Interim Report **2002**

Serving Construction and Industry

SIG is an **international market leader** in each of its three core businesses – **insulation, commercial interiors** and **roofing**. We operate in the UK, Eire, France, The Netherlands, Germany, Poland and the USA – servicing a wide range of markets across the building, construction, industrial, petro-chemical and process sectors.

We are **passionate** about our business and with the energy and ability of our staff we look to the future with **enthusiasm**.

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Chairman's Statement

As explained in our Trading Statement in July, the first six months of 2002 has seen a decline in demand in our overseas markets and in the Commercial Interiors sector in the UK. Market conditions were more favourable in UK Building Insulation and Roofing and the Group made good progress in these sectors.

The Group has responded to these mixed conditions by investing to strengthen and develop the business. Market coverage and penetration has been improved both by an increase in the number of trading locations and investment in resources and staff, focused on customer service. New products have been added to the range and we have successfully continued our acquisition strategy, with four businesses joining the Group during the first six months of 2002.

Overall, sales have grown 8% over prior year, including the benefit of acquisitions made in 2001 and in the first half of 2002. As indicated in the July Statement, the difficult market conditions, combined with the cost of increased investment, resulted in a small decline in operating profit before goodwill.

Results

- Sales in the first half have increased by 8%, an increase of £41m to £539m, largely reflecting the benefit of acquisitions made in the last twelve months;
- Operating profits for the period, before amortisation of goodwill, are 4% lower at £25.3m (2001: £26.2m);
- Goodwill amortisation increased to £2.1m in the period (2001: £1.1m) and interest charges increased to £3.3m (2001: £2.1m);
- Profit before tax is 14% lower at £19.8m (2001: £23.0m);
- Earnings per share are 12% lower at 11.3p (2001: 12.9p – restated as a result of the adoption of FRS 19 - Deferred Tax);
- Balance Sheet gearing was 74% at 30 June 2002, compared with 66% at 31 December 2001, reflecting the acquisition spend of £17.7m. Interest cover was a healthy 7 times. Cash flow from trading was strong at £28.1m, a 10% increase over the first half of 2001.

Dividend

An Interim dividend of 3.9p (2001: 3.7p) has been declared, an increase of 5.4%. This reflects our confidence in the future. The dividend is payable on 15 November 2002 to shareholders on the register at 18 October 2002.

Review of Operations

UK and Eire

Sales in the UK and Eire, which account for 64% of the total for the Group, increased by 14% (£42m) to £344m, demonstrating the continued development of the Group's position in its main territory.

Overall, pricing was stable to mildly inflationary and gross margins were either held or slightly improved. Operating profits in the UK and Eire improved by 4% overall.

Our ***Insulation and Related Products*** division grew sales by 12.2%. There have been indications that the new Building Regulations, introduced in April 2002, are beginning to have a positive effect on sales of thermal insulation into the new building sector. Conversely, demand from the industrial sector, where the Group is market leader in providing thermal and fire insulation products into power generation, petrochemical and offshore applications, declined in the first half of 2002.

In ***Roofing*** sales were increased by 22% against the background of flat market conditions. Most of this increase was derived from the Capco and Proos acquisitions (acquired August 2001 and March 2002, respectively). During the first half, management has concentrated on improving efficiencies within the existing operations, and we have made substantial progress in this Division.

Our ***Commercial Interiors*** operations increased sales by 12%, reflecting the Capco acquisition in August 2001. However, sales, excluding the contribution from Capco, declined by 7%. Demand for our core ceiling and partitions products fell and the higher margin partition systems were especially impacted by the reduced demand for premium office space. The Group is the leader in this market in the UK and the decline in demand has a serious effect, causing a reduction of £1.9m in the operating profit (before the contribution from Capco) compared to the first half of 2001. As part of the actions taken to help counter these conditions, new products are being introduced to further extend market coverage.

Europe

Sales in mainland Europe increased by 1% to £159m, which represents 29% of the Group total. This increase, which is largely organic, has been achieved in market conditions that have proved to be considerably weaker than in 2001. Despite slightly weaker pricing than in the prior year, gross margins have been held. However, cost increases, including those relating to new branch openings and the appointment of new sales teams, reduced the operating profit.

Germany

Sales in Germany were flat at £106m in the first half, an excellent achievement in a market that declined by an estimated 8% compared with 2001. Sales of insulation to the industrial sector held up well. In the building sector, sales of insulation and commercial interiors products were broadly in line with prior year, indicating further growth in market share.

The Group has increased the level of resources in Germany to take advantage of future opportunities, following the failure of certain competitors. The benefit of these investments did not come through in the period. The Group continued to be profitable in Germany, albeit at a lower level than in the corresponding period in 2001.

France

Overall sales in the first half increased by 5% to £34m. Despite a reduction in market demand in the Commercial Interiors sector, our business increased sales by 3%, including the contribution made by two new branches (Le Mans and Lille). Sales of insulation to the Industrial sector declined slightly as demand weakened in the market. During the period, initial steps were taken to develop sales into the fragmented roofing market in France and trading has commenced in two locations. These are at an early stage but indications are positive.

Operating profits in France reduced when compared to the equivalent prior year period, partly reflecting the start up costs associated with the new branches.

The Netherlands

Sales in the Netherlands increased by 6% to £12m. Organic sales declined as the market for commercial interiors products in the Netherlands experienced a downturn in demand. The recent acquisition of a leading insulation supplier gives the Group a more balanced product mix going forward. Operating profits declined slightly.

Poland

In Poland we increased sales in local currency by 1%, in a market that remained extremely challenging with construction activity declining further. This indicates a strengthening of our market share. As a result of actions taken to reduce costs and improve efficiencies, losses in Poland were small and significantly down on prior year.

USA

Sales in the first half declined by 6% to £36m as the tighter market conditions encountered in the second half of 2001 continued. Three new trading locations were opened in the Carolinas in the second quarter to take advantage of new opportunities, with the start up costs being recognised in the period. Additional costs were also incurred as we upgraded the computer systems throughout our US operations and created a unified accounting function. Operating profits in the period were below prior year.

Acquisitions

During the period, the Group continued to pursue its strategy of acquiring suitable businesses within the scope of existing activities, four companies being acquired for a consideration of £17.7m. These operations contributed sales of £11.7m in the first half - £10m in the UK and £1.7m in the Netherlands. All four are integrating well and are performing in line with our expectations.

Trading Locations

Increasing the number of trading locations is an important part of developing the business and providing improved customer service. The movement in the number of individual trading locations during the period is shown below:

	31 December 2001	Opened/ Acquired	Merged/ Closed	30 June 2002
UK & Eire	**188**	30	-5	**213**
Mainland Europe	**122**	5	-1	**126**
USA	**22**	3	0	**25**
Total Branches	**332**	38	-6	**364**

Board

In July, we announced that after 17 years of outstanding service with the Group, Frank Prust was stepping down as Finance Director and as a member of the Board on medical advice. Frank has been largely responsible for establishing the tight financial controls and prudent accounting disciplines applied within the Group.

This development had been anticipated and Gareth Davies, formerly Group Financial Controller, was appointed as Finance Director on 1 August 2002. Gareth joined the Group in 1993 and has worked very closely with Frank on all aspects of finance since that time. He has effectively headed this function for the last 12 months during Frank's absence due to ill health.

Prospects

Looking forward, conditions overall are not expected to change significantly in the second half.

Within the UK and Eire, some increased momentum is anticipated from the Roofing and building-related Insulation sectors. Demand from the Industrial sectors for insulation is not expected to improve in the short term. In addition, conditions in the commercial property market remain difficult as low tenant uptake of premium quality office space has a direct effect on our Commercial Interiors business. In Eire, there is some sign that the decline in building activity, especially in the commercial sector, is slowing.

In France, Germany and the Netherlands, the recent investments and developments are aimed at enabling the Group to continue to outperform the markets. Whilst conditions in Poland will remain difficult, our business is steadily improving its position.

In the USA, whilst we do not anticipate any significant change in conditions, we expect to benefit from the new branch investments that have recently been made.

Across the Group as a whole, we have strengthened our operations through investment and have clearly increased our market share against our competitors in generally very difficult conditions. Trading to date in the second half has been more encouraging than in the first half, but it is now evident that the high level of construction activity in the commercial sector is not feeding through to demand for office interiors products, and the anticipated recovery has not materialised either in the UK or mainland Europe. Whilst we expect the second half to be adversely affected by these continuing difficult conditions, we are confident that the strength of our operations and the leading position that we occupy in our main markets will enable the Group to deliver future growth.

B Cottingham

Barrie Cottingham
Chairman 2 September 2002

Summary Consolidated Profit and Loss Account

for the six months ended 30 June 2002

	Note	**Unaudited Six months ended 30 June 2002 £000's**	**Unaudited Six months ended 30 June 2002 £000's**	Unaudited Six months ended 30 June Restated 2001 £000's	Unaudited Six months ended 30 June Restated 2001 £000's	Audited Year ended 31 December Restated 2001 £000's	Audited Year ended 31 December Restated 2001 £000's
Turnover	3		**538,847**		497,640		1,037,258
Operating profit before amortisation of goodwill		**25,282**		26,235		59,113	
Amortisation of goodwill		**2,132**		1,111		2,801	
Operating profit	3		**23,150**		25,124		56,312
Net interest payable			**3,348**		2,099		5,045
Profit on ordinary activities before taxation			**19,802**		23,025		51,267
Tax on profit on ordinary activities			**6,258**		7,671		17,017
Profit on ordinary activities after taxation			**13,544**		15,354		34,250
Minority interests (all equity)			**137**		78		160
Equity dividends			**4,682**		4,387		13,051
Retained profit for the year			**8,725**		10,889		21,039
Earnings per share							
Basic earnings per share	4		**11.3p**		12.9p		28.8p
Fully diluted earnings per share	4		**11.1p**		12.8p		28.5p
Earnings per share before goodwill amortisation							
Basic earnings per share	4		**13.1p**		13.9p		31.2p
Fully diluted earnings per share	4		**12.9p**		13.7p		30.8p

Consolidated Statement of Total Recognised Gains and Losses

for the six months ended 30 June 2002

	Unaudited Six months ended 30 June 2002 £000's	Unaudited Six months ended 30 June 2001 Restated £000's	Audited Year ended 31 December 2001 Restated £000's
Profit on ordinary activities after taxation and minority interests	**13,407**	15,276	34,090
(Loss)/gain on foreign currency translation	**(373)**	(371)	(398)
Total recognised gains and losses for the period	**13,034**	14,905	33,692
Prior period adjustment (note 7)	**(506)**	–	–
Total recognised gains and losses since last annual report	**12,528**	14,905	33,692

Reconciliation of Movement in Consolidated Shareholders' Funds

for the six months ended 30 June 2002

	Unaudited Six months ended 30 June 2002 £000's	Unaudited Six months ended 30 June 2001 Restated £000's	Audited Year ended 31 December 2001 Restated £000's
Profit on ordinary activities after taxation and minority interests	**13,407**	15,276	34,090
Dividends	**(4,682)**	(4,387)	(13,051)
	8,725	10,889	21,039
New share capital issued	**1,241**	25	384
(Loss)/gain on foreign currency translation	**(373)**	(371)	(398)
Credit to L-TIP reserve	**90**	88	223
Net addition to shareholders' funds	**9,683**	10,631	21,248
Opening shareholders' funds as previously stated	**165,486**	143,448	143,448
Prior period adjustment (note 7)	**(506)**	284	284
Opening shareholders' funds as restated	**164,980**	143,732	143,732
Closing shareholders' funds as restated	**174,663**	154,363	164,980

Summary Consolidated Balance Sheet

as at 30 June 2002

	Unaudited 30 June 2002 £000's	Unaudited 30 June 2001 Restated £000's	Audited 31 December 2001 Restated £000's
Fixed assets			
Intangible assets	**78,748**	42,897	67,152
Tangible assets	**68,729**	62,316	65,031
	147,477	105,213	132,183
Current assets			
Stocks	**90,931**	77,208	78,504
Debtors	**236,263**	201,647	199,330
Cash at bank and in hand	**14,146**	5,942	10,348
	341,340	284,797	288,182
Creditors: Amounts falling due within one year	**(204,058)**	(201,863)	(151,868)
Net current assets	**137,282**	82,934	136,314
Total assets less current liabilities	**284,759**	188,147	268,497
Creditors: Amounts falling due after more than one year	**(106,039)**	(30,285)	(99,815)
Provision for liabilities and charges	**(3,920)**	(3,499)	(3,702)
Net assets	**174,800**	154,363	164,980
Shareholders' funds	**174,663**	154,363	164,980
Minority interests	**137**	–	–
Total capital employed (all equity)	**174,800**	154,363	164,980

Summary Consolidated Cash Flow Statement

for the six months ended 30 June 2002

	Note	**Unaudited 30 June 2002 £000's**	Unaudited 30 June 2001 £000's	Audited 31 December 2001 £000's
Net cash inflow from operating activities	5	**28,113**	25,531	50,932
Returns on investments and servicing of finance		**(3,473)**	(2,099)	(2,737)
Tax paid		**(6,321)**	(6,202)	(17,888)
Capital expenditure		**(9,704)**	(10,304)	(19,506)
Acquisitions		**(4,809)**	(10,178)	(36,536)
Equity dividends paid		**(8,696)**	(8,040)	(12,431)
Financing		**4,209**	6,081	76,811
(Decrease)/increase in cash in the period	6	**(681)**	(5,211)	38,645

1 Basis of preparation of interim financial information

The interim financial information has been prepared in accordance with the accounting policies included in the Annual Report for the year ended 31 December 2001, which have been applied consistently throughout the current and preceding periods, with the exception of a change in accounting policy resulting from the adoption of FRS 19 Deferred tax (note 7).

The interim financial information was approved by the Board of Directors on 2 September 2002.

2 Publication of non statutory accounts

The financial information included in this interim statement does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The interim results to 30 June 2002 and 2001 are neither audited nor reviewed. The financial information for the full preceding year is based on the statutory accounts for the financial year ended 31 December 2001, restated as necessary to comply with FRS 19 Deferred tax. Those accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies. The auditors' report contained no statement under Sections 237(2) or 237(3) of the Companies Act 1985.

3 Segmental information

Geographical analysis	**Unaudited Six months ended 30 June 2002 £000's**	Unaudited Six months ended 30 June 2001 £000's	Audited Year ended 31 December 2001 £000's
Turnover			
– UK & Eire	**343,549**	301,987	638,883
– Europe	**158,832**	156,769	325,614
– Rest of world	**36,466**	38,884	72,761
Total operations	**538,847**	497,640	1,037,258
Operating profit			
– UK & Eire	**22,692**	21,897	49,120
– Europe	**2,896**	4,304	10,424
– Rest of world	**941**	1,460	2,097
– Parent Company	**(1,247)**	(1,426)	(2,528)
– Amortisation of goodwill	**(2,132)**	(1,111)	(2,801)
Total operations	**23,150**	25,124	56,312

Turnover and operating profit by destination is not materially different from these amounts. Turnover and operating profit from acquisitions during the period have not been reported separately due to their immateriality to the Group results.

4 Earnings per share

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

	Basic and diluted			Basic and diluted before goodwill amortisation		
	Unaudited Six months ended 30 June		Audited Year ended 31 December	Unaudited Six months ended 30 June		Audited Year ended 31 December
	2002	2001 Restated	2001 Restated	**2002**	2001 Restated	2001 Restated
	£000's	£000's	£000's	**£000's**	£000's	£000's
Profit after tax	**13,544**	15,354	34,250	**13,544**	15,354	34,250
Minority interests	**(137)**	(78)	(160)	**(137)**	(78)	(160)
Goodwill amortisation	–	–	–	**2,132**	1,111	2,801
	13,407	15,276	34,090	**15,539**	16,387	36,891

Weighted average number of shares:	Unaudited Six months ended 30 June		Audited Year ended 31 December
	2002 Number	2001 Number	2001 Number
For basic earnings per share	**118,970,539**	118,257,428	118,415,817
Exercise of share options	**1,487,836**	1,522,544	1,215,171
For diluted earnings per share	**120,458,375**	119,779,972	119,630,988

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

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

	Unaudited Six months ended 30 June 2002 £000's	Unaudited Six months ended 30 June 2001 £000's	Audited Year ended 31 December 2001 £000's
Operating profit	**23,150**	25,124	56,312
Depreciation and amortisation	**9,989**	7,995	17,101
Profit on sale of tangible fixed assets	**(233)**	(6)	(504)
Changes in working capital	**(4,793)**	(7,582)	(21,977)
Net cash inflow from operating activities	**28,113**	25,531	50,932

6 Reconciliation of net cash flow to movement in net debt

	Unaudited Six months ended 30 June 2002 £000's	Unaudited Six months ended 30 June 2001 £000's	Audited Year ended 31 December 2001 £000's
(Decrease)/increase in cash in the period	**(681)**	(5,211)	38,645
Cash inflow from increase in debt	**(2,968)**	(6,056)	(76,427)
Changes in net debt resulting from cash flows	**(3,649)**	(11,267)	(37,782)
Acquisitions	**(12,021)**	(60)	(84)
Exchange differences	**(3,572)**	1,277	935
Movement in net debt in the period	**(19,242)**	(10,050)	(36,931)
Net debt at start of period	**(109,328)**	(72,397)	(72,397)
Net debt at end of period	**(128,570)**	(82,447)	(109,328)

7 Deferred tax

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

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

	Unaudited Six months ended 30 June 2002 £000's	Unaudited Six months ended 30 June 2001 £000's	Audited Year ended 31 December 2001 £000's
Decrease in profit after taxation	**35**	395	790
Decrease in net assets	**541**	111	506
Decrease in basic earnings per share (pence)	–	0.4p	0.7p

Company Directory

President

Sir William Norman Adsetts, OBE, MA

Directors

Barrie Cottingham, FCA, ATII (Non-Executive Chairman)

David Williams (Chief Executive)

Francis Charles Prust, FCA (Finance Director) (Resigned 31 July 2002)

Gareth Wyn Davies, ACA (Finance Director) (Appointed 1 August 2002)

Michael John Chivers

Peter Hugh Blackburn, BA, D.Litt, FCA, (Non-Executive)

Nicholas Campbell Paul, BSc, MSc, MIMechE, MIMC (Non-Executive)

Company Secretary

John Ralph Swynnerton, FCA

Registered Office

Hillsborough Works, Langsett Road, Sheffield S6 2LW

Principal Trading Subsidiaries

At 30 June 2002, the Company's principal trading subsidiaries were:

Sheffield Insulations Limited Société de l'Ouest des Produits Isolants SA (Ouest Isol) WKT Dämmstoffe GmbH & Co. Holding OHG H. Golinski GmbH & Co KG WKT Polska sp.Z0.0. SIG Roofing Supplies Limited SIG Southwest Inc BWI Group Inc Support Site Limited	*Distribution of insulating materials and related products, and roofing products.*
Miller Pattison Limited	*Installation of loft and cavity wall insulation.*
CPD Distribution PLC Nouwens Groep B.V.	*Distribution of ceiling tiles and ancillary products.*
Komfort Office Environments plc	*Design, manufacture and distribution of partitioning.*
Safety Distribution Limited	*Distribution of personal protective equipment.*
Capco Holdings Limited	*Distribution of ceiling tiles and ancillary products; roofing products; insulating materials and office furniture.*

SIG

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