42.2)
Interest received		6.0	6.6
Income tax paid		(16.5)	(27.8)
Net cash inflow from operating activities		136.2	92.6
Cash flows from investing activities			
Purchase of property, plant and equipment		(19.6)	(65.9)
Proceeds from sale of property, plant and equipment		10.1	15.8
Settlement of amounts payable for purchase of businesses		(3.9)	(121.4)
Net cash used in investing activities		(13.4)	(171.5)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	23	325.0	1.1
Capital element of finance lease rental payments		(2.3)	(3.5)
Repayment of loans/settlement of derivative financial instruments		(278.6)	(74.8)
New loans		–	146.0
Dividends paid to equity holders of the Company	7	–	(36.5)
Payments to minority Shareholder		(0.2)	(0.7)
Net cash generated from financing activities		43.9	31.6
Increase/(decrease) in cash and cash equivalents in the year	25	166.7	(47.3)
Cash and cash equivalents at beginning of year	26	52.9	87.3
Effect of foreign exchange rate changes		(2.7)	12.9
Cash and cash equivalents at end of year	26	216.9	52.9

The accompanying Statement of Significant Accounting Policies and Notes to the Accounts are an integral part of this Consolidated Cash Flow Statement

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY **FOR THE YEAR ENDED 31 DECEMBER 2009**

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Special reserve £m	Share option reserve £m	Hedging and translation reserve £m	Retained profits £m	Total £m	Minority interests £m	Total equity £m
At 31 December 2007	13.5	166.5	0.3	22.1	2.7	9.7	358.8	573.6	1.3	574.9
Profit after tax	-	-	-	-	-	-	6.3	6.3	0.5	6.8
Other comprehensive income/(expense)										
Exchange difference on retranslation of foreign currency goodwill and intangibles	-	-	-	-	-	97.0	-	97.0	-	97.0
Exchange difference on retranslation of foreign currency net investments (excluding goodwill and intangibles)	-	-	-	-	-	61.8	-	61.8	-	61.8
Exchange and fair value movements associated with borrowings and derivative financial instruments	-	-	-	-	-	(92.9)	-	(92.9)	-	(92.9)
Tax credit on exchange difference arising on borrowings and derivative financial instruments	-	-	-	-	-	13.8	-	13.8	-	13.8
Gains and losses on cash flow hedges	-	-	-	-	-	-	3.5	3.5	-	3.5
Transfer to profit and loss on cash flow hedges	-	-	-	-	-	-	(1.4)	(1.4)	-	(1.4)
Current and deferred tax on share options	-	-	-	-	-	-	(0.7)	(0.7)	-	(0.7)
Actuarial loss on defined benefit pension schemes	-	-	-	-	-	-	(10.6)	(10.6)	-	(10.6)
Deferred tax movement associated with actuarial loss	-	-	-	-	-	-	3.0	3.0	-	3.0
Total comprehensive income	-	-	-	-	-	79.7	0.1	79.8	0.5	80.3
New share capital issued	0.1	1.0	-	-	-	-	-	1.1	-	1.1
Dividends	-	-	-	-	-	-	(36.5)	(36.5)	-	(36.5)
Recognition of option in relation to minority interest Shareholding	-	-	-	-	-	-	(2.0)	(2.0)	-	(2.0)
Credit to share option reserve	-	-	-	-	1.0	-	-	1.0	-	1.0
Exercise of share options	-	-	-	-	(1.1)	-	1.1	-	-	-
Minority interest acquired	-	-	-	-	-	-	-	-	1.4	1.4
Purchase of minority interest Shareholding	-	-	-	-	-	-	-	-	(0.6)	(0.6)
Dividend payment to minority interest Shareholder	-	-	-	-	-	-	-	-	(0.7)	(0.7)
At 31 December 2008	13.6	167.5	0.3	22.1	2.6	89.4	321.5	617.0	1.9	618.9
Loss after tax	-	-	-	-	-	-	(45.6)	(45.6)	0.5	(45.1)
Other comprehensive income/(expense)										
Exchange difference on retranslation of foreign currency goodwill and intangibles	-	-	-	-	-	(33.1)	-	(33.1)	-	(33.1)
Exchange difference on retranslation of foreign currency net investments (excluding goodwill and intangibles)	-	-	-	-	-	(21.2)	-	(21.2)	-	(21.2)
Exchange and fair value movements associated with borrowings and derivative financial instruments	-	-	-	-	-	16.5	-	16.5	-	16.5
Tax charge on exchange difference arising on borrowings and derivative financial instruments	-	-	-	-	-	(5.5)	-	(5.5)	-	(5.5)
Gains and losses on cash flow hedges	-	-	-	-	-	-	(20.1)	(20.1)	-	(20.1)
Transfer to profit and loss on cash flow hedges	-	-	-	-	-	-	1.3	1.3	-	1.3
Actuarial loss on defined benefit pension schemes	-	-	-	-	-	-	(4.7)	(4.7)	-	(4.7)
Deferred tax movement associated with actuarial loss	-	-	-	-	-	-	1.3	1.3	-	1.3
Total comprehensive expense	-	-	-	-	-	(43.3)	(67.8)	(111.1)	0.5	(110.6)
New share capital issued	45.5	279.5	-	-	-	-	-	325.0	-	325.0
Transfer between reserves	-	-	-	(22.1)	-	-	22.1	-	-	-
Debit to share option reserve	-	-	-	-	(1.3)	-	-	(1.3)	-	(1.3)
Exercise of share options	-	-	-	-	(0.4)	-	0.4	-	-	-
Dividend payment to minority interest Shareholder	-	-	-	-	-	-	-	-	(0.2)	(0.2)
At 31 December 2009	59.1	447.0	0.3	-	0.9	46.1	276.2	829.6	2.2	831.8

The special reserve arose as a result of a number of transfers from the Group's share premium reserve up until 1996. Goodwill arising on a number of historic acquisitions was then written off against this special reserve under the accounting convention at that time. The balance on the special reserve was transferred into retained profits in the year, see Note 11 to the Company Accounts on page 114 for details.

The share option reserve represents the cumulative share option charge under IFRS 2 less the value of any share options that have been exercised.

The hedging and translation reserve represents movements in the Consolidated Balance Sheet as a result of movements in exchange rates which are taken directly to reserves as detailed in the Statement of Significant Accounting Policies on pages 71 to 75.

The accompanying Statement of Significant Accounting Policies and Notes to the Accounts are an integral part of this Consolidated Statement of Changes in Equity.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in this Annual Report and Accounts for the year ended 31 December 2009 are set out below

BASIS OF PREPARATION

The Accounts have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union

The Accounts have been prepared under the historical cost convention except for derivative financial instruments that are stated at their fair value

The Accounts have been prepared on the basis of a going concern as set out on page 27

The Group has adopted IFRS 8 "Operating Segments" for the first time in these Accounts. This standard requires the Group to report segmental information on the basis of internal reports, which are regularly reviewed by the Group Board and used to allocate the resources of the business, and supersedes IAS 14 "Segment Reporting"

The Group has also adopted IAS 1 "Presentation of Financial Statements" (revised 2007) for the first time in these Accounts. The amendments arising from this include the requirement to present the Consolidated Statement of Changes in Equity as a primary statement

The Group has complied fully with the requirements of IFRS 8 and IAS 1 which apply to disclosure matters only, and has presented prior year comparatives in accordance with these standards

In addition to the two standards detailed above, the following standards have been adopted in the current period, which have had no material impact on the Accounts

- IFRS 2 "Share-based Payment"
- IAS 23 "Borrowing Costs" and
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

At the date of authorisation of these Accounts, there are a number of new standards and interpretations issued but not yet effective (some of which are pending endorsement by the European Union) which the Group has not applied in these Accounts. These principally include

- IAS 27 "Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate" – revision effective for accounting periods beginning on or after 1 July 2009
- IAS 39 "Financial Instruments: Recognition and Measurement – Eligible Hedged Items" – revision applies retrospectively for accounting periods beginning on or after 1 July 2009
- IFRS 3 "Business Combinations" – revision effective for accounting periods beginning on or after 1 July 2009, and
- IFRS 9 "Financial Instruments" – effective for accounting periods beginning on or after 1 July 2013

With the exception of IFRS 3 "Business Combinations", the adoption of these standards in future periods is not expected to have a material impact on the financial results of the Group. IFRS 3 "Business Combinations" is expected to impact the treatment of any acquisition-related costs (for instance finder's fees, advisory, legal, accounting, valuation and other professional or consulting fees incurred on the acquisition of new businesses), with such costs being expensed in the period. IFRS 3 is also expected to impact the treatment of contingent consideration associated with acquisitions. The impact of the revision to IFRS 3 on the Group's Accounts in future periods will depend on the number and significance of any acquisitions arising.

BASIS OF CONSOLIDATION

The Consolidated Accounts incorporate the Accounts of the Company and each of its subsidiary undertakings after eliminating all significant inter-company 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.

Minority interests in the net assets of consolidated subsidiaries are identified separately therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interest of SIG except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

CONSOLIDATED INCOME STATEMENT DISCLOSURE

In order to give an indication of the underlying earnings of the Group, certain items are presented in the middle column of the Consolidated Income Statement entitled "Other items". These include

- amortisation of acquired intangibles
- impairment of goodwill
- restructuring costs, and
- gains and losses on derivative financial instruments

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

GOODWILL AND BUSINESS COMBINATIONS

All business combinations are accounted for by applying the purchase method.

Goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's interest in the fair value of identifiable assets (including intangible assets) and liabilities of the business acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment, or more frequently when there is an indication that goodwill may be impaired. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") expected to benefit from the synergies of the combination. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary the attributable amount of remaining goodwill relating to the entity disposed of is included in the determination of any profit or loss on disposal.

In accordance with the transitional arrangements of IFRS 1, the Group has taken the option to apply IFRS 3 to business combinations from the transition date only (1 January 2004). Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1 January 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Goodwill recorded in foreign currency is retranslated at each period end. Any movements in the carrying value of goodwill as a result of foreign exchange rate movements are recognised in the Consolidated Statement of Comprehensive Income.

Negative goodwill arising on an acquisition is recognised immediately in the Consolidated Income Statement.

INTANGIBLES

The Group recognises intangible assets at cost less accumulated amortisation and impairment losses. The Group recognises two types of intangible assets: acquired and purchased. Acquired intangible assets arise as a result of applying IFRS 3 which requires the separate recognition of intangible assets from goodwill on all business combinations from 1 January 2004. Purchased intangible assets relate primarily to software that is separable from any associated hardware.

Intangible assets are amortised on a straight line basis over their useful economic lives as follows:

	Amortisation period
Customer relationships	Life of the relationship
Brands	Indefinite
Non-compete contracts	Life of the contract
Specific customer contracts	Life of the contract
Order books	Life of the order book
Software	Useful life of software

The Group is currently amortising customer relationships and non-compete contracts on average over 7.4 years and 3.0 years respectively.

An indefinite useful life has been determined for brands on the basis that the brand is expected to be maintained indefinitely and is expected to continue to drive value for the Group. Brands will be reviewed for impairment on at least an annual basis.

REVENUE RECOGNITION

Revenue represents amounts receivable for goods net of allowances and value added tax. Revenue from the sale of goods is recognised when the goods have been received by the customer.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such a time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the Consolidated Income Statement in the period in which they are incurred.

PENSION COSTS

SIG operates five defined benefit pension schemes

The Group's net obligation in respect of these defined benefit pension schemes is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in both current and prior periods. That benefit is discounted using an appropriate discount rate to determine its present value and the fair value of any plan assets is deducted.

Where the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the Consolidated Income Statement on a straight line basis, over the average period until the benefits become vested. To the extent that the benefits vest immediately the expense is recognised immediately.

The full service cost of the pension schemes is charged to operating profit. The finance cost of liabilities and expected return on assets are included within finance costs and finance income respectively in the Consolidated Income Statement.

The actuarial gain or loss arising is charged through the Consolidated Statement of Comprehensive Income and is made up of the difference between the expected return on assets and those actually achieved, the difference between the actuarial assumptions for liabilities and actual experience in the period and any changes in the assumptions used in the valuations.

The pension scheme deficit is recognised in full and presented on the face of the Consolidated Balance Sheet. The associated deferred tax asset is recognised within non-current assets in the Consolidated Balance Sheet.

For defined contribution schemes the amount charged to the Consolidated Income Statement 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 included within either accruals or prepayments in the Consolidated Balance Sheet.

SHARE-BASED PAYMENT TRANSACTIONS

In accordance with the transitional provisions, IFRS 2 has been applied to all share options granted after 7 November 2002 that remained unvested as of 1 January 2005. IFRS 2 has also been applied to all share options granted thereafter.

The Group issues equity-settled share-based payments only (share options). Share options are measured at fair value at the date of grant based on the Group's estimate of shares that will eventually vest. The fair value determined is then expensed in the Consolidated Income Statement on a straight line basis over the vesting period, with a corresponding increase in equity. The fair value of the options is measured by use of the Black-Scholes option pricing model.

The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the Consolidated Cash Flow Statement.

FINANCIAL ASSETS

Financial assets are measured initially at fair value and then subsequently at amortised cost using the effective interest rate method.

Financial assets (including trade receivables) are assessed for indicators of impairment on an ongoing basis. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows have been impacted. When there is objective evidence of impairment, appropriate allowances are made for estimated irrecoverable amounts based upon expected future cash flows discounted by an appropriate interest rate where applicable. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Other financial assets are classified as either financial assets at fair value through profit or loss or loans and receivables. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

When determining the fair value of financial assets, the expected future cash flows are discounted using an appropriate interest rate.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

FINANCIAL LIABILITIES

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities

Financial liabilities at fair value through profit or loss are initially measured and subsequently stated at fair value with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities (including trade payables) are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method.

When determining the fair value of financial liabilities, the expected future cash flows are discounted using an appropriate interest rate.

FOREIGN CURRENCY

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates at the date of the transaction.

At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at that date.

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 Consolidated Income Statement.

For the purpose of consolidation, income statements 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, 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 Consolidated Statement of Comprehensive Income.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments including interest rate swaps, forward foreign exchange contracts and cross currency swaps to hedge its exposure to foreign currency exchange and interest rate risks arising from operational and financial activities. In accordance with its Treasury Policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivative financial instruments, or part thereof, that do not qualify for hedge accounting are accounted for as trading instruments. The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than twelve months.

Derivative financial instruments are recognised immediately at cost. Subsequent to their initial recognition, derivative financial instruments are then stated at their fair value. The fair value of derivative financial instruments is derived from "mark-to-market" valuations obtained from the Group's relationship banks.

Unless hedge accounting is achieved, the gain or loss on remeasurement to fair value is recognised immediately and is included as part of finance income or finance costs together with other gains and losses on derivative financial instruments within the column of the Consolidated Income Statement entitled "Other items".

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Consolidated Income Statement in the period.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

CASH FLOW HEDGES

When a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the Consolidated Statement of Comprehensive Income (i.e. equity). When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or financial liability, then the associated gains or losses that were previously recognised in the Consolidated Statement of Comprehensive Income (i.e. equity) are reclassified into the Consolidated Income Statement in the same period or periods during which the asset acquired or liability assumed affects the Consolidated Income Statement.

For cash flow hedges, the ineffective portion of any gain or loss is recognised immediately as gains or losses on derivative financial instruments and is included as part of finance income or finance costs within the column of the Consolidated Income Statement entitled "Other items".

HEDGE OF NET INVESTMENT IN FOREIGN OPERATIONS

The portion of any gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised in the Consolidated Statement of Comprehensive Income (i.e. equity). The ineffective portion of any gain or loss is recognised immediately as gains or losses on derivative financial instruments and is included as part of finance income or finance costs within the column of the Consolidated Income Statement entitled "Other items". Gains and losses deferred in the hedging and translation reserve are recognised immediately in profit or loss when the foreign operation is disposed of.

FAIR VALUE HEDGES

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the Consolidated Income Statement. Gains or losses from remeasuring the derivative financial instruments are recognised immediately in the Consolidated Income Statement.

TAXATION

Income tax on the profit or loss for the periods presented comprises both current and deferred tax. Income tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in the Consolidated Statement of Comprehensive Income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates that have been enacted or substantively enacted by the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

In accordance with IAS 12, the following temporary differences are not provided for:

- goodwill not deductible for taxation purposes
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is 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 less estimated residual value of property, plant and equipment on a straight line basis over their estimated useful lives as follows:

Freehold buildings	– 50 years
Leasehold buildings	– period of lease
Plant and machinery (including motor vehicles)	– 3 to 8 years

Freehold land is not depreciated.

Residual values, which are based on market rates, are reassessed annually.

INVENTORIES

Inventories are stated at the lower of cost (including an appropriate proportion of attributable overheads, supplier rebates and discounts) 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 current liabilities or non-current liabilities. 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 lease obligation. The finance costs are charged in arriving at the profit before tax. Lease charges are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals under operating leases are charged to the Consolidated Income Statement on a straight line basis over the lease term.

Lease incentives are recognised on a straight line basis over the lease term in the Consolidated Income Statement.

PROPERTY PROVISIONS

The Group makes provisions in respect of onerous leasehold property contracts and leasehold dilapidation commitments where it is probable that a transfer of economic benefit will be required to settle a present obligation.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

IMPAIRMENT OF NON-CURRENT ASSETS

Determining whether a non-current asset is impaired requires an estimation of the "value in use" and/or the "fair value less costs to sell" of the cash-generating units ("CGU") to which the non-current asset has been allocated. The value in use calculation requires an estimate of the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. The key assumptions for these value in use calculations are those regarding discount rates, growth rates and expected changes to selling prices and direct costs set out on page 89. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the individual CGU.

Cash flow forecasts are prepared using the following year's operating budget approved by the Directors and an appropriate projection of cash flows based upon management forecasts for up to five years. After this period, the growth rates applied to the cash flow forecasts are no more than 2% and do not exceed the long term average growth rate for the industry.

The carrying amount of non-current assets at 31 December 2009 was £898.5m (2008: £1,028.5m). As a result of impairment reviews performed on all CGUs in the year, the Ireland CGU was impaired to reflect its recoverable amount. Details of the recoverable amount of the Ireland CGU are disclosed within Note 11 on page 89.

POST-EMPLOYMENT BENEFITS

The Group operates five defined benefit pension schemes. All post-employment benefits associated with these schemes have been accounted for in accordance with IAS 19 "Employee Benefits". As detailed within the Statement of Significant Accounting Policies on page 73, in accordance with IAS 19, all actuarial gains and losses have been recognised immediately through the Consolidated Statement of Comprehensive Income.

For all defined benefit pension schemes, pension valuations have been performed using specialist advice obtained from independent qualified actuaries. In performing these valuations, judgements, assumptions and estimates have been made. These assumptions have been disclosed within Note 27c on pages 103 to 106.

TAXATION

Accruals for corporation tax contingencies require the Directors to make judgements and estimates as to the level of corporation tax that will be payable based upon the interpretation of applicable tax legislation on a country by country basis and an assessment of the likely outcome of any open tax computations. All such accruals are included within current liabilities.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Therefore, judgements are required to establish whether deferred tax balances should be recognised.

SHARE-BASED PAYMENTS

The Company provides share-based payments under five separate schemes.

In accordance with IFRS 2, share options are measured at fair value at the date of grant. The fair value determined is then expensed in the Consolidated Income Statement on a straight line basis over the vesting period, with a corresponding increase in equity. The fair value of the options is measured by use of the Black-Scholes option pricing model.

The valuation of these share-based payments requires several judgements to be made in respect of the number of options that are expected to be exercised. Details of the assumptions made in respect of each of the five share-based payment schemes are disclosed in Note 9 on pages 83 to 87.

PROVISIONS

Using information available at the balance sheet date, the Directors make judgements based on experience on the level of provision required to satisfy all onerous lease and dilapidation commitments and to account for potential uncollectible receivables and unsaleable inventory.

NOTES TO THE ACCOUNTS

I REVENUE AND SEGMENTAL INFORMATION

REVENUE

An analysis of the Group's revenue is as follows

	2009 £m	2008 £m
Sale of goods	2,743.5	3,053.6
Total revenue	2,743.5	3,053.6
Finance income	11.7	11.9
Total income	2,755.2	3,065.5

SEGMENTAL INFORMATION

A) SEGMENTAL RESULTS

Following the adoption of IFRS 8 "Operating Segments" the Group has identified its reportable segments as those upon which the Group Board regularly bases its opinion and assesses performance. The Group has deemed it appropriate to aggregate its operating segments into two reported segments: UK and Ireland and Mainland Europe. The constituent operating segments have been aggregated as they have similar products and services, production processes, types of customer, methods of distribution, regulatory environments, and economic characteristics.

	2009 UK and Ireland £m	2009 Mainland Europe £m	2009 Eliminations £m	2009 Total £m	2008 UK and Ireland £m	2008 Mainland Europe £m	2008 Eliminations £m	2008 Total £m
Revenue								
External sales	1,326.2	1,417.3	–	2,743.5	1,669.4	1,384.2	–	3,053.6
Inter-segment sales*	0.5	3.9	(4.4)	–	–	2.3	(2.3)	–
Total revenue	1,326.7	1,421.2	(4.4)	2,743.5	1,669.4	1,386.5	(2.3)	3,053.6
Result								
Segment result before amortisation of acquired intangibles, impairment charges and restructuring costs	37.7	50.2	–	87.9	111.2	67.9	–	179.1
Amortisation of acquired intangibles and impairment charges	(49.5)	(9.1)	–	(58.6)	(31.7)	(8.9)	–	(40.6)
Restructuring costs	(49.8)	(5.0)	–	(54.8)	(19.1)	(3.1)	–	(22.2)
Segment operating (loss)/profit	(61.6)	36.1	–	(25.5)	60.4	55.9	–	116.3
Parent Company costs				(7.0)				(9.3)
Operating (loss)/profit				(32.5)				107.0
Net finance costs				(20.3)				(32.5)
Net losses on derivative financial instruments				(2.5)				(41.4)
(Loss)/profit before tax				(55.3)				33.1
Income tax credit/(expense)				10.2				(26.3)
Minority interests				(0.5)				(0.5)
Retained (loss)/profit				(45.6)				6.3
Balance sheet								
Assets								
Segment assets	801.1	826.0	–	1,627.1	909.0	961.4	–	1,870.4
Unallocated assets				170.9				74.0
Consolidated total assets				1,798.0				1,944.4
Liabilities								
Segment liabilities	260.4	188.0	–	448.4	245.4	246.5	–	491.9
Unallocated liabilities				517.8				833.6
Consolidated total liabilities				966.2				1,325.5
Other segment information								
Capital expenditure on								
Property, plant and equipment	10.7	8.9	–	19.6	39.7	29.0	–	68.7
Intangible assets	–	–	–	–	35.8	4.6	–	40.4
Goodwill	(3.0)	1.7	–	(1.3)	40.2	25.8	–	66.0
Non-cash expenditure								
Depreciation	25.7	14.5	–	40.2	28.4	14.2	–	42.6
Impairment of property, plant and equipment	6.8	–	–	6.8	–	–	–	–
Amortisation of acquired intangibles	19.5	9.1	–	28.6	17.5	8.9	–	26.4
Goodwill impairment charges	30.0	–	–	30.0	14.2	–	–	14.2

* Inter-segment sales are charged at the prevailing market rates.

ACCOUNTS

NOTES TO THE ACCOUNTS CONTINUED

I REVENUE AND SEGMENTAL INFORMATION CONTINUED SEGMENTAL INFORMATION CONTINUED

B) REVENUE BY PRODUCT GROUP

The Group focuses its activities into four product sectors: Insulation and Building Environments, Interiors, Exteriors, and Specialist Construction Products ("SCP").

The following table provides an analysis of Group sales by type of product:

	2009 £m	2008 £m
Insulation and Building Environments	1,086.4	1,111.5
Interiors	685.9	809.2
Exteriors	749.0	848.9
SCP	222.2	284.0
Total	2,743.5	3,053.6

C) GEOGRAPHIC INFORMATION

The Group's revenue from external customers and its non-current assets (i.e. property, plant and equipment, goodwill, intangible assets and deferred tax assets) by geographical location are as follows:

Country	2009 Revenue £m	2009 Non-current assets £m	2008 Revenue £m	2008 Non-current assets £m
United Kingdom	1,239.3	442.6	1,536.2	501.2
Ireland	86.9	14.0	133.2	52.9
France	520.0	269.6	484.5	288.1
Germany and Austria	588.6	73.7	570.5	79.5
Poland	122.7	23.0	171.1	26.7
Benelux*	156.3	46.1	120.0	49.3
Central Europe	29.7	29.5	38.1	30.8
Total	2,743.5	898.5	3,053.6	1,028.5

* Includes international air handling business (headquartered in Benelux)

There is no material difference between the basis of preparation of the information reported above and the Accounting Policies adopted by the Group.

2 COST OF SALES AND OTHER OPERATING EXPENSES

	2009 Existing operations £m	2009 Acquisitions £m	2009 Total £m	2008 Existing operations £m	2008 Acquisitions £m	2008 Total £m
Cost of sales	2,050.3	–	2,050.3	2,138.5	106.7	2,245.2
Other operating expenses						
– distribution costs	225.9	–	225.9	237.9	13.9	251.8
– selling and marketing costs	240.6	–	240.6	239.4	14.6	254.0
– administrative expenses	259.2	–	259.2	188.4	7.2	195.6
	725.7	–	725.7	665.7	35.7	701.4

The administrative expenses above include £113.4m (2008: £62.8m) of "Other items" which have been disclosed in a separate column within the Consolidated Income Statement in order to provide a better indication of the underlying earnings of the Group. Other operating expenses and net finance costs included within "Other items" are as follows:

	2009 £m	2008 £m
Amortisation of acquired intangibles (Note 12)	(28.6)	(26.4)
Goodwill impairment losses (Note 11)	(30.0)	(14.2)
Restructuring costs	(54.8)	(22.2)
Other operating expenses	(113.4)	(62.8)
Net losses on derivative financial instruments	(2.5)	(41.4)
Loss before tax	(115.9)	(104.2)
Income tax credit	28.2	13.9
Loss after tax	(87.7)	(90.3)

3 FINANCE INCOME AND FINANCE COSTS

	2009 £m	2008 £m
Finance income		
Interest on bank deposits	60	66
Finance income on pension scheme assets	43	53
Finance income before gains on derivative financial instruments	103	119
Fair value gains on derivative financial instruments	14	—
Total finance income	117	119
Finance costs		
On bank loans, overdrafts and other items	99	186
On private placement notes	138	194
Interest on obligations under finance lease contracts	13	12
Finance charge on pension scheme liabilities	56	52
Finance costs before losses on derivative financial instruments	306	444
Fair value losses on derivative financial instruments	39	414
Total finance costs	345	858
Net finance costs	228	739

4 (LOSS)/PROFIT BEFORE TAX

	2009 £m	2008 £m
(Loss)/profit before tax is stated after crediting		
Foreign exchange rate gains*	14	19
Fair value gains on derivative financial instruments	14	—
Gains on disposal of property, plant and equipment	18	18
And after charging		
Cost of inventories recognised as an expense	1,969.0	2,151.0
Depreciation of property, plant and equipment		
— owned	37.1	39.5
— held under finance leases and hire purchase agreements	3.1	3.1
Impairment of property, plant and equipment	6.8	—
Amortisation of acquired intangibles	28.6	26.4
Operating lease rentals		
— land and buildings	48.3	46.7
— plant and machinery	6.4	4.2
Auditors' remuneration for audit services	1.1	1.5
Non-audit fees	0.1	0.1
Increase in provision for inventories	2.7	2.4
Increase in provision for receivables	9.2	13.2
Foreign exchange rate losses*	0.1	2.3
Fair value losses on derivative financial instruments	3.9	41.4
Goodwill impairment charges	30.0	14.2
Restructuring costs	54.8	22.2
Staff costs (Note 5)	376.4	402.6

ACCOUNTS

* Excludes gains and losses incurred as a result of applying IAS 39 "Financial Instruments: Recognition and Measurement"

NOTES TO THE ACCOUNTS CONTINUED

4 (LOSS)/PROFIT BEFORE TAX CONTINUED

An analysis of Auditors' remuneration is provided below

	2009 Deloitte LLP £m	2008 Deloitte LLP £m
Audit services		
Fees payable to the Company's Auditors for the audit of the Company's Consolidated Accounts	0.1	0.1
Fees payable to the Company's Auditors and their associates for other services to the Group		
– for the audit of the Company's subsidiaries pursuant to legislation	1.0	1.2
– additional costs for the audit of the Company's subsidiaries pursuant to legislation	–	0.2
Total	1.1	1.5
Other services	0.1	0.1
Total other services	0.1	0.1
Total fees charged to profit before tax	1.2	1.6
Fees treated as a deduction to share premium*	0.8	–
Total fees incurred	2.0	1.6

* Fees of £0.8m were paid to the Group's Auditors in respect of their role as reporting accountants on the placing and open offer and firm placing announced on 18 March 2009. These costs were treated as a deduction to share premium.

The Report of the Audit Committee on pages 63 and 64 provides an explanation of how Auditor objectivity and independence is safeguarded when non-audit services are provided by the Auditors.

5 STAFF COSTS

Particulars of employees (including Directors) are shown below

	2009 £m	2008 £m
Employee costs during the year amounted to		
Wages and salaries	318.7	347.4
Social security costs	51.0	47.6
IFRS 2 share option (credit)/charge	(0.5)	1.0
Other pension costs (Note 27c)	7.2	6.6
	376.4	402.6

Of the pension costs noted above £2.9m (2008: £1.7m) relates to defined benefit schemes and £4.3m (2008: £4.9m) relates to defined contribution schemes.

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

	2009 Number	2008 Number
Production	2,105	2,365
Distribution	4,048	4,691
Sales	4,458	4,482
Administration	1,737	1,982
	12,348	13,520

DIRECTORS' EMOLUMENTS

Details of individual Director's emoluments are given in the Directors' Remuneration Report on page 61.

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

	2009 £m	2008 £m
Directors' remuneration (excluding IFRS 2 share option credit/charge)	1.9	1.8

6 INCOME TAX

The income tax (credit)/expense comprises

	2009 £m	2008 £m
Current tax		
UK corporation tax		
– on (losses)/profits for the year	(4 7)	15 7
– adjustments in respect of previous years	(0 4)	(1 9)
	(5 1)	13 8
Overseas taxation		
– on (losses)/profits for the year	13 0	17 5
– adjustments in respect of previous years	(0 3)	0 2
Total current tax	7.6	31 5
Deferred taxation		
Current year	(10 7)	(8 1)
Adjustments in respect of previous years	(7 0)	0 4
Deferred tax (credit)/charge in respect of pension schemes	(0 1)	2 5
Total deferred tax	(17 8)	(5 2)
Total income tax (credit)/expense	(10 2)	26 3

The total tax (credit)/expense for the year differs from that resulting from applying the standard rate of corporate tax in the UK 28.0% (2008 28.5%). The differences are explained in the following reconciliation

	2009 £m	2009 %	2008 £m	2008 %
(Loss)/profit on ordinary activities before tax	(55 3)		33 1	
Tax at 28.0% (2008 28.5%) thereon	(15 5)	28 0%	9 4	28 5%
Factors affecting the income tax (credit)/expense for the year				
– permanent items	1 4	(2 5%)	1 8	5 3%
– impairment charges	8 4	(15 2%)	4 0	12 1%
– losses not recognised	0 4	(0 7%)	11 9	36 0%
– prior year losses utilised not previously recognised	(5 8)	10 5%	–	–
– other adjustments in respect of previous years	(1 9)	3 4%	(1 3)	(3 9%)
– effect of overseas tax rates	2 8	(5 1%)	0 5	1 5%
Total income tax (credit)/expense	(10 2)	18 4%	26 3	79 5%

The effective tax rate for the Group on the total loss before tax of £55.3m is 18.4% (2008 79.5%). The effective tax charge for the Group on profit before tax before the amortisation of intangibles impairment charges restructuring costs and gains and losses on derivative financial instruments of £60.6m is 29.7% (2008 29.3%), which comprises a charge of 33.0% (2008 30.3%) in respect of current year profits and a tax credit of 3.3% (2008 1.0%) in respect of prior years

The following factors that will affect the Group's future total tax charge as a percentage of underlying profits are

- the mix of profits between the UK and overseas, in particular France/Germany/Belgium (corporate tax rates greater than 28%) and Ireland/Poland/Netherlands/Czech Republic/Slovakia (corporate tax rates less than 28%). If the proportion of profits from these jurisdictions changes this could result in a higher or lower Group tax charge
- the impact of non-deductible expenditure and non-taxable income
- agreement of open tax computations with the respective tax authorities, and
- the recognition or utilisation (with corresponding reduction in cash tax payments) of unrecognised deferred tax assets (see Note 21)

In addition to the amounts charged to the Consolidated Income Statement, the following amounts in relation to taxes have been (charged)/credited directly to equity and are shown in the Consolidated Statement of Comprehensive Income and Consolidated Statement of Changes in Equity:

	2009 £m	2008 £m
Deferred tax movement associated with actuarial loss	1 3	3 0
Current and deferred tax on share options	–	(0 7)
Tax (charge)/credit on exchange difference arising on borrowings and derivative financial instruments	(5 5)	13 8
	(4 2)	16 1

NOTES TO THE ACCOUNTS CONTINUED

7 DIVIDENDS

Amounts recognised as distributions to equity holders of the Company in the year

	2009 £m	2008 £m
Final approved dividend for the year ended 31 December 2008 of nil p per share (2007 18.7p)	–	25.2
Interim dividend for the year ended 31 December 2009 of nil p per share (2008 8.3p)	–	11.3
	–	36.5

Amounts proposed as distributions to equity holders of the Company after the year end

	2009 £m	2008 £m
Proposed final dividend for the year ended 31 December 2009 of nil p per share (2008 nil p)	–	–

8 EARNINGS PER SHARE

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

	Basic and diluted	
	2009 £m	2008 £m
(Loss)/profit after tax	(45.1)	6.8
Minority interests	(0.5)	(0.5)
	(45.6)	6.3
	Basic and diluted before amortisation of acquired intangibles, impairment charges, restructuring costs and gains and losses on derivative financial instruments	
	2009 £m	2008 £m
(Loss)/profit after tax	(45.1)	6.8
Minority interests	(0.5)	(0.5)
Amortisation of acquired intangibles	28.6	26.4
Impairment charges	30.0	14.2
Restructuring costs	54.8	22.2
Gains and losses on derivative financial instruments	2.5	41.4
Tax relating to other items*	(28.2)	(13.9)
	42.1	96.6

* "Other items" relate to the amortisation of acquired intangibles, impairment charges, restructuring costs and gains and losses on derivative financial instruments

Weighted average number of shares

	2009 Number	2008 Number
For basic earnings per share as previously reported	469,350,343	135,314,199
Equity issue adjustment*	–	28,624,157
Revised	469,350,343	163,938,356
Exercise of share options	897,421	557,700
For diluted earnings per share	470,247,764	164,496,056

* Following the placing and open offer and firm placing of 455,047,973 ordinary shares announced on 18 March 2009 and approved at the Company's Extraordinary General Meeting on 9 April 2009 in accordance with paragraph 26 of IAS 33 "Earnings per Share" the Group has treated the discount element to the open offer part of the increase in share capital as if it were a bonus issue. The effect of this is to increase the weighted average number of shares for the reported prior period with a resulting reduction in the reported basic and diluted EPS for the year ended 31 December 2008.

8 EARNINGS PER SHARE CONTINUED

	2009	2008
Total basic (loss)/earnings per share	(9 7p)	3 8p
Total diluted (loss)/earnings per share	(9 7p)	3 8p
Earnings per share before amortisation of acquired intangibles impairment charges, restructuring costs and gains and losses on derivative financial instruments		
Total basic earnings per share	9 0p	58 9p
Total diluted earnings per share	9 0p	58 7p

Earnings per share before amortisation of acquired intangibles, impairment charges restructuring costs and gains and losses on derivative financial instruments is disclosed in order to present the underlying performance of the Group. The following disclosures reconcile these adjustments to the disclosures made on the face of the Consolidated Income Statement.

- amortisation of acquired intangibles of £28.6m (2008 £26.4m) is included as part of operating expenses within the column of the Consolidated Income Statement entitled "Other items"
- an impairment charge of £30.0m (2008 £14.2m) is included as part of operating expenses within the column of the Consolidated Income Statement entitled "Other items"
- restructuring costs of £54.8m (2008 £22.2m) are included as part of operating expenses within the column of the Consolidated Income Statement entitled "Other items"
- net losses on derivative financial instruments of £2.5m (2008 losses of £41.4m) are included as finance costs within the column of the Consolidated Income Statement entitled "Other items", and
- the amortisation of acquired intangibles impairment charges restructuring costs and gains and losses on derivative financial instruments give rise to tax as disclosed in the table below

	2009 Other items £m	2009 Tax impact £m	2009 %	2008 Other items £m	2008 Tax impact £m	2008 %
Amortisation of acquired intangibles	28.6	8.0	28.0	26.4	7.5	28.5
Impairment charges	30.0	—	—	14.2	—	—
Restructuring costs	54.8	13.3	24.3	22.2	6.4	28.5
Net losses on derivative financial instruments	2.5	1.1	44.0	41.4	—	—
Utilisation of losses not previously recognised	—	5.8	—	—	—	—
	115.9	28.2	24.3	104.2	13.9	13.3

9 SHARE-BASED PAYMENTS

The Group had five share-based payment schemes in existence during the year ended 31 December 2009. The Group recognised a total credit of £0.5m (2008 charge of £1.0m) in the year relating to equity-settled share-based payment transactions issued after 7 November 2002 with a corresponding entry to the share option reserve. The current year credit arose as charges made in previous years were reversed following an assessment of the number of shares expected to vest on share options granted in previous years. The weighted average fair value of each option granted in the year was 134p (2008 418p). Details of each of the schemes are provided below.

Following the placing and open offer and firm placing of 455,047,973 ordinary shares announced on 18 March 2009, the Group decided to issue additional share options under the SAYE, ESOS LTIP and DABS schemes to eliminate the dilutive effect that the increase in share capital would have on the value of outstanding share options. As the additional options have merely preserved the original benefit of the share options, no further charge has been made in accordance with IFRS 2 "Share-Based Payment".

A) SAVE AS YOU EARN ("SAYE") SCHEME

The Company operates a SAYE scheme within the UK 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. The market price is taken approximately one month prior to the official grant date. Similar arrangements have existed since 17 May 2002 in 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.

No SAYE options have been granted in the UK in 2009 or 2008. Instead, the Company has issued share options in 2009 and 2008 under a Share Investment Plan ("SIP") as approved at the 2004 Annual General Meeting (see page 87).

Whilst no SAYE share options were granted in the year following the Group's equity raise in 2009, additional SAYE options were granted to existing members of the scheme in proportion to the bonus element of the placing and open offer and firm placing of 14 April 2009.

NOTES TO THE ACCOUNTS CONTINUED

9 SHARE-BASED PAYMENTS CONTINUED

A) SAVE AS YOU EARN ("SAYE") SCHEME CONTINUED

SAYE OPTIONS (ISSUED AFTER 7 NOVEMBER 2002)

	2009	2009 Weighted average exercise price (p)	2008	2008 Weighted average exercise price (p)
	Options		Options	
Outstanding at beginning of the year	332,337	285.3*	748,331	276.1
Additional shares granted on 14 April 2009 following open offer	69,136	287.1	–	–
Granted during the year	–	–	129,479	330.0
Lapsed during the year	(297,480)	277.8	(100,603)	603.5
Exercised during the year	(4,777)	165.0	(444,870)	166.4
Outstanding at the end of the year	99,216	315.0	332,337	345.0

* The weighted average exercise price at the beginning of the year has been adjusted to reflect the amended option price which accompanied the granting of additional options to eliminate the dilutive effect of the placing and open offer and firm placing. The prior year comparatives have not been adjusted.

Of the above share options outstanding at the end of the year, 904 (2008: 184,744) are exercisable at 31 December 2009.

The SAYE options outstanding at the balance sheet date had a weighted average exercise price of 315.0p (2008: 345.0p) and a weighted average remaining contractual life of 1.9 years (2008: 2.2 years). The weighted average share price on options exercised in the year was 217p (2008: 455p).

The assumptions used in the Black-Scholes model in relation to the SAYE options granted in prior years are as follows:

	Shares granted in		
	2006	2007	2008
Share price (on date of official grant)	967p (10 November 2006)	1,028p (26 November 2007)	212p (24 November 2008)
Exercise price	797p	823p	330p
Expected volatility	13.1%	26.0%	38.0%
Actual life	3 and 5 years	3 and 5 years	3 and 5 years
Risk free rate	4.5%	4.5%	4.5%
Dividend	16.8p	20.5p	26.7p
Expected percentage options exercised versus granted at date of grant			
– 3 years	64%	65%	50%
– 5 years	64%	65%	50%
Revised expectation of percentage of options to be exercised as at 31 December 2009			
– 3 years	0%	0%	50%
– 5 years	0%	0%	50%

The expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected percentage of total options exercised is based on the Directors' best estimate for effects of behavioural conditions.

B) EXECUTIVE SHARE OPTION SCHEMES ("ESOS")

Under the existing ESOS (for which the last options were granted in 2003), Directors and Senior Management can be awarded an annual grant of share options at market price, provided that the total amount payable by the individual to exercise options under the ESOS or any other share option scheme of the Group (excluding savings related schemes) granted during the immediately preceding ten years does not exceed four times base salary, bonus and benefits.

Share options under the ESOS are exercisable between three and ten years for the HM Revenue and Customs 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 ("EPS") is 6% higher than the percentage increase in the Retail Price Index ("RPI"). None of the award would vest if the growth in EPS is less than 6% above the percentage increase in the RPI over the same period.

9 SHARE-BASED PAYMENTS CONTINUED**B) EXECUTIVE SHARE OPTION SCHEMES ("ESOS") CONTINUED**

ESOS (ISSUED AFTER 7 NOVEMBER 2002)

	2009	2009 Weighted average exercise price (p)	2008	2008 Weighted average exercise price (p)
	Options		Options	
Outstanding at beginning of the year	35,489	169.7*	35,500	205.5
Additional shares granted on 14 April 2009 following open offer	7,486	169.7	–	–
Lapsed during the year	(1,816)	169.7	–	–
Exercised during the year	–	–	(11)	205.5
Outstanding at the end of the year	41,159	169.7	35,489	205.5

* The weighted average exercise price at the beginning of the year has been adjusted to reflect the amended option price which accompanied the granting of additional options to eliminate the dilutive effect of the placing and open offer and firm placing. The prior year comparatives have not been adjusted.

No ESOS options were granted in the period 2004 to 2009. The options outstanding at the balance sheet date had a weighted average exercise price of 169.7p (2008: 205.5p) and are all exercisable at both 31 December 2009 and 31 December 2008. No options were exercised in the year.

The assumptions used in the Black-Scholes model in relation to the ESOS options are as follows:

2003 ESOS

Share price on 11 April 2003 (date of official grant)	205.5p
Exercise price	205.5p
Expected volatility	31.8%
Actual life	3 years
Risk free rate	4.2%
Dividend	11.6p
Expected percentage options exercised versus granted at date of grant	95%
Revised expectation of percentage of options to be exercised as at 31 December 2009	95%

The expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected percentage of total options exercised is based on the Directors' best estimate for effects of behavioural conditions.

C) LONG TERM INCENTIVE PLAN ("LTIP")

Under the existing LTIP policy, Executives can be awarded an annual grant of nil paid share options up to a maximum value of 100% of base salary.

2003 LTIP CRITERIA

Awards under the 2003 LTIP are exercisable between three and seven years from the date of grant. Provided the individual's performance criteria are met, the award vests if, over a consecutive three year period, the growth in the Group's EPS is 10% higher than the percentage increase in the RPI. None of the award vests if the growth in EPS is less than 6% above the percentage increase in the RPI over the same period. Between these two limits, the awards 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 EPS, over a consecutive four year period, is increased to 8% over the percentage increase in the RPI over the same period. The target for the full award to vest is 13.33%.

2004 TO 2008 LTIP CRITERIA

Awards under the 2004 to 2008 LTIPs are exercisable between three and ten years from the date of grant. The award vests if the following criteria are met:

	EPS % growth less RPI % growth over three year vesting period		
	2004–2006	2007	2008
Percentage of award vesting			
– none of the award vests	<3% p.a.	<5% p.a.	<5% p.a.
– 30% of award vests	3% p.a.	5% p.a.	5% p.a.
– award vests proportionately between 30% and 100%	3%–10% p.a.	5%–10% p.a.	5%–12% p.a.
– 100% of award vests	10% p.a.	10% p.a.	12% p.a.

No retesting of the performance criteria will occur.

2009 LTIP CRITERIA

Awards under the 2009 LTIP are exercisable between three and ten years from the date of grant. None of the award vests if, at the end of the three year period, the Group's underlying EPS is less than 10p. 25% of the award vests if the Group's underlying EPS is between 10p and 13.5p, with the full award vesting if the Group's underlying EPS is 13.5p or greater. Between the two limits, the award vests 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.

NOTES TO THE ACCOUNTS CONTINUED

9 SHARE-BASED PAYMENTS CONTINUED

C) LONG TERM INCENTIVE PLAN ("LTIP") CONTINUED

LTIP OPTIONS (ISSUED AFTER 7 NOVEMBER 2002)

	2009	2009 Weighted average exercise price (p)	2008	2008 Weighted average exercise price (p)
	Options		Options	
Outstanding at beginning of the year	335,461	0.3	311,789	0.3
Additional shares granted on 14 April 2009 following open offer	57,965	0.4	–	–
Granted during the year	577,862	0.0	145,629	0.0
Lapsed during the year	(104,918)	0.0	(3,295)	0.0
Exercised during the year	(51,796)	2.4	(118,662)	0.0
Outstanding at the end of the year	814,574	0.0	335,461	0.3

Of the above share options outstanding at the end of the year 5,707 (2008: 18,046) are exercisable at the balance sheet date.

The options outstanding at the balance sheet date had a weighted average exercise price of nil p (2008: 0.3p) and a weighted average remaining contractual life of 2.2 years (2008: 1.4 years). The weighted average share price on options exercised in the year was 130.0p (2008: 754.0p).

The assumptions used in the Black-Scholes model in relation to the LTIP options are as follows:

	Shares granted in		
	2007	2008	2009
Share price (on date of official grant)	1,292p (17 April 2007)	785p (14 April 2008) and 537p (8 September 2008)	134p (15 September 2009)
Exercise price	0p	0p	0p
Expected volatility	26.0%	38.0%	46.0%
Actual life	3 years	3 years	3 years
Risk free rate	4.5%	4.5%	4.5%
Dividend	20.5p	26.7p	0.0p
Expected percentage options exercised versus granted at date of grant	98%	99%	100%
Revised expectation of percentage of options to be exercised as at 31 December 2009	0%	0%	100%

The fair value of LTIP options granted during the year was 121p.

The expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected percentage of total options exercised is based on the Directors' best estimate for effects of behavioural conditions.

D) DEFERRED ANNUAL BONUS SCHEME ("DABS")

Options were granted under the DABS scheme for the first time in 2005. The DABS operates by inviting participants, including Executive Directors, to use up to 50% of their annual performance related cash bonus (after tax and national insurance) in respect of the preceding financial year to purchase shares in the Company. Providing certain criteria are met, participants purchasing such shares will be eligible to receive nil cost matching shares up to a maximum of one per share purchased by the participant. The criteria are as follows:

2005 to 2008 DABS criteria	Percentage of award vesting
Percentage growth in the Company's EPS over the three year period from the commencement of the financial year in which the award is made exceeds the percentage growth in the RPI over the same period by	
– less than 3% per annum compounded	None of the award vests
– 3% per annum compounded	50% of the award vests
– between 3% and 5% per annum compounded	Award vests proportionately between 50% and 100%
– 5% per annum compounded	100% of the award vests

9 SHARE-BASED PAYMENTS CONTINUED**D) DEFERRED ANNUAL BONUS SCHEME ("DABS") CONTINUED****2009 DABS CRITERIA**

Awards under the 2009 DABS are exercisable between three and ten years from the date of grant. None of the award vests if, at the end of the three year period the Group's underlying EPS is less than 10p. 25% of the award vests if the Group's underlying EPS is between 10p and 13.5p with the full award vesting if the Group's underlying EPS is 13.5p or greater. Between the two limits the awards 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.

DABS options (issued after 7 November 2002)	2009	2008
Outstanding at beginning of the year	59,046	46,079
Additional shares granted on 14 April following open offer	10,507	—
Granted during the year	34,730	24,495
Lapsed during the year	(19,743)	(773)
Exercised during the year	(1,693)	(10,755)
Outstanding at the end of the year	82,847	59,046

All DABS are nil paid options and therefore options outstanding at the balance sheet date had a weighted average exercise price of nil p and a weighted average remaining contractual life of 1.5 years (2008: 1.4 years).

Of the above options outstanding at the end of the year, 5,184 (2008: 6,931) are exercisable at the balance sheet date. The weighted average share price on the options exercised in the year was 130.0p (2008: 660.0p).

The assumptions used in the Black-Scholes model in relation to the DABS options are as follows:

	Shares granted in		
	2007	2008	2009
Share price (on date of official grant)	1292p (17 April 2007)	785p (14 April 2008)	134p (15 September 2009)
Exercise price of matching shares	0p	0p	0p
Expected volatility	26.0%	38.0%	46.0%
Actual life	3 years	3 years	3 years
Risk free rate	4.5%	4.5%	4.5%
Dividend	20.5p	26.7p	0.0p
Expected percentage options exercised versus granted at date of grant	100%	100%	100%
Revised expectation of percentage of options to be exercised as at 31 December 2009	0%	0%	100%

The fair value of DABS options granted during the year was 121p.

The expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected percentage of total options exercised is based on the Directors' best estimate for effects of behavioural conditions.

E) SHARE INCENTIVE PLAN ("SIP")

Shares were granted under the SIP scheme for the first time in 2005. The SIP is a HM Revenue and Customs approved scheme and operates by inviting participants including Executive Directors to purchase shares in the Company in a tax efficient manner on a monthly basis. For each share purchased by the employee, the Company will match one free share up to a maximum of four free shares per month. No performance criteria is attached to these matching shares other than to avoid forfeiture they must remain within the plan for a minimum of two years. In 2009, 64,122 (2008: 69,702) matching shares were granted during the year. Given the nature of the scheme, the fair value of the matching shares equates to the cost of the Company acquiring these shares.

NOTES TO THE ACCOUNTS CONTINUED

10 PROPERTY, PLANT AND EQUIPMENT

The movement in the year and the preceding year was as follows

	Land and buildings		Plant and machinery	Total
	Freehold £m	Short leasehold £m	£m	£m
Cost or valuation				
At 1 January 2008	78.7	33.1	198.8	310.6
Exchange difference	16.9	4.8	26.6	48.3
Businesses acquired	7.3	0.1	7.9	15.3
Additions	4.4	5.0	59.3	68.7
Disposals	(3.2)	(1.7)	(36.0)	(40.9)
At 31 December 2008	104.1	41.3	256.6	402.0
Exchange difference	(6.1)	(2.0)	(11.0)	(19.1)
Additions	1.1	0.9	17.6	19.6
Disposals	(6.2)	(1.1)	(22.5)	(29.8)
At 31 December 2009	92.9	39.1	240.7	372.7
Accumulated depreciation and impairment				
At 1 January 2008	9.9	6.5	85.2	101.6
Charge for the year	1.6	3.7	37.3	42.6
Exchange difference	5.1	2.8	17.5	25.4
Disposals	(0.3)	(1.5)	(25.1)	(26.9)
At 31 December 2008	16.3	11.5	114.9	142.7
Charge for the year	1.9	3.2	35.1	40.2
Impairment charges	-	2.4	4.4	6.8
Exchange difference	(1.7)	(1.0)	(6.3)	(9.0)
Disposals	(0.4)	(0.9)	(20.2)	(21.5)
At 31 December 2009	16.1	15.2	127.9	159.2
Net book value				
At 31 December 2009	76.8	23.9	112.8	213.5
At 31 December 2008	87.8	29.8	141.7	259.3

The net book value of plant and machinery includes an amount of £9.3m (2008: £11.1m) in respect of assets held under finance lease contracts. Included within additions are net additions in relation to hire stock of £2.2m (2008: £4.4m).

Impairment charges of £6.8m (2008: £nil) represent the write down of certain assets following the Group's cost saving and restructuring programme. These assets have been considered surplus to current requirements and have been written down to their fair value less costs to sell based upon guidance received from third parties. As a result, the impairment charge of £6.8m has been included within operating expenses in the "Other items" column in the Consolidated Income Statement.

11 GOODWILL

	£m
Cost	
At 1 January 2008	454.5
Exchange difference	81.3
Recognised on acquisition of businesses	66.0
At 31 December 2008	601.8
Exchange difference	(30.0)
Adjustments in respect of prior period acquisitions	(1.3)
At 31 December 2009	570.5
Accumulated impairment losses	
At 1 January 2008	19.6
Impairment losses for the year	14.2
Exchange difference	0.9
At 31 December 2008	34.7
Impairment losses for the year	30.0
Exchange difference	(1.1)
At 31 December 2009	63.6
Net book value	
At 31 December 2009	506.9
At 31 December 2008	567.1

Goodwill acquired in a business combination is allocated at the date of acquisition to the cash-generating units ("CGU") that are expected to benefit from that business combination.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for these value in use calculations are those regarding discount rates, growth rates and expected changes to selling prices and direct costs. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the individual CGU.

The Group prepares cash flow forecasts using the following year's operating budget approved by the Directors and an appropriate projection of cash flows based upon industry expectations over a period of five years. In instances where significant investment is expected, a rate in excess of the industry growth is used in the five year forecast. After this period, the growth rates applied to the cash flow forecasts are no more than 2% and do not exceed the long term average growth rate for the industry or economy. The discount rates applied to all impairment reviews represent pre-tax rates and range between 11% and 13%.

During the year SIG's Irish business has continued to experience a significant reduction in demand for its products. The resulting value in use calculation for the Ireland CGU indicated that the carrying value of goodwill was not supportable, therefore the CGU has been further reduced to its recoverable amount through the recognition of an impairment charge as follows:

	£m
At 31 December 2008	40.7
Adjustments in respect of prior period acquisitions	(0.2)
Exchange difference	(5.4)
Impairment charge recognised	(30.0)
At 31 December 2009	5.1

ACCOUNTS

NOTES TO THE ACCOUNTS CONTINUED

11 GOODWILL CONTINUED

Following this impairment, the recoverable amounts of all CGUs were fully supported by the value in use calculations in the year and are as follows

	2009 £m	2008 £m
UK Insulation	51.2	50.6
UK Extensors	80.9	82.3
UK Specialist Construction Products	48.4	48.5
UK Interiors Manufacturing	11.5	14.2
UK Interiors Distribution	29.8	29.1
Ireland	5.1	40.7
Poland	10.2	11.3
Larivière	177.1	192.8
German Roofing	20.4	22.1
Central Europe	20.1	21.1
Air Trade Centre	14.4	15.4
Total	469.1	528.1
Other CGUs	37.8	39.0
Total goodwill	506.9	567.1

The impairment reviews prepared by the Group to ascertain the value in use of the various CGUs are based upon a number of forecasts and assumptions in particular the level of turnover expected to be achieved in the future. In the event that turnover is lower than that forecast in the impairment reviews a number of the CGUs may be at risk of impairment.

In addition the Group has an indefinite life intangible asset (Leaderflush + Shapland brand) of £12.6m. Further details of impairment reviews performed on this asset are provided in Note 12.

12 INTANGIBLE ASSETS

The intangible assets presented below relate entirely to acquired intangibles. These arise as a result of applying IFRS 3 which requires the separate recognition of acquired intangibles from goodwill. As detailed in the Statement of Significant Accounting Policies the Group has elected not to apply IFRS 3 retrospectively to acquisitions that took place before 1 January 2004. During 2009 and 2008, the Group owned purchased intangible assets with an insignificant book value (mainly software separable from any associated hardware) and these have not been reclassified from property, plant and equipment on the grounds of materiality.

	Customer relationships £m	Brands £m	Non compete clauses £m	Order books £m	Total £m
Cost					
At 1 January 2008	162.5	12.6	6.2	0.1	181.4
Exchange difference	17.0	–	0.6	–	17.6
Additions	35.7	–	4.7	–	40.4
At 31 December 2008	215.2	12.6	11.5	0.1	239.4
Exchange difference	(5.0)	–	(0.4)	–	(5.4)
At 31 December 2009	210.2	12.6	11.1	0.1	234.0
Amortisation					
At 1 January 2008	26.0	–	2.5	0.1	28.6
Charge for the year	23.9	–	2.5	–	26.4
Exchange difference	0.9	–	0.1	–	1.0
At 31 December 2008	50.8	–	5.1	0.1	56.0
Charge for the year	25.8	–	2.8	–	28.6
Exchange difference	(1.1)	–	(0.1)	–	(1.2)
At 31 December 2009	75.5	–	7.8	0.1	83.4
Net book value					
At 31 December 2009	134.7	12.6	3.3	–	150.6
At 31 December 2008	164.4	12.6	6.4	–	183.4

Amortisation of acquired intangibles is included in the Consolidated Income Statement as part of operating expenses and is classified within "Other items".

The weighted average amortisation period for each category of intangible asset is disclosed in the Statement of Significant Accounting Policies on page 72.

In the opinion of the Directors the only intangible asset which has an indefinite useful life is the brand attributable to the acquisition of Leaderflush + Shapland Limited. The carrying value of the Leaderflush + Shapland brand at the balance sheet date is £12.6m. An indefinite useful life has been determined for the Leaderflush + Shapland brand on the basis that it is expected to be maintained indefinitely and is expected to continue to drive value for the Group. The recoverable value of the brand is based upon value in use calculations. Further information on value in use calculations is provided within Note 11. The Directors have used past experience in determining each of the key assumptions in the value in use calculation for the Leaderflush + Shapland brand. The growth rates assumed are in line with industry expectations and, for periods beyond those covered by its management forecasts, do not exceed the long term average growth rate for the industry. The discount rate applied is 11% equivalent to its pre tax weighted average cost of capital.

13 INVENTORIES

	2009 £m	2008 £m
Raw materials and consumables	9 4	12 2
Work in progress	1 0	1 4
Finished goods and goods for resale	217 3	255 0
	227 7	268 6

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

14 TRADE AND OTHER RECEIVABLES

	2009 £m	2008 £m
Trade receivables	385 8	469 7
VAT	2 1	8 8
Other receivables	6 8	8 2
Prepayments and accrued income	19 1	14 3
Other receivables	28 0	31 3
Derivative financial instruments	38 6	74 6
	452 4	575 6

The average credit period on sale of goods and services on a like for like constant currency basis is 44 days (2008 43 days). No interest is charged on receivables. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £35.0m at 31 December 2009 (2008 £34.1m). This allowance has been determined by reference to past default experience.

Included within the Group's trade receivable balance are debtors with a carrying amount of £88.5m (2008 £119.6m) which are past due at the reporting date for which the Group has not provided for, as there has not been a significant change in credit quality and the Group considers that the amounts are still recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 30.8 days overdue (2008 33.9 days).

AGEING ANALYSIS OF TRADE RECEIVABLES FOR WHICH NO PROVISION FOR IMPAIRMENT HAS BEEN MADE

	2009 £m	2008 £m
Neither past due or renegotiated	275 1	319 3
Renegotiated	0 2	0 1
Balances overdue which have no provision for impairment		
– 0 – 30 days	64 2	83 2
– 31 – 60 days	14 7	20 9
– 61 – 90 days	4 3	6 7
– 91 – 120 days	1 1	4 5
– 121 – 180 days	1 0	1 8
– 180+ days	3 2	2 5
	88 5	119 6
Total trade receivables	363 8	439 0

MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL DEBTS

	2009 £m	2008 £m
Beginning of year	(34 1)	(25 6)
Added on acquisition	–	(1 3)
Utilised	8 1	9 4
Charged to the Consolidated Income Statement	(9 2)	(13 2)
Exchange differences	0 2	(3 4)
End of year	(35 0)	(34 1)

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date and makes a provision for impairment accordingly. The concentration of credit risk is limited due to the customer base being large and unrelated. The Directors therefore believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are trade receivables with a gross balance of £57.0m (2008 £64.8m) and a provision for impairment of £35.0m (2008 £34.1m). The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected recoverable amount.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

NOTES TO THE ACCOUNTS CONTINUED

14 TRADE AND OTHER RECEIVABLES CONTINUED

CREDIT RISK MANAGEMENT

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Trade receivable credit exposure is controlled by counterparty limits that are set, reviewed and approved by operational management on a regular basis.

Trade receivables consist of a large number of typically small to medium sized customers spread across a number of different market sectors and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and where appropriate credit guarantee insurance cover is purchased.

The Group does not have any significant credit risk exposure to any single customer.

15 CURRENT LIABILITIES

	2009 £m	2008 £m
Trade and other payables		
Trade payables	211.4	197.3
Bills of exchange payable	19.1	30.1
VAT	4.6	23.0
Social security and payroll taxes	14.0	17.2
Accruals and deferred income	91.6	105.6
Trade and other payables	340.7	373.2
Obligations under finance lease contracts (Note 22)	2.3	3.4
Bank overdrafts	2.5	18.8
Bank loans	173.5	345.3
Loan notes	0.1	0.1
Derivative financial instruments	0.1	60.6
Current tax liabilities	2.8	5.9
Provisions (Note 20)	9.5	8.3
Current liabilities	531.5	815.6

£3.9m (2008: £5.5m) of the above Group bank loans and overdrafts are secured on the assets of subsidiary undertakings and £170.8m (2008: £399.7m) is guaranteed by certain companies of the Group. The remaining balances are unsecured.

The bank overdraft is repayable on demand and attracts a floating interest rate which at 31 December 2009 was 3.0% (2008: 3.0%).

£173.1m (2008: £77.6m) of the bank loans and loan notes due within one year (after taking into account derivative financial instruments) are at variable rates of interest.

£0.5m (2008: £267.8m) of the bank loans and loan notes due within one year (after taking into account derivative financial instruments) attract an average fixed interest rate of 3.7% (2008: 5.1%).

Trade payables, accruals and deferred income principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases on a like for like constant currency basis is 36 days (2008: 28 days).

The Directors consider that the carrying amount of current liabilities approximate to their fair value.

16 NON-CURRENT LIABILITIES

	2009 £m	2008 £m
Obligations under finance lease contracts (Note 22)		
– due after one and within two years	1.7	2.6
– due after two and within five years	4.5	5.1
– due after five years	0.9	1.5
Bank loans	12.1	6.4
Private placement notes	299.2	328.6
Loan notes	–	0.1
Derivative financial instruments	15.6	70.9
Deferred tax liabilities (Note 21)	38.9	49.5
Other payables	6.1	4.0
Retirement benefit obligations (Note 27c)	24.0	19.1
Provisions (Note 20)	31.7	22.1
Non-current liabilities	434.7	509.9
	2009 £m	2008 £m
The bank loans included above are repayable as follows		
– due after one and within two years	11.9	0.5
– due after two and within five years	0.2	5.6
– due after five years	–	0.3
Bank loans	12.1	6.4

16 NON-CURRENT LIABILITIES CONTINUED

Of the bank loans £0.4m (2008 £1.5m) is secured on certain assets of subsidiary undertakings and is repayable by instalments. Of the debt due after one year which includes bank loans, private placement notes, loan notes and derivative financial instruments £14.8m (2008 £39.5m) is guaranteed by certain companies of the Group.

£0.3m (2008 £1.4m) of the bank loans and loan notes due after one year (after taking into account derivative financial instruments) attract an average fixed rate of interest of 6.1% (2008 6.1%). The remaining bank loans and loan notes due after one year of £11.8m (2008 £5.1m) are at variable rates of interest.

Details of the private placement notes are as follows:

	2009 £m	2009 Fixed interest rate* %	2008 £m	2008 Fixed interest rate* %
Repayable in 2011	47.7	7.2%	53.0	6.9%
Repayable in 2013	84.6	5.1%	93.0	5.1%
Repayable in 2016	146.9	5.8%	162.6	6.0%
Repayable in 2018	20.0	5.8%	20.0	5.8%
	299.2	5.9%	328.6	5.9%

* Before applying associated derivative financial instruments

The Directors consider that the carrying amount of non-current liabilities approximates to their fair value.

17 FINANCIAL INSTRUMENTS

The "Treasury risk management" section of the Business Review on pages 25 and 26 includes a review of all treasury liquidity, interest rate and foreign currency risks, and provides an explanation of the role that derivative financial instruments have had during the year in creating or changing the risks the Group faces in its activities. The capital structure of the Group is outlined in the Business Review on page 22.

The Group's financial assets consist of trade and other receivables, cash and cash equivalents and derivative financial instruments. The following financial assets form part of the net debt of the Group:

	2009 £m	2008 £m
Cash and cash equivalents (including cash deposits repayable on demand)	219.4	71.7
Derivative financial instruments	38.6	74.6
	258.0	146.3

The Directors consider the fair value of financial assets to approximate to their book value. The interest received on cash deposits is at variable rates of interest of up to 2%.

Of the above cash and cash equivalents £149.5m is denominated in Sterling, £56.3m in Euros, £10.3m in Polish Zloty and £3.3m in Czech Koruna.

2009 INTEREST RATE AND CURRENCY PROFILE

The interest rate and currency profile of the Group's financial liabilities at 31 December 2009, after taking account of interest rate and currency derivative financial instruments (including derivative assets of £38.6m as noted above but excluding the short term currency swap noted after the table) was as follows:

	Currency	Total £m	Floating rate £m	Fixed rate £m	Effective fixed interest rate %	Weighted average time for which rate is fixed Years	Amount secured £m	Amount unsecured £m	ACCOUNTS
Private placement notes	Sterling	194.6	88.8	105.8	6.3%	4.0	–	194.6	
Other borrowings	Sterling	100.1	100.1	–	N/A	N/A	–	100.1	
Finance lease contracts	Sterling	0.4	–	0.4	7.9%	1.3	0.4	–	
Private placement notes	Euro	88.8	53.6	35.2	4.7%	3.5	–	88.8	
Other borrowings	Euro	80.6	79.8	0.8	2.4%	1.5	3.9	76.7	
Finance lease contracts	Euro	8.9	–	8.9	13.7%	2.8	8.9	–	
Finance lease contracts	PLN	0.1	–	0.1	4.8%	0.8	0.1	–	
Other borrowings	HUF	0.4	0.4	–	N/A	N/A	0.4	–	
Total		473.9	322.7	151.2			13.7	460.2	

In addition to the currency exposures above, the Group has entered into a short term currency derivative financial instrument being a net investment hedge amounting to an asset of £38.2m and a liability of £42.8m. This derivative financial instrument was entered into on 31 December 2009 at market rates and therefore the fair value is deemed to equate to its book value of £nil. The Group's net debt at 31 December was £254.5m, of which £160.2m is denominated in Euros.

All of the above finance lease contracts, totalling £9.4m, are secured on the underlying assets.

The Directors consider the fair value of the Group's floating rate financial liabilities to materially approximate to the book value shown in the table above. The fair value of the Group's private placement notes approximates to the amount in the value of the financial liabilities above. The remaining fixed rate debt amounts to £10.2m and relates to finance lease contracts and fixed rate loans. The Directors consider the fair value of these remaining fixed rate debts to materially approximate to the book values shown above.

NOTES TO THE ACCOUNTS CONTINUED

17 FINANCIAL INSTRUMENTS CONTINUED

2008 INTEREST RATE AND CURRENCY PROFILE

The interest rate and currency profile of the Group's financial liabilities at 31 December 2008 after taking account of interest rate and currency derivative financial instruments (including derivative assets of £74.6m as noted on page 93 but excluding short term currency swaps noted after the table) was as follows

	Currency	Total £m	Floating rate £m	Fixed rate £m	Effective fixed interest rate %	Weighted average time for which rate is fixed Years	Amount secured £m	Amount unsecured £m
Private placement notes	Sterling	137.4	78.2	59.2	6.1%	6.5	–	137.4
Other borrowings	Sterling	312.6	142.5	170.1	5.3%	8.4	–	312.6
Finance lease contracts	Sterling	1.1	–	1.1	5.8%	1.1	1.1	–
Private placement notes	Euro	158.7	56.6	102.1	5.9%	3.3	–	158.7
Other borrowings	Euro	137.9	38.8	99.1	4.1%	2.4	5.9	132.0
Finance lease contracts	Euro	11.3	–	11.3	12.0%	3.0	11.3	–
Other borrowings	PLN	0.2	0.2	–	N/A	N/A	0.2	–
Finance lease contracts	PLN	0.1	–	0.1	3.1%	1.2	0.1	–
Other borrowings	HUF	0.5	0.5	–	N/A	N/A	0.5	–
Finance lease contracts	HUF	0.1	–	0.1	4.7%	1.8	0.1	–
Other borrowings	CZK	8.9	8.9	–	N/A	N/A	0.4	8.5
Total		768.8	325.7	443.1			19.6	749.2

In addition to the currency exposures above the Group had entered into five short term currency derivative financial instruments as follows

- five cash flow hedges which hedged the post tax functional currency cash flows of the Group amounting to an asset of £76.0m and a liability of €75.9m and CZK58.7m

All of these derivative financial instruments were entered into on 31 December 2008 at market rates and therefore their fair value was deemed to equate to their book value of £nil. The expiry date of these derivative financial instruments was 31 December 2009

All of the above finance lease contracts, totalling £12.6m, were secured on the underlying assets

The Directors considered the fair value of the Group's floating rate financial liabilities to materially approximate to the book value shown in the table above. The fair value of the Group's private placement notes approximates to the amount in the value of the financial liabilities above. £170.1m of the Sterling "Other borrowings" and £97.0m of the Euro "Other borrowings" related to debt on which the Group had taken out interest rate derivative financial instruments to fix the interest rate and the debt is already carried at approximately its fair value in the table above. The remaining fixed rate debt amounted to £14.7m and related to finance lease contracts and fixed rate loans. The Directors considered the fair value of these remaining fixed rate debts to materially approximate to the book values shown in the table above.

In both 2009 and 2008, the interest rate on floating rate financial liabilities is based upon appropriate local market rates

HEDGING RELATIONSHIPS

Included within financial assets are derivative financial instruments in designated hedge accounting relationships amounting to £38.6m (2008: £74.6m) and loans and receivables (including cash and cash equivalents) of £605.2m (2008: £541.4m)

Included within financial liabilities are derivative financial instruments in designated hedge accounting relationships amounting to £15.7m (2008: £131.5m) and liabilities (including trade payables) at amortised cost of £708.2m (2008: £909.2m)

The Group does not trade in derivative financial instruments for speculative purposes. Where the Group can demonstrate a hedge relationship under the rules of IAS 32 and IAS 39, movements in the fair values of these derivative financial instruments will be recognised in the Consolidated Statement of Comprehensive Income. Where the Group does not meet these rules, movements in the fair value will be recognised as gains and losses on derivative financial instruments in the Consolidated Income Statement in the column entitled "Other items"

In order to manage the Group's exposure to interest rate and exchange rate changes the Group utilises both currency and interest rate derivative financial instruments. The fair values of these derivative financial instruments are calculated by discounting the associated future cash flows to net present values using appropriate market rates prevailing at the balance sheet date.

The Group is required to analyse financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

All of the financial instruments below are categorised as Level 2

A) NET INVESTMENT HEDGES

As at 31 December 2009, the Group had entered into two (2008: two) cross-currency interest rate derivative financial instruments which form a net investment hedge of the Group's Euro denominated trade assets

17 FINANCIAL INSTRUMENTS CONTINUED

HEDGING RELATIONSHIPS CONTINUED

A) NET INVESTMENT HEDGES CONTINUED

	2009 £m	2008 £m
Hedge of the Group's Euro denominated trade assets		
Liability at 1 January	(37.8)	(15.4)
Fair value gains recognised in equity	5.8	(20.9)
Cash settlements in the year	22.4	-
Fair value gains/(losses) recognised in the Consolidated Income Statement	0.4	(1.5)
Liability at 31 December	(9.2)	(37.8)

B) CASH FLOW HEDGES

With regard to cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in equity and is subsequently removed and included in the Consolidated Income Statement within "Finance costs" in the same period the hedged item affects the Consolidated Income Statement. The cash flow hedges described below are expected to impact both profit and loss and cash flow annually over the life of the hedging instrument and the related debt as interest falls due and upon maturity of the debt and related hedging instrument.

As at 31 December 2009, the Group had entered into five (31 December 2008: five) cross-currency interest rate derivative financial instruments which swap fixed US Dollar denominated debt held in the UK into fixed Sterling denominated debt. In addition, as at 31 December 2009, the Group had entered into one (31 December 2008: one) cross-currency interest rate derivative financial instrument which swaps fixed US Dollar denominated debt held in the UK into variable Sterling denominated debt. These derivative financial instruments form a cash flow hedge as they fix the functional currency cash flows of the Group. All of these derivative financial instruments are designated and effective as cash flow hedges and the fair value movement has therefore been deferred in equity via the Consolidated Statement of Comprehensive Income. At 31 December 2009, the average maturity date of these swaps is 5.4 years (2008: 6.4 years).

	2009 £m	2008 £m
Hedge of the Group's functional currency cash flows		
Asset/(liability) at 1 January	64.0	(28.2)
Fair value (losses)/gains recognised in equity	(39.0)	92.2
Asset at 31 December	25.0	64.0

During the year ended 31 December 2009, the Group cash settled eleven interest rate derivative financial instruments which swapped variable rate debt into fixed rate debt thereby fixing the functional currency cash flows of the Group. Prior to settlement, all of these interest rate derivative financial instruments were designated and effective as cash flow hedges and the fair value movement was therefore deferred in equity via the Consolidated Statement of Comprehensive Income. At 31 December 2008, the average maturity date of these swaps was 6.2 years.

	2009 £m	2008 £m
Hedge of the Group's functional currency cash flows		
Liability at 1 January	(33.0)	(4.2)
Fair value gains/(losses) recognised in equity	0.7	(28.8)
Cash settlements in the year	32.3	-
Liability at 31 December	-	(33.0)

At the balance sheet date, the Group had entered into certain short-term currency forward contracts which were designated and effective as hedges of the Group's functional currency cash flows.

	2009 £m	2008 £m
Hedge of the Group's functional currency cash flows		
Asset at 1 January	2.7	-
Fair value (losses)/gains recognised in equity	(2.8)	2.7
(Liability)/asset at 31 December	(0.1)	2.7

During the year ended 31 December 2009, the Group cash settled five cross-currency derivative financial instruments which swapped fixed Sterling denominated debt into fixed Euro and Czech Koruna denominated debt. These derivative financial instruments form a cash flow hedge as they fix the functional post tax cash flows of the Group and are therefore fully effective. As these derivative financial instruments were entered into on 31 December 2008 at market rates prevailing at that date, the fair value of these derivative financial instruments at 31 December 2008 was £nil. At 31 December 2008, the average maturity date of these swaps was one year.

C) FAIR VALUE HEDGES

As at 31 December 2009, the Group had entered into three (31 December 2008: three) derivative financial instruments which hedged the interest rate exposure on the private placement debt drawn down on 1 February 2007. All of these interest rate derivative financial instruments are designated and effective as fair value hedges and the fair value movement has therefore been recognised immediately in the Consolidated Income Statement. This is offset by the change in fair value attributable to the hedged item which is also recognised immediately in the Consolidated Income Statement.

	2009 £m	2008 £m
Hedge of the fair value of fixed interest borrowings		
Asset/(liability) at 1 January	6.3	(1.6)
Fair value gains recognised in the Consolidated Income Statement	0.9	7.9
Asset at 31 December	7.2	6.3

NOTES TO THE ACCOUNTS CONTINUED

18 MATURITY OF FINANCIAL ASSETS AND LIABILITIES

MATURITY OF FINANCIAL LIABILITIES

The maturity profile of the Group's financial liabilities (including derivative financial assets) at 31 December 2009 was as follows

	2009 £m	2008 £m
In one year or less	178.5	424.1
In more than one year but not more than two years	60.5	8.7
In more than two years but not more than five years	93.6	184.7
In more than five years	141.3	151.3
Total	473.9	768.8

BORROWING FACILITIES

The Group had undrawn committed borrowing facilities at 31 December 2009 as follows

	2009 £m	2008 £m
Expiring in less than one year	35.0	36.2
Expiring in more than one year but not more than two years	100.0	2.7
Expiring in more than two years but not more than five years	75.0	40.7
Total	210.0	79.6

As at 31 December 2009, the Group had £674m of UK committed facilities, of which £210m were undrawn as disclosed above. No further funds have been drawn down since the year end.

CONTRACTUAL MATURITY ANALYSIS OF THE GROUP'S FINANCIAL LIABILITIES, DERIVATIVE FINANCIAL INSTRUMENTS AND CASH AND CASH EQUIVALENTS

2009 ANALYSIS

IFRS 7 requires disclosure of the maturity of the Group's remaining contractual financial liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the Group's financial assets and liabilities including interest that will accrue to those assets and liabilities except where the Group is entitled and intends to repay the liability before its maturity. Both the inclusion of future interest and the values disclosed being undiscounted, results in the total position being different to that included in the Consolidated Balance Sheet.

	Balance sheet value £m	Maturity analysis				Total £m
		<1 year £m	1-2 years £m	2-5 years £m	>5 years £m	
Current liabilities						
Trade and other payables	340.7	340.7	–	–	–	340.7
Obligations under finance lease contracts	2.3	2.4	–	–	–	2.4
Bank overdrafts	2.5	2.5	–	–	–	2.5
Bank loans	173.5	174.1	–	–	–	174.1
Loan notes	0.1	0.1	–	–	–	0.1
Derivative financial instruments ^	0.1	0.1	–	–	–	0.1
	519.2	519.9	–	–	–	519.9
Non-current liabilities						
Obligations under finance lease contracts	7.1	0.4	2.1	5.0	0.9	8.4
Bank loans	12.1	0.4	5.1	7.4	–	12.9
Private placement notes	299.2	18.6	65.2	124.3	188.4	396.5
Derivative financial instruments ^	15.6	2.1	7.9	38.9	–	48.9
	334.0	21.5	80.3	175.6	189.3	466.7
Total liabilities	853.2	541.4	80.3	175.6	189.3	986.6
Other						
Derivative financial instrument assets*	(38.6)	(3.8)	(3.8)	(15.2)	(23.3)	(46.1)
Cash and cash equivalents*	(219.4)	(219.4)	–	–	–	(219.4)
Derivative financial instruments ^	–	(1.6)	(1.6)	(30.0)	–	(33.2)
	(258.0)	(224.8)	(5.4)	(45.2)	(23.3)	(298.7)
Grand total	595.2	316.6	74.9	130.4	166.0	687.9

^ In accordance with IFRS 7 for all gross settled derivative financial instruments (i.e. £/€ net investment hedges) the pay leg has been disclosed within liabilities and the receive leg has been included within other.

* Derivative financial instrument assets and cash and cash equivalents have also been disclosed in order to present a full analysis of the Group's financial assets and liabilities.

18 MATURITY OF FINANCIAL ASSETS AND LIABILITIES CONTINUED
CONTRACTUAL MATURITY ANALYSIS OF THE GROUP'S FINANCIAL LIABILITIES, DERIVATIVE FINANCIAL
INSTRUMENTS AND CASH AND CASH EQUIVALENTS CONTINUED
2008 ANALYSIS

	Balance sheet value £m	Maturity analysis				Total £m
		< 1 year £m	1–2 years £m	2–5 years £m	> 5 years £m	
Current liabilities						
Trade and other payables	373.2	373.2	–	–	–	373.2
Obligations under finance lease contracts	3.4	3.6	–	–	–	3.6
Bank overdrafts	18.8	18.8	–	–	–	18.8
Bank loans	345.3	346.3	–	–	–	346.3
Loan notes	0.1	0.1	–	–	–	0.1
Derivative financial instruments ^	60.6	60.6	–	–	–	60.6
	801.4	802.6	–	–	–	802.6
Non-current liabilities						
Obligations under finance lease contracts	9.2	1.1	3.4	5.5	0.5	10.5
Bank loans	6.4	0.4	0.9	6.2	0.4	7.9
Private placement notes	328.6	20.7	20.7	198.8	218.7	458.9
Loan notes	0.1	–	0.1	–	–	0.1
Derivative financial instruments ^	70.9	15.9	15.9	122.5	19.3	173.6
	415.2	38.1	41.0	333.0	238.9	651.0
Total liabilities	1,216.6	840.7	41.0	333.0	238.9	1,453.6
Other						
Derivative financial instrument assets*	(74.6)	(7.1)	(2.9)	(21.3)	(51.6)	(82.9)
Cash and cash equivalents*	(71.7)	(71.7)	–	–	–	(71.7)
Derivative financial instruments ^	–	(4.7)	(4.7)	(79.2)	–	(88.6)
	(146.3)	(83.5)	(7.6)	(100.5)	(51.6)	(243.2)
Grand total	1,070.3	757.2	33.4	232.5	187.3	1,210.4

^ In accordance with IFRS 7 for all gross settled derivative financial instruments (i.e. £/€ net investment hedges) the pay leg has been disclosed within liabilities and the receive leg has been included within other

* Derivative financial instrument assets and cash and cash equivalents have also been disclosed in order to present a full analysis of the Group's financial assets and liabilities

19 SENSITIVITY ANALYSIS

IFRS 7 requires the disclosure of a sensitivity analysis that details the effects on the Group's profit or loss and other equity of reasonably possible fluctuations in market rates

This sensitivity analysis has been prepared to illustrate the effect of the following hypothetical variations in market rates on the fair value of the Group's financial assets and liabilities

- (i) a 1% (100 basis points) increase or decrease in market interest rates and
- (ii) a 10% strengthening or weakening of Sterling against all other currencies that the Group is exposed to

A) INTEREST RATE SENSITIVITY

The Group is currently exposed to Sterling, Euro and US Dollar interest rates. To a lesser extent the Group is also exposed to Polish Zloty and Czech Koruna interest rates

In order to illustrate the Group's sensitivity to interest rate fluctuations the table overleaf details the Group's sensitivity to a 100 basis point change in each respective interest rate. The sensitivity analysis of the Group's exposure to interest rate risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit or loss and other equity

NOTES TO THE ACCOUNTS CONTINUED

19 SENSITIVITY ANALYSIS CONTINUED

A) INTEREST RATE SENSITIVITY CONTINUED

2009 ANALYSIS

	GBP		EUR		USD		PLN		CZK		Total	
	+100bp £m	-100bp £m	+100bp £m	-100bp £m	+100bp £m	-100bp £m	+100bp £m	-100bp £m	+100bp £m	-100bp £m	+100bp £m	-100bp £m
Profit or loss	(0.9)	0.9 ^(a)	(0.8)	0.8 ^(a)	–	–	–	–	–	–	(1.7)	1.7
Other equity	4.5	(4.8) ^(a)	1.3	(1.4) ^(a)	(10.3)	10.9 ^(a)	–	–	–	–	(4.5)	4.7
Total Shareholders' equity	3.6	(3.9)	0.5	(0.6)	(10.3)	10.9	–	–	–	–	(6.2)	6.4

2008 ANALYSIS

	GBP		EUR		USD		PLN		CZK		Total	
	+100bp £m	-100bp £m	+100bp £m	-100bp £m	+100bp £m	-100bp £m	+100bp £m	-100bp £m	+100bp £m	-100bp £m	+100bp £m	-100bp £m
Profit or loss	(1.3)	1.3 ^(a)	1.8	(1.8) ^(a)	–	–	(0.2)	0.2 ^(a)	–	–	0.3	(0.3)
Other equity	7.9	(8.0) ^(a)	2.9	(3.0) ^(a)	(13.9)	15.5 ^(a)	–	–	–	–	(3.1)	4.5
Total Shareholders' equity	6.6	(6.7)	4.7	(4.8)	(13.9)	15.5	(0.2)	0.2	–	–	(2.8)	4.2

The movements noted above are described below being mainly attributable to

- (i) floating rate Sterling debt and gains and losses on derivative financial instruments on some of the Group's £/€ net investment hedges
- (ii) mark-to-market valuation changes in the fair value of fully effective cash flow hedges
- (iii) floating rate Euro debt Euro cash deposits and gains and losses on derivative financial instruments on some of the Group's £/€ net investment hedges
- (iv) changes in value of the Group's Euro denominated assets and liabilities, and
- (v) floating rate Polish Zloty debt

B) FOREIGN CURRENCY SENSITIVITY

The Group is exposed to currency rate changes between Sterling and Euros, US Dollars, Polish Zloty and Czech Koruna. The Group was exposed to the Slovak Koruna during 2008, prior to Slovakia's conversion to the Euro on 1 January 2009.

The following table details the Group's sensitivity to a 10% change in Sterling against each respective foreign currency to which the Group is exposed, indicating the likely impact of changes in foreign exchange rates on the Group's financial position. The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit or loss and other equity.

2009 ANALYSIS

	EUR		USD		PLN		CZK		HUF		Total	
	+10% £m	-10% £m	+10% £m	-10% £m	+10% £m	-10% £m	+10% £m	-10% £m	+10% £m	-10% £m	+10% £m	-10% £m
Assets and liabilities under the scope of IFRS 7												
Profit or loss	0.8	(0.9) ^(a)	–	– ^(a)	–	– ^(a)	0.2	(0.2) ^(a)	–	–	1.0	(1.1)
Other equity	5.5	(5.9) ^(a)	(2.6)	3.2 ^(a)	(1.3)	1.5 ^(a)	(0.7)	0.8 ^(a)	–	–	0.9	(0.4)
Total Shareholders' equity	6.3	(6.8)	(2.6)	3.2	(1.3)	1.5	(0.5)	0.6	–	–	1.9	(1.5)
Total assets and liabilities*												
Profit or loss	(2.9)	1.8 ^(a)	–	–	(0.1)	0.1 ^(a)	0.3	(0.5) ^(a)	–	–	(2.7)	1.4
Other equity	(33.7)	44.2 ^(a)	(2.6)	3.2 ^(a)	(3.8)	4.6 ^(a)	(2.0)	3.0 ^(a)	–	–	(42.1)	55.0
Total Shareholders' equity	(36.6)	46.0	(2.6)	3.2	(3.9)	4.7	(1.7)	2.5	–	–	(44.8)	56.4

* Certain assets and liabilities such as inventories, non-current assets and provisions do not come under the scope of IFRS 7. Therefore, in order to present a complete analysis of the Group's exposure to movements in foreign currency rates, the exposure on the Group's total assets and liabilities has been disclosed.

19 SENSITIVITY ANALYSIS CONTINUED**B) FOREIGN CURRENCY SENSITIVITY CONTINUED****2008 ANALYSIS**

	EUR		USD		PLN		CZK		SKK		HUF		Total	
	+10% £m	-10% £m	+10% £m	-10% £m	+10% £m	-10% £m	+10% £m	-10% £m	+10% £m	-10% £m	+10% £m	-10% £m	+10% £m	-10% £m
Assets and liabilities under the scope of IFRS 7														
Profit or loss	2.2	(1.8) ⁽ⁱ⁾	0.1	(0.1) ⁽ⁱ⁾	0.4	(0.5) ⁽ⁱ⁾	0.7	(0.9) ⁽ⁱ⁾	–	–	–	–	3.4	(3.3)
Other equity	34.0	(30.7) ⁽ⁱ⁾	(3.6)	5.0 ⁽ⁱ⁾	(1.9)	2.3 ⁽ⁱ⁾	(0.4)	0.5 ⁽ⁱ⁾	(0.3)	0.3 ⁽ⁱ⁾	–	–	27.8	(22.6)
Total Shareholders' equity	36.2	(32.5)	(3.5)	4.9	(1.5)	1.8	0.3	(0.4)	(0.3)	0.3	–	–	31.2	(25.9)
Total assets and liabilities*														
Profit or loss	(2.4)	1.2 ⁽ⁱⁱ⁾	0.1	(0.1)	0.1	(0.1) ⁽ⁱⁱ⁾	0.8	(1.9) ⁽ⁱⁱ⁾	(0.1)	0.1 ⁽ⁱⁱ⁾	–	–	(1.5)	(0.8)
Other equity	(9.5)	14.5 ⁽ⁱⁱ⁾	(3.6)	5.0 ⁽ⁱⁱ⁾	(4.4)	5.2 ⁽ⁱⁱ⁾	(1.6)	1.8 ⁽ⁱⁱ⁾	(1.6)	1.9 ⁽ⁱⁱ⁾	–	–	(20.7)	28.4
Total Shareholders' equity	(11.9)	15.7	(3.5)	4.9	(4.3)	5.1	(0.8)	(0.1)	(1.7)	2.0	–	–	(22.2)	27.6

* Certain assets and liabilities such as inventories, non-current assets and provisions do not come under the scope of IFRS 7. Therefore, in order to present a complete analysis of the Group's exposure to movements in foreign currency exchange rates, the exposure on the Group's total assets and liabilities has been disclosed.

The movements noted above are described below, being mainly attributable to:

- (i) gains and losses on derivative financial instruments on some of the Group's £/€ net investment hedges and retranslation of Euro interest flows
- (ii) mark-to-market valuation changes in the fair value of fully effective cash flow and net investment hedges, and retranslation of assets and liabilities under the scope of IFRS 7,
- (iii) retranslation of Euro profit streams and gains and losses on derivative financial instruments on some of the Group's £/€ net investment hedges
- (iv) retranslation of overseas denominated assets and liabilities outside the scope of IFRS 7 and mark-to-market valuation changes in the fair value of fully effective cash flow and net investment hedges
- (v) retranslation of US Dollar, Polish Zloty, and Czech Koruna interest flows,
- (vi) retranslation of Polish Zloty and Czech Koruna profit streams, and
- (vii) retranslation of Slovak Koruna profit streams

20 PROVISIONS FOR LIABILITIES AND CHARGES

	2009 Onerous leases £m	2009 Leasehold dilapidations £m	2009 Contingent consideration £m	2009 Other amounts £m	2009 Total £m	
Beginning of year	1.2	13.5	9.9	5.8	30.4	
Unused amounts reversed in the period	(0.3)	–	(5.0)	(1.1)	(6.4)	
Utilised	(6.4)	(1.5)	(3.9)	(1.7)	(13.5)	
New provisions	19.2	4.3	–	1.0	24.5	
Transferred from accruals	6.4	–	–	0.4	6.8	
Exchange difference	–	(0.1)	–	(0.5)	(0.6)	
End of year	20.1	16.2	1.0	3.9	41.2	
				2009 £m	2008 £m	
Included in current liabilities				9.5	8.3	
Included in non-current liabilities				31.7	22.1	
				41.2	30.4	

ONEROUS LEASES

The Group has provided for the rental payments due over the remaining term of existing operating lease contracts where a period of vacancy is ongoing. 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 on a contract by contract basis. The provision covers potential transfer of economic benefit over the full range of current lease commitments disclosed in Note 27b.

LEASEHOLD DILAPIDATIONS

This provision relates to contractual obligations to reinstate leasehold properties into their original state of repair. The provision is calculated with reference to the expired portion of individual lease agreements where such a clause exists in the lease contract. The transfer of economic benefits will be made at the end of the leases as set out in Note 27b.

NOTES TO THE ACCOUNTS CONTINUED

20 PROVISIONS FOR LIABILITIES AND CHARGES CONTINUED

CONTINGENT CONSIDERATION

Contingent consideration relates to the amounts due to vendors of prior year acquisitions providing certain future profit targets are met. The transfer of economic benefit is expected to be made within two years.

OTHER AMOUNTS

Other amounts relate principally to claim provisions. The transfer of economic benefit is expected to be made between one and three years time.

21 DEFERRED TAX

The net deferred tax liability at the end of the year is analysed as follows:

	2009 £m	2008 £m
Deferred tax assets	27.5	18.7
Deferred tax liabilities	(38.9)	(49.5)
Net deferred tax liability	(11.4)	(30.8)

The net deferred tax liability is made up of the following elements:

	2009 £m	2008 £m
Deferred tax analysis		
Differences between capital allowances and depreciation	3.8	(7.2)
Short term timing differences	(20.9)	(28.5)
Losses	0.4	1.0
On retirement benefit obligations	5.3	3.9
Net deferred tax liability	(11.4)	(30.8)

The movement during the year in the net deferred tax liability was as follows:

	2009 £m	2008 £m
Beginning of year	(30.8)	(26.9)
On acquisition of subsidiaries	–	(11.6)
Credit for the year	17.8	5.2
Exchange difference	0.3	0.4
Deferred tax on actuarial loss on retirement benefit obligations	1.3	3.0
Deferred tax on share options	–	(0.9)
End of year	(11.4)	(30.8)

Given current trading the Directors consider that recognition of the deferred tax assets above is appropriate.

The Group has not taken account of the benefit of excess non-trading losses associated with financial instruments in determining the above deferred tax liability at 31 December 2009. During the year, the Group has utilised £6.7m of previously unrecognised deferred tax on non-trading losses. In this respect, any future utilisation of the unrecognised deferred tax asset of £33m (2008: £40m) associated with these non-trading losses will result in a reduction of cash payments of tax and will also result in an income statement benefit in the year of utilisation.

22 OBLIGATIONS UNDER FINANCE LEASE CONTRACTS

	Minimum lease payments		Present value of minimum lease payments	
	2009 £m	2008 £m	2009 £m	2008 £m
Amounts payable under finance lease contracts				
– within one year	2.4	3.6	2.3	3.4
– in the second to fifth years	7.2	8.7	6.2	7.7
– after five years	1.2	1.8	0.9	1.5
	10.8	14.1	9.4	12.6
Less: future finance charges	1.4	1.5		
Present value of lease obligations	9.4	12.6		

The Group leases certain of its motor vehicles, fixtures and equipment under finance lease contracts.

The average remaining lease term is 2.7 years (2008: 4.2 years). For the year ended 31 December 2009, the average effective borrowing rate was 13.4% (2008: 11.3%). Interest rates are fixed at the contract date.

The carrying amount of the Group's lease obligations approximate to their fair value.

23 CALLED UP SHARE CAPITAL

	2009 £m	2008 £m
Authorised		
800,000,000 ordinary shares of 10p each (2008 190,000,000)	80 0	19 0
Allotted called up and fully paid		
590,829,339 ordinary shares of 10p each (2008 135,639,175)	59 1	13 6

Total cash consideration received by the Company for the 455,190,164 (2008 637,977) shares allotted during the year amounted to £325.0m (2008 £1.1m)

On 18 March 2009 the Group announced a placing and open offer and firm placing of 455,047,973 ordinary shares for a total consideration of £325.0m (net of expenses), which was approved at the Company's Extraordinary General Meeting on 9 April 2009

The Company has one class of ordinary share which carries no right to fixed income

At 31 December 2009 the following share options were outstanding

Scheme and date of grant	Number of shares					Option price per 10p share	Adjusted option price per 10p share	Exercise dates	
	At 31 December 2008	Additional shares granted on 14 April 2009 following open offer	Granted	Exercised	Lapsed			Date from which option may be exercised	Date on which option expires
Deferred Annual Bonus Scheme									
19/04/2005	6,931	1,209	–	(202)	(2,754)	5,184	0.00p	0.00p	19/04/2008 18/04/2015
13/04/2006	16,751	1,729	–	(1,491)	(16,989)	–	0.00p	0.00p	13/04/2009 12/04/2016
17/04/2007	10,869	2,294	–	–	–	13,163	0.00p	0.00p	17/04/2010 16/04/2017
14/04/2008	24,495	5,275	–	–	–	29,770	0.00p	0.00p	14/04/2011 13/04/2018
15/09/2009	–	–	34,730	–	–	34,730	0.00p	0.00p	15/09/2012 14/09/2019
Long Term Incentive Plan									
11/04/2003	4,469	967	–	(5,436)	–	–	10.00p	10.00p	11/04/2006 10/04/2010
11/05/2004	5,569	1,151	–	(6,720)	–	–	10.00p	10.00p	11/05/2007 10/05/2014
19/04/2005	8,008	1,689	–	(3,990)	–	5,707	0.00p	0.00p	19/04/2008 18/04/2015
13/04/2006	100,835	13,903	–	(25,716)	(89,022)	–	0.00p	0.00p	13/04/2009 12/04/2016
17/04/2007	70,951	9,519	–	(9,934)	(15,896)	54,640	0.00p	0.00p	17/04/2010 16/04/2017
14/04/2008	136,409	28,790	–	–	–	165,199	0.00p	0.00p	14/04/2011 13/04/2018
08/09/2008	9,220	1,946	–	–	–	11,166	0.00p	0.00p	08/09/2011 07/09/2018
15/09/2009	–	–	577,862	–	–	577,862	0.00p	0.00p	15/09/2012 14/09/2019
1997 Executive Share Option Scheme									
11/04/2000	1,500	316	–	–	(1,816)	–	232.50p	191.98p	11/04/2003 10/04/2009
19/04/2002	19,276	4,066	–	–	–	23,342	321.00p	265.05p	19/04/2005 18/04/2010
11/04/2003	35,489	7,486	–	–	(1,816)	41,159	205.50p	169.68p	11/04/2006 10/04/2011
Savings Related Schemes									
07/05/2003	4,777	–	–	(4,777)	–	–	165.00p	N/A	01/07/2006 31/12/2008
10/05/2004	171,238	36,143	–	–	(207,381)	–	300.00p	247.80p	01/07/2007 31/12/2009
21/10/2005	8,729	1,842	–	–	(9,667)	904	571.00p	471.50p	01/11/2008 31/05/2011
10/11/2006	4,749	1,002	–	–	(5,106)	645	797.00p	658.10p	01/01/2010 31/07/2012
26/11/2007	13,365	2,820	–	–	(6,880)	9,305	823.00p	679.60p	01/01/2011 31/07/2013
24/10/2008	129,479	27,329	–	–	(68,446)	88,362	330.00p	272.50p	01/01/2012 31/07/2014
Total	783,109	149,476	612,592	(58,266)	(425,773)	1,061,138			

NOTES TO THE ACCOUNTS CONTINUED

24 RECONCILIATION OF OPERATING PROFIT TO CASH INFLOW FROM OPERATING ACTIVITIES

	2009 £m	2008 £m
Operating (loss)/profit	(32 5)	107 0
Depreciation charge	40 2	42 6
Impairment of property plant and equipment	6 8	–
Amortisation of acquired intangibles and impairment charges	58 6	40 6
Profit on sale of property plant and equipment	(1 8)	(1 8)
Share-based payments	(0 5)	1 0
Decrease in inventories	26 1	15 1
Decrease in receivables	67 8	43 0
Increase/(decrease) in payables	9 4	(91 5)
Cash inflow from operating activities	174 1	156 0

Included in the increase/(decrease) in payables is a cash outflow relating to defined benefit pension contributions being £0.8m (2008: £8.4m) greater than the amount charged to operating (loss)/profit

25 RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET DEBT

	2009 £m	2008 £m
Increase/(decrease) in cash and cash equivalents in the year	166 7	(47 3)
Cash flow from decrease/(increase) in debt	280 9	(70 5)
Decrease/(increase) in net debt resulting from cash flows	447 6	(117 8)
Debt acquired with acquisitions*	–	(8 2)
Non-cash items ^	(24 5)	(52 7)
Exchange difference	19 5	(89 5)
Decrease/(increase) in net debt in the year	442 6	(268 2)
Net debt at beginning of year	(697 1)	(428 9)
Net debt at end of year	(254 5)	(697 1)

* Including loan notes issued

^ Non-cash items relate to the fair value movement of debt recognised in the year which does not give rise to a cash inflow or outflow

26 ANALYSIS OF NET DEBT

	At 31 December 2008 £m	Cash flows £m	Non cash items ^ £m	Exchange difference £m	At 31 December 2009 £m
Cash and cash equivalents	71 7	151 4	–	(3 7)	219 4
Overdrafts	(18 8)	15 3	–	1 0	(2 5)
	52 9	166 7	–	(2 7)	216 9
Financial assets – derivative financial instruments	74 6	–	(36 0)	–	38 6
Debts due within one year	(406 0)	220 9	–	11 4	(173 7)
Debts due after one year	(406 0)	57 7	11 5	9 9	(326 9)
Finance lease contracts	(12 6)	2 3	–	0 9	(9 4)
	(697 1)	447 6	(24 5)	19 5	(254 5)

^ Non-cash items relate to the fair value movement of debt recognised in the year which does not give rise to a cash inflow or outflow

27 GUARANTEES AND OTHER FINANCIAL COMMITMENTS**A) CAPITAL COMMITMENTS**

	2009 £m	2008 £m
Contracted but not provided for	10	42

B) LEASE COMMITMENTS

The Group leases a number of its premises under operating leases which expire between 2010 and 2049

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

	2009 £m	2008 £m
Minimum lease rentals due		
– within one year	33.6	34.5
– after one year and within five years	87.2	110.6
– after five years	135.8	117.4
	256.6	262.5

The Group also leases certain items of plant and machinery whose total future minimum lease rentals under the foregoing leases are as follows:

	2009 £m	2008 £m
Minimum lease rentals due		
– within one year	8.7	10.8
– after one year and within five years	19.2	21.5
– after five years	0.6	2.3
	28.5	34.6

C) PENSION SCHEMES

The Group operates a number of pension schemes: five (2008: five) of which provide defined benefits based on final pensionable salary. Of these schemes one (2008: one) has assets held in a separate trustee administered fund and four (2008: four) are overseas book reserved schemes. The Group also operates a number of defined contribution schemes all of which are independently managed.

DEFINED BENEFIT PENSION SCHEME VALUATIONS

In accordance with the amendment to IAS 19 "Employee Benefits" which was issued on 16 December 2004, the Group has elected to recognise all actuarial gains and losses in full in the period in which they arise in the Consolidated Statement of Comprehensive Income.

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

The last formal actuarial valuation of the SIG plc Retirement Benefits Plan, the UK scheme, was conducted at 31 December 2007 and showed that the market value of the scheme's assets were £75.0m and their actuarial value covered 83% of the benefits accrued to members after allowing for expected future increases in pensionable salaries.

The other four schemes are book reserved schemes whereby the sponsoring company does not hold any separate assets to fund the pension scheme but makes a reserve in its Accounts. Therefore, these schemes do not hold separate scheme assets. The liabilities of the schemes are met by the sponsoring companies.

CONSOLIDATED INCOME STATEMENT CHARGES

The pension charge for the year relating to the defined benefit pension schemes was £2.9m (2008: £1.7m). In accordance with IAS 19 "Employee Benefits" the charge for the defined benefit schemes has been calculated as the sum of the cost of benefits accruing in the year, the increase in the value of benefits already accrued and the expected return on assets.

The actuarial valuations described previously have been updated at 31 December 2009 by a qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. Investments have been valued, for this purpose, at fair value.

The UK defined benefit scheme is closed to new members, has an age profile that is rising and therefore under the projected unit method the current service cost will increase as the members of the scheme approach retirement. The four overseas book reserved schemes remain open to new members.

NOTES TO THE ACCOUNTS CONTINUED

27 GUARANTEES AND OTHER FINANCIAL COMMITMENTS CONTINUED

C) PENSION SCHEMES CONTINUED

CONSOLIDATED BALANCE SHEET LIABILITY

The balance sheet position in respect of the five defined benefit schemes can be summarised as follows

	2009 £m	2008 £m
Pension liability before taxation	(24 0)	(19 1)
Related deferred tax asset	5 3	3 9
Pension liability after taxation	(18 7)	(15 2)

The actuarial loss of £4 7m (2008 £10 6m) for the year, together with the associated deferred tax credit of £1 3m (2008 £3 0m), has been recognised in the Consolidated Statement of Comprehensive Income. The remaining deferred tax credit of £0 1m (2008 debit of £2 5m) has been recognised in the Consolidated Income Statement.

The cumulative actuarial gains and losses, gross of deferred tax (from 2004 onwards) recognised in the Consolidated Statement of Comprehensive Income amounted to a loss of £16 4m (2008 £11 7m).

Of the above pension liability before taxation £19 0m (2008 £14 2m) relates to wholly or partly funded schemes and £5 0m (2008 £4 9m) relates to unfunded schemes.

The movement in the pension liability before taxation in the year can be summarised as follows

	2009 £m	2008 £m
Pension liability at beginning of year	(19 1)	(15 7)
Current service cost	(1 6)	(1 8)
Contributions	2 4	10 2
Net finance (cost)/income	(1 3)	0 1
Actuarial loss	(4 7)	(10 6)
Exchange difference	0 3	(1 3)
Pension liability at end of year	(24 0)	(19 1)

SCHEMES' DISCLOSURE

The principal assumptions used for the IAS 19 actuarial valuation of the schemes were

	2009 %	2008 %	2007 %
Rate of increase in salaries	4 5	4 7	5 3
Rate of fixed increase of pensions in payment	4 5	4 7	5 3
Rate of increase LPI pensions in payment	3 5	2 7	3 3
Discount rate	5 7	6 2	5 7
Inflation assumption	3 5	2 7	3 3

Deferred pensions are revalued to retirement in line with the schemes' rules and statutory requirements with the inflation assumption used for LPI revaluation in deferment.

The life expectancy for a male employee beyond the normal retirement age of 60 is 28 5 years (2008 28 5 years).

If the discount rate was to be increased/decreased by 0 25% this would decrease/increase the Group's gross pension scheme deficit by £5 25m.

The fair value of the assets in the schemes, the present value of the liabilities in the schemes and the expected rate of return at each balance sheet date were

	2009 %	2009 £m	2008 %	2008 £m	2007 %	2007 £m
Equities	7 5	50 7	6 4	40 3	6 7	48 7
Bonds	5 3	36 7	5 2	34 3	4 7	28 0
Other	N/A	–	N/A	–	6 2	0 1
Total fair value of assets		87 4		74 6		76 8
Present value of scheme liabilities		(111 4)		(93 7)		(92 5)
Deficit in the scheme		(24 0)		(19 1)		(15 7)
Related deferred tax asset		5 3		3 9		3 4
Pension liability after taxation		(18 7)		(15 2)		(12 3)

The overall expected rate of return is based upon market conditions at the balance sheet date.

27 GUARANTEES AND OTHER FINANCIAL COMMITMENTS CONTINUED**C) PENSION SCHEMES CONTINUED****SCHEMES DISCLOSURE CONTINUED**

Analysis of the amount charged to operating profit under IAS 19 in relation to the schemes

	2009 £m	2008 £m
Current service cost	1 6	1 8

Analysis of the amount credited/(charged) to net finance costs under IAS 19 in relation to the schemes

	2009 £m	2008 £m
Finance income – being expected return on pension scheme assets	4 3	5 3
Finance costs – being interest on pension scheme liabilities	(5 6)	(5 2)
Net finance (cost)/income	(1 3)	0 1

The actual gain on scheme assets was £12.2m (2008: loss of £10.0m)

Analysis of the actuarial loss recognised in the Consolidated Statement of Comprehensive Income in respect of the schemes

	2009 £m	2008 £m
Actual return less expected return on assets	7 9	(15 3)
Experience gains and losses on liabilities	–	5 5
Changes in assumptions	(12 6)	(0 8)
Actuarial loss recognised	(4 7)	(10 6)

Movements in the present value of the schemes' liabilities were as follows

	2009 £m	2008 £m
Fair value of schemes' liabilities at beginning of year	(93 7)	(92 5)
Current service cost	(1 6)	(1 8)
Interest on pension schemes' liabilities	(5 6)	(5 2)
Experience gains and losses on liabilities	–	5 5
Changes in assumptions	(12 6)	(0 8)
Contributions from schemes' members	(0 6)	(0 6)
Exchange differences	0 3	(1 3)
Benefits paid	2 4	3 0
Fair value of schemes' liabilities at end of year	(111 4)	(93 7)

Movements in the fair value of the schemes' assets were as follows

	2009 £m	2008 £m
Fair value of schemes' assets at beginning of year	74 6	76 8
Expected return on assets	4 3	5 3
Actual return less expected return on assets	7 9	(15 3)
Contributions from sponsoring companies	2 4	10 2
Contributions from schemes' members	0 6	0 6
Benefits paid	(2 4)	(3 0)
Fair value of schemes' assets at end of year	87 4	74 6

ACCOUNTS

NOTES TO THE ACCOUNTS CONTINUED

27 GUARANTEES AND OTHER FINANCIAL COMMITMENTS CONTINUED

C) PENSION SCHEMES CONTINUED

SCHEMES DISCLOSURE CONTINUED

History of experience of gains and losses

	2009	2008	2007	2006	2005
Difference between the expected and actual return on schemes' assets					
– amount (£m)	7.9	(15.3)	0.4	0.5	5.4
– percentage of schemes' assets	9.0%	(20.5%)	0.5%	0.7%	7.9%
Experience gains and losses on schemes' liabilities					
– amount (£m)	–	5.5	(4.4)	(9.0)	–
– percentage of the present value of schemes' liabilities	0.0%	5.9%	(4.9%)	9.9%	0.0%
Total amount recognised in the Consolidated Statement of Comprehensive Income					
– amount (£m)	(4.7)	(10.6)	6.2	3.3	(1.9)
– percentage of the present value of the schemes' liabilities	(4.2%)	(11.3%)	6.7%	6.3%	2.1%

D) CONTINGENT LIABILITIES

As at the balance sheet date, the Group had outstanding obligations under customer guarantees, claims, standby letters of credit and discounted bills of up to £12.0m (2008: £9.4m). Of this amount, £10.6m (2008: £7.8m) related to standby letters of credit issued by The Royal Bank of Scotland plc in respect of the Group's insurance arrangements.

In addition, there is a possible risk that when SIG acquires certain companies that include employee Shareholders, the capital gain made by these Shareholders could be reclassified as an income tax liability. This could give rise to a social security cost for the Group of up to £10m.

28 RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and have therefore not been disclosed.

REMUNERATION OF KEY MANAGEMENT PERSONNEL

The remuneration of the Directors who are the key management personnel of the Group is provided in the audited part of the Directors' Remuneration Report on pages 61 to 62. In addition, the Group recognised a share-based payment credit under IFRS 2 in respect of the Directors of £0.4m (2008: charge of £0.4m).

29 SUBSIDIARIES

Details of the Group's principal trading subsidiaries, all of which have been included in the Consolidated Accounts, are shown on page 117.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SIG plc

We have audited the Group financial statements of SIG plc for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity, the Statement of Significant Accounting Policies and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

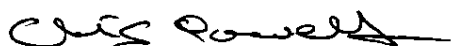
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' Statement contained within the Statutory Information section of the report in relation to going concern, and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

OTHER MATTER

We have reported separately on the Parent Company financial statements of SIG plc for the year ended 31 December 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.



CHRISTOPHER POWELL FCA
FOR AND ON BEHALF OF DELOITTE LLP
CHARTERED ACCOUNTANTS AND STATUTORY AUDITORS
LEEDS, UK
17 MARCH 2010

FIVE YEAR FINANCIAL SUMMARY

	IFRS					
	Continuing operations ^					2009 £m
	2005 £m	2005 £m	2006 £m	2007 £m	2008 £m	
Revenue	1 639.3	1 571.4	1,859.8	2 455.2	3,053.6	2,743.5
Underlying* operating profit	102.1	99.1	121.4	159.4	169.8	80.9
Operating profit/(loss)	92.8	89.8	114.5	142.2	107.0	(32.5)
Finance income	8.6	8.6	7.4	10.6	11.9	11.7
Finance costs	(14.5)	(14.5)	(19.2)	(28.5)	(85.8)	(34.5)
Underlying* profit before tax	94.3	91.3	108.3	140.1	137.3	60.6
Profit/(loss) before tax	86.8	83.8	102.7	124.3	33.1	(55.3)
Profit/(loss) after tax	58.1	56.0	71.8	87.1	6.8	(45.1)
Underlying* earnings per share	52.7p	50.9p	61.3p	74.8p	58.9p [†]	9.0p[†]
Earnings/(loss) per share	47.0p	45.2p	58.1p	66.3p	3.8p [†]	(9.7)p[†]
Dividend per share	16.8p	16.8p	20.5p	26.7p	8.3p	nil p

^ SIG sold its USA business on 20 November 2006. Figures stated are from continuing operations (i.e. excluding the USA business).

* Underlying figures are stated before the amortisation of acquired intangibles, impairment charges, restructuring costs and gains and losses on derivative financial instruments.

† In accordance with IAS 33, earnings per share for 2008 and 2009 has been recalculated to take into account the discount to the open offer element of the Group's equity issue completed in April 2009. Further details can be found in Note 8 on page 82.

A more detailed five year summary can be found in the investor section of the Company's website (www.sigplc.com).

COMPANY ACCOUNTS
PREPARED IN ACCORDANCE WITH UK GAAP

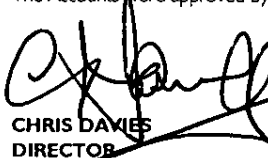
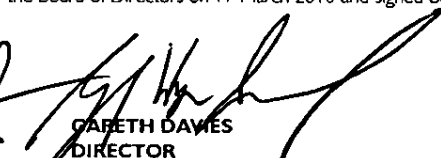
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COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2009

	Note	2009 £m	2008 £m
Fixed assets			
Investments	5	580.1	519.4
Tangible fixed assets	6	0.1	0.1
		580.2	519.5
Current assets			
Debtors – due within one year	7	392.5	326.8
Debtors – due after more than one year	7	301.3	507.2
Cash at bank and in hand		132.7	1.5
		826.5	835.5
Creditors – amounts falling due within one year	8	(274.7)	(518.9)
Net current assets		551.8	316.6
Total assets less current liabilities		1,132.0	836.1
Creditors – amounts falling due after one year	9	(401.5)	(455.9)
Net assets		730.5	380.2
Capital and reserves			
Called up share capital	11	59.1	13.6
Share premium account	11	447.0	167.5
Merger reserve	11	21.7	21.7
Capital redemption reserve	11	0.3	0.3
Special reserve	11	–	130.4
Share option reserve	11	0.9	2.6
Exchange reserve	11	(0.2)	(0.2)
Profit and loss account	11	201.7	44.3
Shareholders' funds (all equity)		730.5	380.2

The Accounts were approved by the Board of Directors on 17 March 2010 and signed on its behalf by

CHRIS DAVIES
DIRECTOR

GARETH DAVIES
DIRECTOR

The accompanying Statement of Significant Accounting Policies and Notes to the Accounts are an integral part of this Company Balance Sheet.

SIG plc Registered No. 998314

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The separate Accounts of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards ("UK GAAP").

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

The Company has taken the exemption from FRS 29 "Financial Instruments: Disclosures" provided for a Parent Company's single entity financial statements.

SHARE-BASED PAYMENTS

The accounting policy for share-based payments is consistent with that of the Group as detailed on page 73.

FINANCIAL INSTRUMENTS

The accounting policy for financial instruments is consistent with that of the Group as detailed on page 74.

FINANCIAL ASSETS AND LIABILITIES

The accounting policy for financial assets and liabilities is consistent with that of the Group as detailed on pages 73 to 74.

INVESTMENTS

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

FOREIGN CURRENCY

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end.

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.

NOTES TO THE ACCOUNTS

1 PROFIT FOR THE YEAR

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own Profit and Loss Account for the year. SIG plc reported a profit for the financial year ended 31 December 2009 of £45.5m (2008: £4.3m).

The Auditors' remuneration for audit services to the Company was £0.1m (2008: £0.1m).

2 SHARE-BASED PAYMENTS

The Company had five share-based payment schemes in existence during the year ended 31 December 2009. The Company recognised a total credit of £0.5m (2008: charge of £0.4m) in the year relating to equity-settled share-based payment transactions issued after 7 November 2002. Details of the valuations of each of the five share-based payment schemes can be found in Note 9 to the Group Accounts on pages 83 to 87.

3 DIVIDENDS

No final dividend has been proposed (2008: nil p) giving a full year dividend of nil p (2008: 8.3p).

4 STAFF COSTS

Particulars of employees (including Directors) are shown below.

	2009 £m	2008 £m
Employee costs during the year amounted to:		
Wages and salaries	2.1	3.7
Social security costs	0.4	0.5
FRS 20 share option (credit)/charge	(0.5)	0.4
Pension costs	0.2	0.3
	2.2	4.9

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

	2009 Number	2008 Number
Administration	21	32

5 FIXED ASSET INVESTMENTS

Fixed asset investments comprise investments in subsidiary undertakings, as follows:

	2009 £m	2008 £m
Cost		
Beginning of year	519.5	354.8
Additions	137.5	164.7
Disposals	(0.2)	–
End of year	656.8	519.5
Provisions at beginning of year	(0.1)	(0.1)
Movement in provision	(76.6)	–
Provisions at end of year	(76.7)	(0.1)
Net book value – beginning of year	519.4	354.7
Net book value – end of year	580.1	519.4

On 25 June 2009, the Company acquired 100% of the 21,098,002 ordinary shares of £6.87 each of SIG Financing (Jersey) Limited from SIG European Holdings Limited, a directly owned subsidiary of the Company, for a total consideration of £137.5m. Following the receipt of a dividend of £2.94 per ordinary share, totalling £62.0m, the Company reduced the carrying value of its investment to the recoverable amount through the recognition of an impairment loss of £62.0m.

On 11 August 2009, the Company sold its 1% shareholding in SIG Sp. z o.o. (formerly WKT Polska Sp. z o.o.) to SIG European Investments Limited, a 100% wholly owned subsidiary undertaking of SIG plc, for a total consideration equal to its book value of £0.2m.

Following the receipt of a dividend of £26.0m from Freeman Group Limited, representing £3.49 per £0.10 ordinary share (7,442,770 in issue), the Company reduced the carrying value of its investment in Freeman Group Limited to its recoverable amount through the recognition of an impairment loss of £13.9m.

Following the receipt of a dividend of £0.7m from Fitzpatrick Doors Limited, the Company reduced the carrying value of its investment in Fitzpatrick Doors Limited to its recoverable amount through the recognition of an impairment loss of £0.7m.

Details of the Company's principal trading subsidiaries are shown on page 117.

6 TANGIBLE FIXED ASSETS

The movement in the year was as follows

	Freehold land and buildings £m	Plant and machinery £m	Total £m
Cost			
Beginning of year	0.1	0.3	0.4
Additions	–	–	–
End of year	0.1	0.3	0.4
Depreciation			
Beginning of year	0.1	0.2	0.3
Charge for the year	–	–	–
End of year	0.1	0.2	0.3
Net book value beginning of year	–	0.1	0.1
Net book value, end of year	–	0.1	0.1

7 DEBTORS

	2009 £m	2008 £m
Amounts owed by subsidiary undertakings	645.7	746.6
Corporation tax recoverable	0.5	8.6
Deferred tax assets (Note 10)	2.3	2.3
Derivative financial instruments	38.6	74.6
Prepayments and accrued income	6.7	1.9
	693.8	834.0

Of the total amount owed to the Company by subsidiary undertakings, £301.3m (2008 £507.2m) is due after more than one year

8 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2009 £m	2008 £m
Bank overdrafts	21.0	15.0
Bank loans	170.8	341.1
Amounts owed to subsidiary undertakings	69.4	86.3
Derivative financial instruments	0.1	60.6
Accruals and deferred income	13.4	15.9
	274.7	518.9

All the Company's bank loans and overdrafts are unsecured

9 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2009 £m	2008 £m
Private placement notes	299.2	328.6
Bank loans	7.2	–
Derivative financial instruments	15.6	70.9
Amounts owed to subsidiary undertakings	79.5	56.4
	401.5	455.9

Details of the private placement notes are as follows

	2009 £m	2009 Fixed interest rate* %	2008 £m	2008 Fixed interest rate* %
Repayable in 2011	47.7	7.2%	53.0	6.9%
Repayable in 2013	84.6	5.1%	93.0	5.1%
Repayable in 2016	146.9	5.8%	162.6	6.0%
Repayable in 2018	20.0	5.8%	20.0	5.8%
	299.2	5.9%	328.6	5.9%

* Before applying associated derivative financial instruments

All Group derivative financial instruments disclosed in Note 17 on pages 93 to 95 have been entered into by the Company and therefore disclosures have not been repeated within this Note

ACCOUNTS

NOTES TO THE ACCOUNTS CONTINUED

10 DEFERRED TAX

	2009 £m	2008 £m
Deferred tax assets	2.3	2.3
The deferred tax assets above relate to short term timing differences		
The movement during the year in the deferred tax assets was as follows		
Beginning of year	2.3	2.6
Charge for the year	–	(0.3)
End of year	2.3	2.3

Given the current profitability of the Company the Directors consider that the recognition of the deferred tax assets above is appropriate

The Company has not taken account of excess non-trading losses associated with financial instruments in determining the above deferred tax asset as at 31 December 2009. See Note 21 on page 100 of the Consolidated Accounts for details

11 CAPITAL AND RESERVES

	2009 £m	2008 £m
Called up share capital	59.1	13.6
Share premium account	447.0	167.5
Merger reserve	21.7	21.7
Capital redemption reserve	0.3	0.3
Special reserve	–	130.4
Share option reserve	0.9	2.6
Exchange reserve	(0.2)	(0.2)
Profit and loss account	201.7	44.3
Total reserves	730.5	380.2

The movement in reserves during the year was as follows

	Called up share capital £m	Share premium account £m	Share option reserve £m	Special reserve £m	Retained profits £m
Beginning of year	13.6	167.5	2.6	130.4	44.3
New share capital issued	45.5	279.5	–	–	–
Debit to share option reserve	–	–	(1.3)	–	–
Exercise of share options	–	–	(0.4)	–	0.4
Fair value movement on cash flow hedges	–	–	–	–	(18.9)
Profit for the year	–	–	–	–	45.5
Transfer between reserves	–	–	–	(130.4)	130.4
End of year	59.1	447.0	0.9	–	201.7

The special reserve arose as a result of a number of transfers from the Company's share premium account up until 1996. Goodwill arising on a number of historic acquisitions was then written off against this special reserve at a Group level. However goodwill is no longer written off directly against reserves and is instead held as a non-current asset in the Group's Consolidated Balance Sheet. The special reserve is a distributable reserve and following the satisfactory completion of the actions required by the court on its creation has therefore been transferred to retained profits in the year.

There was no movement in the merger reserve, capital redemption reserve and exchange reserve in the year.

Details of the Company's share capital can be found in Note 23 of the Group Accounts on page 101.

12 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

A) GUARANTEES

The Company has cross guaranteed overdrafts of subsidiary undertakings (including the Company overdraft) amounting to £21.5m (2008: £20.6m).

B) CONTINGENT LIABILITIES

As at the balance sheet date the Company had outstanding obligations under standby letters of credit of up to £10.6m (2008: £7.8m). These standby letters of credit, issued by The Royal Bank of Scotland plc, are in respect of the Group's insurance arrangements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SIG plc

We have audited the Parent Company financial statements of SIG plc for the year ended 31 December 2009 which comprise the Company Balance Sheet and the related notes 1 to 12. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the Parent Company financial statements

- give a true and fair view of the state of the Parent Company's affairs as at 31 December 2009,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Parent Company financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us,
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns,
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

OTHER MATTER

We have reported separately on the Group financial statements of SIG plc for the year ended 31 December 2009.



CHRISTOPHER POWELL FCA
FOR AND ON BEHALF OF DELOITTE LLP
CHARTERED ACCOUNTANTS AND STATUTORY AUDITORS
LEEDS, UK
17 MARCH 2010

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REGISTERED OFFICE

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UNITED KINGDOM

SIG TRADING LIMITED, CURRENTLY TRADING AS:

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SIG ROOFING SUPPLIES

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LANDSDON

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Warnell
Welton
Carlisle
Cumbria CA5 7HH

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KOMFORT

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2083 Solymár
Várhegy U 4-6
Hungary

PRINCIPAL TRADING SUBSIDIARIES

The Company's principal trading subsidiaries, all of which are wholly owned except where stated, are currently as follows:

	Insulation and Building Environments	Exteriors	Interiors	SCP
United Kingdom				
SIG Trading Limited	•	•	•	•
Miller Pattison Limited	•			
Leaderflush + Shapland Limited*			•	
Ireland				
SIG Building Products Limited	•	•	•	•
Insulation Distributors Limited	•			
Germany				
WeGo Systembaustoffe GmbH	•		•	•
Melle Dachbaustoffe GmbH		•		•
France				
Société de l'Ouest des Produits Isolants SA	•			•
LITT Diffusion SAS			•	
Lanvière SAS		•		
Benelux				
SIG Nederland B.V.	•		•	
SIG Melderste Plafonneerartikelen N.V.			•	
Air Trade Centre Belgium N.V.	•			
Poland				
SIG Sp. z o.o.	•	•	•	•
Czech Republic				
SIG Czech s.r.o.	•		•	
Slovakia				
BEK Baustoffe Slovakia s.r.o.	•		•	
Hungary				
Pannon II Kft.	•		•	

* On 4 January 2010 Leaderflush + Shapland Limited was renamed SIG Manufacturing Limited

All of the above companies are registered in the country referred to above, with the exception of SIG Trading Limited, Miller Pattison Limited and Leaderflush + Shapland Limited (renamed SIG Manufacturing Limited on 4 January 2010) that are registered in England and Wales.

SIG European Investments Limited and SIG European Holdings Limited together hold the beneficial ownership of SIG Building Products Limited, WeGo Systembaustoffe GmbH, Melle Dachbaustoffe GmbH, Société de l'Ouest des Produits Isolants SA, LITT Diffusion SAS, Lanvière SAS, SIG Nederland B.V., SIG Melderste Plafonneerartikelen N.V., Air Trade Centre Belgium N.V., SIG Sp. z o.o., SIG Czech s.r.o., BEK Baustoffe Slovakia s.r.o. and Pannon II Kft.

The Group owns 80% of the ordinary share capital of Insulation Distributors Limited via SIG Trading Limited. The Group also owns 95% of Air Trade Centre International B.V. that itself owns 100% of Air Trade Centre Belgium N.V.

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SIG's commitment to environmental issues is reflected in this Annual Report which has been printed on Satimatt Green and Revive 50, both recycled paper stocks comprising 75% recycled fibre and 25% virgin fibre. This document was printed by CPG using vegetable-based inks and water-soluble lacquers and all production processes used make the minimum demand on the environment and produce the minimum amount of waste. Both the printer and the paper mill are registered to ISO 14001 and FSC approved.