

PRESS RELEASE

9 March 2004

PRELIMINARY RESULTS FOR YEAR ENDED 31 DECEMBER 2003

SIG plc is the market leading specialist distributor of insulation, roofing and commercial interiors products in Europe. It has 371 branches located in the UK, Republic of Ireland, France, Germany, The Netherlands, Poland and the USA.

- Sales increased by 9.8% to £1,268.5m (2002: £1,155.0m). Like for like ⁽¹⁾ sales growth was 6.7%.
 - UK and Republic of Ireland (c. 64% of Group sales), sales increased by 10.4% to £810.7m (2002: £734.5m), with sales growth being achieved in all market sectors other than premium office interiors which account for less than 7% of total Group sales. The largest division, Insulation, performed particularly strongly, achieving double digit like for like sales growth as the impact of increased insulation building standards took effect.
 - In Mainland Europe (c. 31% of Group sales), sales increased by 2.9% in local currencies and 12.7% in Sterling to £394.2m (2002: £349.8m), against a background of weak markets. Sales were up in local currency in all countries. Costs were held in real terms in local currencies and this, combined with an increase in the gross margin, enabled operating profits (pre goodwill amortisation of £0.6m (2002: £0.6m)) to increase by 29% in local currencies and 43% in Sterling to £11.0m (2002: £7.7m).
 - In the USA (c. 5% of Group sales), sales declined by 1.7% in US Dollars (9.8% in Sterling), against the background of weak demand from the petrochemical industries.
- Five acquisitions were made in the year, all of which traded profitably.
- Operating profit up 9.9% to £58.6m (2002: £53.4m).
- Profit before tax was up 11.1% to a record £51.5m (2002: £46.3m) and earnings per share increased by 8.7% to 28.6p (2002: 26.3p).
- Cash flow strengthened progressively during the year, enabling substantial reduction in gearing to 38% at the year end (2002: 70%).
- Tenth successive year of dividend growth. Recommended final dividend per share of 8.3p gives a total dividend up 6.9% to 12.4p (2002: 11.6p), reflecting the Board's confidence in the Group's prospects.

⁽¹⁾ – 'Like for like' in this context means excluding the sales of acquisitions made in 2002 and 2003.

Barrie Cottingham, Chairman, commented:

"The Group has produced a solid performance in 2003, having achieved growth in sales, operating profit, profit before tax and earnings per share compared with the prior year. New records for sales and profits have been set in a year when only the UK Structural Insulation market showed any growth, with all other markets in which the Group operates having experienced either flat or reduced demand. This clearly demonstrates the underlying strength and resilience of the Group.

Market conditions are not expected to change significantly in 2004, but the Group, having strengthened its market position and its finances in 2003, enters the year in excellent shape, giving me confidence of continued further progress."

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Full Preliminary Results information, including a webcast of the presentation, is available on www.sigplc.co.uk/results
An interview with David Williams, Chief Executive is available on SIG's website and on <http://www.cantos.com>

Introduction

The Group has produced a solid performance in 2003, having achieved growth in sales, operating profit, profit before tax and earnings per share compared with the prior year. New records for sales and profits have been set in a year when only the UK Structural Insulation market showed any growth, with all other markets in which the Group operates having experienced either flat or reduced demand. This clearly demonstrates the underlying strength and resilience of the Group.

Actions taken during the year on the management of working capital have improved cash flow, reduced gearing significantly and further strengthened the Balance Sheet.

Results

For the year ending 31 December 2003, compared with the corresponding period in 2002:

Sales

- Sales increased by £113.6m (9.8%) to £1,268.5m (2002 : £1,155.0m);
- Sales growth, excluding the impact of foreign exchange, was 6.9%;
- Like for like sales growth was 6.7%, before the benefit of acquisitions in 2002 and 2003.

Profits

- Operating profit was £58.6m, up £5.3m (9.9%);
- Goodwill amortisation increased marginally by £0.3m to £4.8m. Interest costs (prior to FRS 17 finance charges) fell £0.6m to £6.5m, reflecting a significant reduction in borrowings. The impact of adopting FRS 17 (see below) is reflected in an additional £0.7m charge to the total interest figure;
- Profit before tax rose by 11.1%, an increase of £5.1m to £51.5m (2002 : £46.3m).

Margins and Costs

- The gross margin declined slightly compared with prior year, due primarily to changes in the sales mix;
- Operating costs (before goodwill amortisation of £4.8m) were reduced as a proportion of sales;
- The overall Group operating margin (before goodwill amortisation of £4.8m) was maintained at 5.0%.

Earnings and Dividends

Earnings per share in 2003 were 28.6p compared with 26.3p in 2002, an increase of 8.7%. A final dividend of 8.3p is proposed, subject to shareholder approval. This would make a total dividend for the year of 12.4p, up 6.9% from the 11.6p per share dividend in 2002. If approved, the final dividend will be payable on 21 May 2004 to shareholders on the register at 16 April 2004. This marks the tenth successive annual increase in the dividend, a tangible demonstration of the Group's commitment to a progressive dividend policy.

Acquisitions

The Group stated early in 2003 that its primary focus would be on seeking organic improvements during the year and the acquisition programme would be temporarily held back. There were five small bolt-on acquisitions completed during 2003, for a total consideration of £3.5m. Three of these were in the UK and two in France.

Finances

Progressive improvement in cash inflow enabled a substantial reduction in gearing to be achieved, to 38% at the end of December 2003 compared with 50% at 30 June 2003 and 70% at 31 December 2002. The gearing figures have been adjusted to take account of the impact of the early adoption of FRS 17 (see below). Gearing figures pre FRS 17 are 35% for 31 December 2003 and 63% for 31 December 2002. Interest cover remained very prudent and strengthened during 2003 over 2002.

Pensions

The Group has adopted the accounting policy FRS 17 Retirement benefits this year. Though not required to be adopted, the Board considers that, given the last triennial actuarial valuation of the main scheme was at 1 January 2001, the profit and loss charge and balance sheet position is more accurately reflected under the new standard. The effect of the introduction of the new standard in 2003, when compared to SSAP 24, is to reduce profit before taxation by £190,000 (2002: £nil) and to reduce comparative shareholders' funds by £16.9m.

Board

Barrie Cottingham, Chairman, has indicated his intention to step down from the Board following the AGM in April 2004. He will be replaced by Les Tench who joined the Board in March 2003 and is presently Deputy Chairman.

An additional independent Non-Executive Director, Michael Borlenghi, has been appointed and joins the Board on 2 April 2004.

Review of Operations

The Group made good progress in 2003. Sales and profits hit record levels and SIG strengthened its market position throughout all its activities.

In addition to achieving like for like growth in sales and operating profits, the results for the year benefited from the efficiency improvements under the Group's Continuous Improvement Programme, the ongoing impact of acquisitions and the strength of the Euro.

Highlights

UK and Republic of Ireland (c. 64% of total Group sales)

Sales were increased by 10.4% to £810.7m (2002: £734.5m) and operating profits (pre goodwill amortisation of £3.951m (2002: £3.669m)) grew by 5.5% to £54.2m (2002: £51.4m). Like for like sales growth overall was 6% (2002: 3%).

Sales growth was achieved in all market sectors in the UK and Republic of Ireland, other than in premium office interiors, where the sharp decline in market demand continued throughout the year.

SIG's largest business unit, UK and Republic of Ireland **Insulation** had an excellent year, with double digit growth in like for like sales and operating profits.

Whilst the gross margin reduced slightly due to changes in the product mix, the net operating margin increased.

Market demand for thermal insulation materials increased progressively throughout the year, as the new, tighter Building Regulations increased the minimum standards of insulation required in the walls, roof and floor of all types of new buildings. It is also apparent that the new standards are being used in many renovation and upgrading projects, where it is technically feasible to do so.

The impact of the new Regulations has created some changes in product mix, due to the technical characteristics of different insulation materials. Whilst this mix change has been slightly detrimental to the gross margin, SIG believes it has strengthened its market position due to the

uniquely comprehensive breadth and depth of its stockholding. SIG has been able to meet the changing pattern of customer requirements on demand, whilst maintaining very high service levels. Continued investment in customer service is key to its performance in this area.

The Group is heavily involved in a range of energy efficiency programmes concerning the upgrading of insulation in existing homes and these programmes stimulated increased demand during 2003.

The **Roofing** division grew sales and profits significantly during the year, with good like for like sales growth being supplemented by the incremental benefit of the acquisitions made in this sector in 2002 and 2003.

Actions were taken to widen the product range and SIG's on-going programme of expansion led to new site openings in both the UK and the Republic of Ireland. SIG reinforced its position as the largest materials supplier to the roofing industry.

Gross margins were maintained compared with prior year and the net operating margin reduced slightly due to the impact of increased costs associated with the ongoing programme of investment in sales and customer service facilities.

Within the **Commercial Interiors** division SIG experienced a continuation of the fall in demand for fit-out products from the premium office sector. Sales and operating profits were sharply down for the core products associated with this market, especially high specification bespoke partition systems.

Expenditure on new product development was increased and the associated costs also impacted on the results in 2003. These changes to the product range extend SIG's coverage and take it into new market sectors and reinforce their position as the leading supplier of specialist partitioning and related products in the UK.

The larger volume operation involved in the supply of mainstream interior products to the wider non-residential building sector had a good year with both sales and operating profits increased. This picture does emphasise the point that the difficulties in the interiors sector were localised to the premium office market.

In Safety Products, SIG had a very successful turnaround year, and moved back into profit. Sales were increased, costs reduced and the gross and operating margin significantly improved. The product range and sales operation have been refocused and these changes, together with a warehouse reorganisation have enabled customer service levels to be significantly improved.

Like for like sales growth in Construction Accessories was supplemented by the full year impact of an acquisition made in 2002. Operating profits declined due to margin pressure and the impact of cost increases partly associated with the reorganisation of this unit.

Mainland Europe (c. 31% of total Group sales)

Sales increased by 2.9% in local currencies and 12.7% in Sterling to £394.2m (2002: £349.8m). Sales were up in local currency in all countries in which the Group operates (i.e. Germany, France, The Netherlands and Poland). Costs were held in real terms in local currencies and this combined with an increase in the gross margin enabled operating profits (pre goodwill amortisation of £0.6m (2002: £0.6m)) to increase by 29% in local currencies and 43% in Sterling to £11.0m (2002: £7.7m).

This is an excellent performance against a background of weak markets.

In **Germany** construction activity fell in 2003 and whilst the market for SIG's products declined, SIG increased sales in Euros despite the closure of six branches towards the end of 2002.

Improved efficiencies and increased focus on pricing management within the business enabled operating profits to be substantially increased.

New products have been added to the stock range and SIG has further strengthened its position in the market.

France

Sales and operating profit grew in 2003 in Euros, on a like for like basis. This was supplemented by two small acquisitions.

Market demand in both insulation and commercial interiors was weak and SIG's performance represents an increase in its market share.

Sales from the new roofing branches increased and the product range was extended.

The Netherlands

Market demand fell in The Netherlands in 2003, both for commercial interior and industrial insulation products. Sales were increased in Euros, due to the full year benefit of the 2002 acquisition. Costs associated with the opening of a new operation together with changes in the product mix reduced operating profits.

Poland

Sales grew strongly and operating losses were sharply lower than prior year. Market demand began to improve from the mid-year onwards. SIG added a new branch in the North to improve customer service and also invested in new insulation fabrication facilities to take advantage of emerging opportunities.

These developments combined with tight cost control enabled a small operating profit to be achieved in the second half of the year, for the first time in any six month period.

USA (c. 5% of total Group sales)

Total sales in the USA declined by 1.7% in US Dollars and 9.8% in Sterling to £63.7m (2002: £70.6m).

Demand from the core petrochemical and refining industries in the Southern Gulf States continued to be very weak and some major projects were delayed towards the year end. Actions were taken to reduce costs by restructuring certain operations. Sales and operating profits declined.

The branches located down through the Eastern States, which operate in generally lighter industrial insulation markets (such as heating and air conditioning) traded well, increasing both sales and operating profits.

SIG's USA operations successfully embraced the drive to improve the operational ratios in the Group and made good progress in cash generation, working capital ratios and cost reduction.

Prospects

Market conditions are not expected to change significantly in 2004 across the areas in which the Group operates.

In the UK and Republic of Ireland, general construction activity is expected to remain robust and demand for insulation and related products is expected to continue to grow. Whilst demand from the premium office sector is not expected to recover in the near term, the wider markets for mainstream commercial interiors products continue to be stable. Demand for roofing products is driven more by essential repairs and maintenance than new build, and this market is expected to continue at satisfactory levels.

In Mainland Europe, whilst demand remains weak in Germany and The Netherlands, the outlook is more positive in France and Poland. Overall demand is expected to be broadly similar to 2003.

In the USA, it is anticipated that activity levels in the industrial and petrochem fields will begin to improve as the year progresses.

As indicated in the Trading Update in January 2004, the Group is active in expanding its position within existing business streams, and SIG will continue to invest in trading locations and resources to extend its customer reach and service.

The Group has further strengthened its market position and its finances in 2003 and enters 2004 in excellent shape. The Board has confidence that the Group will continue to make further progress.

Consolidated Profit and Loss Account

for the year ended 31 December 2003

	Note	2003	2003	2002	2002
		£'000's	£'000's	£'000's	Restated £'000's
Turnover					
Continuing operations	2		1,263,508		1,154,968
Acquisitions	2		5,017		-
			1,268,525		1,154,968
Cost of sales			948,169		859,128
Gross profit			320,356		295,840
Other operating expenses			261,714		242,461
Operating profit					
Continuing operations	2		58,337		53,379
Acquisitions	2		305		-
			58,642		53,379
Net interest payable			6,466		7,051
Other finance charges/(income)			685		(20)
Profit before taxation and amortisation of goodwill			56,287		50,872
Amortisation of goodwill	2		4,796		4,524
Profit on ordinary activities before taxation			51,491		46,348
Tax on profit on ordinary activities			16,786		14,646
Profit on ordinary activities after taxation			34,705		31,702
Minority interests (all equity)			447		294
Profit for the financial year			34,258		31,408
Equity dividends paid and proposed			14,920		13,917
Retained profit for the year			19,338		17,491
Earnings per share					
Basic earnings per share	3		28.6p		26.3p
Diluted earnings per share	3		28.2p		26.1p
Earnings per share before amortisation of goodwill					
Basic earnings per share	3		32.5p		30.1p
Diluted earnings per share	3		32.2p		29.9p

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 December 2003

		2003	2002
	Note	£'000's	Restated £'000's
Profit for the financial year		34,258	31,408
Tax credit on exchange loss arising on foreign currency borrowings		1,570	1,197
Tax credit arising on repayment of overseas intercompany loans		-	4,572
Exchange difference on retranslation of overseas net investments		5,202	3,062
Exchange difference on foreign currency borrowings		(5,235)	(3,990)
Actuarial gain/(loss) relating to the pension schemes		335	(13,154)
Deferred tax movement associated with actuarial gain/(loss)		(101)	3,946
Total recognised gains and losses for the year		36,029	27,041
Prior year adjustment (FRS 17)	7	(16,884)	-
Total recognised gains and losses since last annual report		19,145	27,041

There is no difference between the results presented on page 7 and the results on an unmodified historical cost basis. Therefore, a note of historical cost profits is not required.

Reconciliation of Movement in Consolidated Shareholders' Funds

for the year ended 31 December 2003

		2003	2002
	Note	£'000's	Restated £'000's
Profit for the financial year		34,258	31,408
Dividends		(14,920)	(13,917)
		19,338	17,491
New share capital issued		895	1,735
Tax credit on exchange loss arising on foreign currency borrowings		1,570	1,197
Tax credit arising on repayment of overseas intercompany loans		-	4,572
Exchange difference on retranslation of overseas net investments		5,202	3,062
Exchange difference on foreign currency borrowings		(5,235)	(3,990)
Credit to L-TIP reserve		137	174
Actuarial gain/(loss) relating to the pension schemes		335	(13,154)
Deferred tax movement associated with actuarial gain/(loss)		(101)	3,946
Goodwill transfer		-	4,835
Net additions to shareholders' funds		22,141	19,868
Opening shareholders' funds as previously reported		194,056	164,980
Prior year adjustment (FRS 17)	7	(16,884)	(7,676)
Opening shareholders' funds as restated		177,172	157,304
Closing shareholders' funds		199,313	177,172

Consolidated Balance Sheet
as at 31 December 2003

	Note	2003 £'000's	2002 Restated £'000's
Fixed assets			
Intangible assets		78,696	80,693
Tangible assets		69,194	71,717
		147,890	152,410
Current assets			
Stocks		93,035	88,876
Debtors		223,483	218,074
Cash at bank and in hand		55,417	13,558
		371,935	320,508
Creditors:			
Amounts falling due within one year		(198,618)	(172,242)
		173,317	148,266
Net current assets			
		321,207	300,676
Total assets less current liabilities			
Creditors:			
Amounts falling due after more than one year		(98,419)	(105,920)
Provision for liabilities and charges		(9,327)	(3,136)
		213,461	191,620
Net assets excluding pension liability			
Pension liability	7	(13,701)	(14,154)
		199,760	177,466
Net assets including pension liability			
Capital and reserves			
Called up share capital		12,027	11,968
Share premium account		14,967	14,131
Capital redemption reserve		347	347
Special reserve		22,113	22,113
L-TIP reserve		237	326
Exchange reserve		66	(1,471)
Profit and loss account		149,556	129,758
		199,313	177,172
Shareholders' funds (all equity)		199,313	177,172
Minority interest		447	294
		199,760	177,466
Total capital employed			

Consolidated Cash Flow Statement
for the year ended 31 December 2003

	Note	2003 £000's	2003 £000's	2002 Restated £000's	2002 Restated £000's
Net cash inflow from operating activities	4		97,942		64,679
Returns on investments and servicing of finance					
Interest received		1,744		1,426	
Interest paid		(8,476)		(7,879)	
Interest element of finance lease rentals		(406)		(582)	
Dividends paid to minority shareholders		(294)		-	
Net cash outflow from returns on investments and servicing of finance			(7,432)		(7,035)
Tax paid			(10,809)		(14,323)
Capital expenditure					
Purchase of tangible fixed assets		(13,367)		(22,068)	
Sale of tangible fixed assets		1,405		1,844	
			(11,962)		(20,224)
Acquisitions					
Purchase of subsidiary undertakings		(3,026)		(22,956)	
Net cash acquired with subsidiary undertakings		343		899	
Net cash outflow from acquisitions			(2,683)		(22,057)
Equity dividends paid			(14,153)		(13,363)
Cash inflow/(outflow) before financing			50,903		(12,323)
Financing					
Issue of ordinary share capital		895		1,735	
Lease financing		286		7,430	
Capital element of finance lease rental payments		(5,408)		(7,107)	
Repayment of loans		(16,873)		-	
New loans		26,499		10,286	
Net cash inflow from financing			5,399		12,344
Increase in cash	5		56,302		21

Notes

1. Basis of preparation

The preliminary announcement does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 but is derived from those statutory accounts. The announcement has been agreed with the Company's auditors for release. The financial information has been prepared on a basis consistent with the previous year, with the exception of a change in accounting policy resulting from the adoption of FRS 17 Retirement benefits (note 7).

The Group's statutory accounts for the year ended 31 December 2002 have been filed with the Registrar of Companies, and those for 2003 will be delivered following the Company's Annual General Meeting, restated as necessary to comply with FRS 17 Retirement benefits. The auditors have reported on the statutory accounts for 2002 and 2003, and their reports were unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.

2. Segmental information

Geographical analysis	2003			2002		Net Assets Restated £000's
	Turnover £000's	Operating Profit £000's	Net Assets £000's	Turnover £000's	Operating Profit Restated £000's	
Continuing operations						
– UK & Republic of Ireland	807,752	53,944	184,361	734,537	51,428	175,601
– Mainland Europe	392,088	11,024	120,212	349,821	7,718	87,290
– USA	63,668	906	19,850	70,610	1,501	14,515
– Parent Company	-	(2,741)	(128,908)	-	(2,744)	(99,940)
– Amortisation of goodwill	-	(4,796)	-	-	(4,524)	-
Total	1,263,508	58,337	195,515	1,154,968	53,379	177,466
Acquisitions						
– UK & Republic of Ireland	2,952	291	3,260	-	-	-
– Mainland Europe	2,065	14	985	-	-	-
Total	5,017	305	4,245	-	-	-
Total operations	1,268,525	58,642	199,760	1,154,968	53,379	177,466

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

The directors consider that all of the Group's activities in each of its market sectors represent one principal activity, being the distribution of construction related products.

Of the goodwill amortisation, £3.951m (2002 : £3.669m) relates to the UK and Republic of Ireland, £0.602m (2002 : £0.586m) relates to Mainland Europe and £0.243m (2002 : £0.269m) relates to the USA.

3. Earnings per share

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

	Basic and diluted		Basic and diluted before amortisation of goodwill	
	2003 £'000's	2002 £'000's	2003 £'000's	2002 £'000's
Profit after tax	34,705	31,702	34,705	31,702
Minority interests	(447)	(294)	(447)	(294)
Amortisation of goodwill	-	-	4,796	4,524
	34,258	31,408	39,054	35,932

Weighted average number of shares:	2003	2002
	Number	Number
For basic earnings per share	119,981,696	119,309,596
Exercise of share options	1,313,821	935,230
For diluted earnings per share	121,295,517	120,244,826

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

4. Reconciliation of operating profit to net cash inflow from operating activities

	2003	2002
	£'000's	Restated £'000's
Operating profit	58,642	53,379
Depreciation charge	16,831	16,028
Amortisation of goodwill	4,796	4,524
Profit on sale of tangible fixed assets	(335)	(451)
Increase in stocks	(2,525)	(4,010)
Decrease / (increase) in debtors	946	(5,675)
Increase in creditors	19,587	884
Net cash inflow from operating activities	97,942	64,679

5. Reconciliation of net cash flow to movements in net debt

	2003 £'000's	2002 £'000's
Increase in cash in the year	56,302	21
Cash outflow from decrease in debt	(4,504)	(10,609)
Changes in net debt resulting from cash flows	51,798	(10,588)
Acquisitions	(20)	(151)
Exchange differences	(4,713)	(3,313)
Movement in net debt in the year	47,065	(14,052)
Net debt at beginning of year	(123,380)	(109,328)
Net debt at end of year	(76,315)	(123,380)

6. Proposed dividend

The proposed dividend of 8.3p per ordinary share, if approved, will be payable on 21 May 2004 to shareholders on the register at 16 April 2004.

7. Prior year adjustment

The Group has adopted FRS 17 Retirement benefits with effect from 1 January 2003. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated to reflect the removal of the pension costs, prepayment and provisions made under SSAP 24 as previously reported and to include the cost and liability position under FRS 17.

As a result, the 2002 Group Balance Sheet has been restated as follows:

	Prepayments and accrued income £'000's	Pension liability £'000's	Deferred taxation £'000's	Equity shareholders' funds £'000's
2002 as previously reported	10,541	-	(1,609)	194,056
Reversal of SSAP 24	(3,900)	-	1,170	(2,730)
Adoption of FRS 17	-	(14,154)	-	(14,154)
2002 restated	6,641	(14,154)	(439)	177,172

There was no material impact on reported profit as a result of adopting FRS 17 in 2002 and as a result the only adjustment to the 2002 Consolidated Profit and Loss Account has been to add £20,000 income to "Other finance charges/(income)" and to increase operating expenses by £20,000.

The impact in 2003 of adopting FRS 17 was to reduce profit before taxation by £190,000 and reduce net assets by £17,074,000.