

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.



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).

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).

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 –			2009 actions		
	To 30 June 2009	31 December 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.



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