

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 1 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 absolutions 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. Nicholls, 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" 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