

SIG plc

Preliminary Results Presentation

9am 13 March 2008

Transcript of results presentation

The slides to accompany this transcript can be found on SIG's website www.sigplc.co.uk

Introduction – Les Tench

Slide 3 and 4

Good morning ladies and gentlemen and thank you for joining us for this presentation of SIG's preliminary results. I'm pleased to say that all of the board members of SIG are here today.

Our presentation will follow the usual format. We'll start with Gareth Davies, the Finance Director, doing a financial review and then following that David Williams, the Chief Executive, will do an overall review of trading and then Chris Davies will look at mainland Europe in more detail and David will then wrap up by looking at the UK and Ireland in some detail. Following that we will be very pleased to take questions.

Firstly, however, I should like to give a brief overview of the results.

2007 was a record year of growth and expansion. We had record sales growth, record profit growth, a record value and volume of acquisitions and a record increase in the trading site numbers and this record performance shown with underlying operating profit up 31.3%, underlying earnings per share up 22% and a proposed full year dividend up 30.2%, reflecting the board's confidence in the future.

So I'll now ask Gareth to deal with the financial review.

Slide 6 - 2007 Performance Drivers

Good morning ladies and gentlemen. Our 2007 Annual Results reflect a period of strong trading for the Group with significant progress across our businesses, except in Ireland. All of our comparator results of course exclude the results from the USA, which we sold in November 2006.

Les has already referred to the highlights of the year. I would like to briefly explain some of the drivers of those results in 2007.

We have seen positive market demand for our products especially in non-residential markets.

The increase in volume of products sold was strong at around 7.3% (2006: 4.6%). This was supported by helpful price inflation (of around 3.2% across the Group (2006:2.5%).

We have expanded our specialist product range, moved into new countries and invested further in customer service.

These, together with an acceleration in acquisition activity, have helped to strengthen further our market leading positions.

Slide 7 - Financial Highlights

We have achieved substantial sales and profit growth, both up over 30%. Our underlying profit before tax is up over 29% to £140.1m (2006: £108.3m).

Our full year dividend is up a record 30.2% to 26.7p (2006: 20.5p).

The Group is in a strong financial position – with interest cover at a slightly lower but extremely robust 8.2x (2006: 9.2x).

Slide 8 - Summary Income Statement

Looking first of all at the summary results:

Total sales increased by £595m to £2.455bn. Over 30% of the growth was like for like at constant currency, which contributed £186m to the total increase. We are particularly pleased with the like for like growth in both geographical segments – which we believe to be ahead of market. David and Chris will give further details later.

Underlying operating profit after group costs of £7.8m(2006 - £6.1m), increased by 31.3% or £38.0m to £159.4m, with good like for like progress being achieved in both the UK and Mainland Europe.

As previously mentioned, underlying profit before tax at £140.1m was up 29.4%.

Slide 9 - Analysis of Revenue Growth

The next slide analyses the total growth in revenue of £595m into its constituent parts.

We achieved a strong like for like sales growth of £186m or 10.5%, on a constant currency basis of which we believe approximately 3.2% to relate to price and 7.3% to volume.

A total contribution to sales of £398m came from acquisitions of which £186m arises from the growth in the contribution of the acquisitions made in 2006, and £217m from acquisitions made in 2007.

Currency – Increased revenue by £11.4m, £6.7m from strengthening of the Euro and £4.7m from the Polish Zloty.

Giving a total increase of £595m.

Slide 10 - Tax, Earnings and Dividends

Turning now to tax, earnings and dividends. The effective tax rate was 29.9%, a slight reduction from 2006 which was 30%.

Underlying EPS are up 22% to 74.8p (2006: 61.3p) on an increase compared with 2006 of 7.5m in the weighted average number of shares in issue – arising from the share placing at the end of May.

The Board has declared a final dividend of 18.7p, giving a full year of 26.7p, up 30% on 2006 (20.5p). You will recall this follows increases of in excess of 20% in the Full Year dividend in both of the last 2 years and supports the boards confidence in the prospects for the business.

This leaves dividend cover at 2.5 times (2006: 2.8 times).

Slide 11 - Continued Growth in Underlying EPS

Briefly looking back at our 5 year history of results, we have achieved a strong increase in EPS in each of the last 4 years and have a compound growth rate in EPS of 20% since 2002.

Slide 12 - Continued Growth in Dividend Per Share

The compound growth in our dividend over the last 5 years is 18.1%. 2007 marks the 14th consecutive year of growth.

As a reminder, our policy is to have progression in the dividend whilst maintaining cover of between 2 & 3 times.

Slide 13 - Balance Sheet

Turning to the Balance Sheet.

We have continued our planned investment in our vehicle fleet and properties during the period and our Capex depreciation ratio of 1.77 evidences this. Net spend was £53.6m compared to depreciation charged of £30.3m.

Net working capital was £276.9m, an increase of £73m over 2006, and reflects working capital in our acquisitions of £36m together with an increase supporting the growth of the business on a like for like basis of £29.1m, with the balance arising from exchange rate movements.

Average net debt during the year was £334m and borrowings amounted to £429.0m at the period end with gearing increasing to 75% from 65% at the start of the year. This of course reflects the record (£317.7m) spend on acquisitions, most of which was second half weighted.

Slide 14 - Capex - Where Have We Invested

Of our total gross spend in 2007 of £57.7m, over 40% of this is on motor vehicles (£24.8m) - £9.2m of which is additional investment to improve customer service, rather than simple replacement. The balance of £32.9m relates to expenditure on property and plant and equipment.

Slide 15 - Working Capital

Looking at working capital, we have again improved our working capital to sales ratio, which now stands at 10.4%.

Stock days have increased by 4 to 42. The main reason for this increase is the effect of Lariviere, the French roofing business acquired in June. Given the essential repairs and maintenance focus of this business, in line with our existing roofing businesses, stock days are much higher than Group average. Stripping out Lariviere, Group days remain unchanged at 38.

Debtor days have remained at 48. You will recall that we were particularly pleased at the reduction to this level last year and have continued our focus over the last 12 months.

Finally, creditor days remained at 38 days (2006: 38).

The bad debt charge as a % of sales at 0.5% was a significant improvement over 2006 (0.7%) and represents our lowest % charge over the last 5 years. Whilst being pleased with this, the success being due to the skill of our credit control team, we remain vigilant going forward.

Slide 16 – Cash Flow Highlights (1)

Turning to cash flow, with comments on a few of the main highlights:

The Group achieved a strong cash inflow from operations of £160.3m, after an investment in working capital of £29.0m.

Free cash flow available for investment, after maintenance capex, and payment of interest and tax, amounted to £75.9m.

Slide 17 – Cash Flow Highlights (2)

We spent £317.1m (including debt acquired) in respect of 27 acquisitions.

Our share issue in May and proceeds from option exercises (£1m) totalled £148m.

Following the strengthening of the Euro and Zloty in the last quarter, exchange differences together with fair value movements on our swap contracts added £47m to the closing debt position (as we borrow in Euros to hedge our Euro assets and take benefit from lower Euro interest rates)

Overall, our borrowings increased by £200m. During the year we increased our borrowing facilities by £100m and post year end have received confirmation of credit approval from our banks of a further £175m of facilities at similar rates to those in existence.

Slide 18 – Cash Conversion

Consistent with 2007, we have converted more than 75% of our underlying profit after tax into cash. Improving this rate will be a focus across all of our businesses in 2008.

Slide 19 - Financial Summary

Before finishing, I would like to briefly summarise the financial highlights of the year:

We have achieved excellent progress again in 2007 and reported record sales and profits.

Underlying profit before tax is up over 29%.

We have continued to invest in growth opportunities.

Free cash flow is strong, interest cover remains prudent and the balance sheet has been further strengthened. We have obtained further debt facilities post year end, and we are in very good shape for continued growth.

That completes my brief review of the year, thanks for your attention. I would now like to hand over to David Williams to run through his review of trading – David

Slides 20 & 21

Good morning and thanks again for joining us today. In this section I will firstly go through trading performance on a consolidated basis for the Group as a whole. Chris Davies will then step up to go through Mainland Europe in some detail, and I will then go through performance in the UK and Ireland, the acquisitions programme, some comments on Outlook, and then we will open up to take questions from the floor.

Slides 22 & 23

So, Group performance beginning with sales. Total sales increase was £595.4m, up 32% in Sterling, 31.4% on a constant currency basis. Like for like on a constant currency basis was a very healthy 10.5%.

Slide 24

Breaking the £595.4 down, £193m was the like, £216.6m from the 2007 acquisitions and £185.8m incremental sales from the 2006 acquisitions.

Slide 25

Splitting out volume and price, inflation was a bit over trend at 3.2% accounting for 29% of the like for like sales growth.

Slide 26

Moving on to profits, Operating Profit increased by £38.0m, up 31.3% in Sterling, 30.9% on a constant currency basis. Like for like growth was 12.2% in Sterling, 11.9% on a constant currency basis.

Slide 27

Analysing profits on the same basis as sales, of the £38.0m, £14.2m was like for like, £11.9m from 2007 acquisitions and £11.9m incremental in 2007 from the 2006 acquisitions.

Slide 28

Looking at margins, the Group net operating profit margin, after Group costs, was maintained at 6.5%, as was the net margin for the UK and Ireland at 8.0%, whilst the figure for Mainland Europe was increased from 4.6% to 4.9%.

Slide 29

I would now like to hand over to Chris Davies to take you through the review of Mainland Europe.

Slide 30 – Mainland Europe 2007 – Key Points Summary

Good morning everybody.

Let me start with a review of the key points of our performance in Europe in 2007

Market conditions last year were generally favourable, with some positive price inflation as well as increased demand across all our various geographies. Against this background, we have seen strong growth in both like-for-like sales and profits, not only in total but also in all our individual countries

On top of that, we have succeeded again in 2007 in improving operating returns, both in overall terms and indeed in each of our existing businesses.

We extended our market coverage very substantially last year, entering 2 new countries in the shape of The Czech Republic and Slovakia where we acquired 21 sites, as well as adding a further 101 sites within our existing geographical perimeter. In total we added £300m of annualised sales, equivalent to a 40% increase on our January 2007 running rate, and in order to manage this significantly bigger European business, and to be able to deliver and handle further planned growth going forward, we have strengthened our European management structure both centrally and at country level

Moving on from that overview, let's now have a look at the key numbers

Slide 31 – Sales Growth Mainland Europe (i)

Our Mainland European Sales in 2007 were £931.4m Sterling, up £325.9m on prior year, representing year-on-year sales growth in local currency of 52.1% overall, and 12.3% on a like-for-like basis

Slide 32 – Sales Growth Mainland Europe (ii)

Looking now at the detailed composition of this sales increase of £325.9m Sterling:

£73m or 22% was like for like organic growth

£96.5m or 30% derived from incremental sales in 2007 from 2006 acquisitions

And £156.4m or 48% came from acquisitions made during the course of 2007

Slide 33 – Mainland Europe Operating Profit Growth (i)

We grew Operating Profit by £18.3m £45.9m in 2007, representing in constant currency an increase over prior year of 64.5% overall and 31.5% like for like

Slide 34 – Mainland Europe Operating Profit Growth (ii)

Looking in detail at the breakdown of this £18.3m increase in profit:

£8m was like for like

£2m was incremental profit in 2007 from acquisitions completed in 2006

And £8.3m derived from acquisitions made during the course of 2007

Slide 35 – Country Performance

Having looked in summary at the overall European numbers, let me now take you through how our individual operating regions have performed, beginning first of all with Germany & Austria

Slide 36 – Germany & Austria (€ Performance)

Here, sales were up by 8% like for like and a little over 21% overall to €674m Euros.

Sales performance was boosted by improved site activity levels in the First Quarter due to the abnormally mild winter, and we went on to trade very satisfactorily in the Second Half against extremely strong H2 2006 comparative numbers.

In total we added 6 new sites during the year, up to 82 at end December 2007, all in roofing.

We operate in Germany in a broad range of product markets, and whilst the residential roofing market softened in the Second Half, trading in our core businesses of commercial interiors and insulation – both structural and industrial – held up very satisfactorily

In addition to the growth in sales we succeeded in improving our net margins, and the combination of these two factors resulted in an Operating Profit 30.4% ahead of 2006

Slide 37 – France (€ Performance)

Turning to France, our sales here grew by over 104% to €393.5m Euros, including of course the effect of the Lariviere roofing acquisition completed at the end of Q2. Aside from Lariviere, our established businesses in the Commercial Interiors and Industrial Insulation sectors both traded strongly against a background of healthy market demand, and delivered very pleasing organic growth of over 15%, whilst at the same time achieving an improvement in net margins. Our overall operating profits in France were up by 89% in the year

We increased our market coverage by opening 8 brownfield sites, of which 5 in industrial insulation and commercial interiors and 3 in roofing, to add to the 83 locations acquired under Lariviere deal. In total we had 142 sites in France at year end

The Lariviere integration continues to go well. Trading is in line with expectations, and we are accelerating the programme of new branch creations; 3 more have been opened already in 2008, and the number of further openings this year is planned to be in double figures

Slide 38 – Poland & Central Europe (€ Performance)

We had an outstanding year in Poland, enjoying like for like sales growth of 40% in a strong market which benefited in H1 from the very mild winter. Wodan, the Polish business we bought in October 2006, also traded very well in 2007, and we made good progress in developing synergies between this operation and our existing Polish business, and improved our net margins.

As I pointed out earlier, we opened up 2 new countries in 2007, acquiring platform businesses in insulation and commercial interiors in The Czech Republic and Slovakia with a combined total of 21 sites.

Aggregate sales in the 3 countries rose by 160% to almost €205m Euros in 2007, with operating profits up by over 380%, an extremely gratifying performance in a region which offers us excellent potential for continued future development

Slide 39 – Benelux (€ performance)

Looking now at Benelux, our sales were up by 38% in total to €85m Euros, helped by 2 bolt-on acquisitions in the region, both in commercial interiors. We also made very good progress in like for like terms, with turnover up almost 16% in a favourable trading climate for both our main business streams of Commercial Interiors and Insulation. In addition to the strong sales performance we also succeeded in raising our net margin compared to prior year, and operating profits were up nearly 64%

Slide 40 – Outlook 2008 – Mainland Europe

Finally, a few comments on how we see the prospects for our European activities in 2008

In the first two months of the year trading has started well, and even against exceptional comparatives, particularly in Poland and Germany, like for like sales are ahead of last year

We want to continue to extend our geographic footprint in continental Europe, and to strengthen our presence in existing countries. The investment which we have made in our European Business Development team confirms the seriousness of our intentions to grow our European activities, and I am confident that going into 2008 we have created a platform for substantial medium term growth

Thank you, I'd now like to hand back to David.

Slides 41

Thanks Chris. Moving now on to the UK and Ireland, let me begin with a Key Points Summary.

Slide 42

Firstly, we achieved strong growth in sales and operating profits in all four business streams, and achieved a net operating margin of 8.0%.

39 Trading sites were added in the year, taking the total to 461 at the end of December 2007.

As a snapshot of market conditions, non-residential construction – both public and private – was strong, whilst residential was flat overall.

Slide 43

Looking at the key numbers, actual sales growth in the UK and Ireland was £269.5m, up 21.5% to 1 billion, 523.8 million, with like for like 9.8%.

Slide 44

Breaking the £269.5m down, £120m was like for like, £60.2m came from 2007 acquisitions and £89.3m from the incremental impact of 2006 acquisitions.

Slides 45

Operating profit growth was £21.4m, up 21.5% to £121.3m.

Slides 46

This breaks down £7.9m LFL, £3.6m from 2007 acquisitions and £9.9m incremental from the 2006 acquisitions.

Slides 47

I will now give some detail for each of the 4 main business streams, beginning with our largest Insulation and related products. Total sales were up 12.9%, LFL 8.3%.

In the core UK distribution business, sales and profits were strongly ahead whilst in Ireland performance was down due to reduced market demand. As we previously explained, 2007 was a transition year for the grant schemes, with the previous one in run-off and the new one not starting until Q2 2008. This left a gap in funding for some upgrading work, and we did well to hold the results at 2006 levels despite reduced demand.

As a reminder, the UK Building Regulations Part L, which sets the minimum standards of thermal efficiency of all new construction, was changed in 2006, and these minimum standards were increased by around 15%-20%.

We started to see the first impact of these new regulations in the second half of 2007.

Finally, we added 4 trading sites in the year.

A view of Outlook, we see demand moving positively and a slightly better pricing environment.

Slide 48

In Commercial Interiors, sales rose by 21.4% overall, 12.3% LFL. We achieved strong sales and profit growth. The manufactured specialist products had a very successful year. We achieved good contract wins in both the health and education markets.

In terms of product range, we expanded into the specialist non-residential flooring market, acquiring the no2 specialist in the UK, and expanded our doorset range by adding a leading brand metal doorset. We added 10 new trading sites in the year. Market Outlook we believe is positive demand and stable pricing.

Slide 49

Moving to Roofing, sales overall increased by 18.1%, LFL 8.2%. Sales and profits grew strongly. There was a general pick-up in roof repairs and renovation work, which is more important to this division than new build. Storm damage in some areas was very significant in 2007, and this contributed to the workflow.

We added 15 trading sites in the year and the market outlook is for stable demand and pricing.

Slide 50

Finally, the fast growing fourth leg, SCP and Safety, sales grew by over 66% in total, 14.8% LFL.

Again, strong growth in sales and profits. We are now the leading UK supplier of specialist fixings and fastenings from virtually nowhere 5 years ago.

We continue to act as a consolidator in this wide and disparate product space, creating a strong national market position. The management team has been strengthened to support and drive the growth.

We added 10 trading sites in the year and our view of market outlook is for positive demand, especially with a strong pipeline of major product and infrastructure work, which for this division already includes Olympics work, and will include crossrail and similar projects.

Slide 51

Let me now give an overview of market outlook for the UK and Ireland.

Non-residential construction is expected to grow in 2008 whilst residential is expected to decline.

In insulation, we expected to see progressive increase in demand as a result of the new tighter regulations from the latest revision in the UK Building Regulations.

Separately, the new grant scheme, called the Carbon Emissions Reduction Target, begins in April this year and is expected to boost residential insulation upgrading through the next 3 years from H2 this year onwards.

Whilst its early days, at this point we would hope to see price inflation around long term trend of around 2.5%.

Finally on the UK and Ireland, our expansion and acquisition programmes are continuing. And bang up to date, trading in the UK has begun well, whilst Ireland is weak.

Slide 52

Let me move now to look at the acquisition programme. In 2007 we completed 27 transactions, total consideration was £323m. Combined annualised sales was £440m, of which £217m impacted on 2007, and this programme added 148 trading sites.

Slide 53

As in previous years, the acquisitions can be broadly categorised as bolt-on, consolidation deals and secondly, new position or platform acquisitions, examples of which are as follows:

- Firstly, we acquired the leading specialist roofing materials supplier in France
- We acquired the leading suppliers of flooring materials into non-residential market in the UK
- We acquired insulation and commercial interiors businesses in Slovakia and the Czech Republic
- We added to our doorset range with a leading producer of metal doorsets

- And added to our existing insulation fabrication operations with the acquisition of a company which specialises in extreme high temperature materials for industrial applications.

Slide 54

Bring the acquisition story into 2008, we have completed 8 transactions so far, for a total consideration of £32m. Combined annualised sales amounts to £50m, chiefly in the UK and broadly spread across the divisions. Together they add 22 trading sites taking the present day total to over 800.

Slides 55 & 56

Moving on to some comments on Outlook for the Group. Firstly, I would like to remind you of the Long Term Growth Drivers for SIG, all of which represent live on-going opportunities. These are:

1. Increased market demand in insulation specifically
2. New countries in Europe
3. The ongoing acquisition programme
4. The continued expansion of our specialist product range.
5. We will continue to expand the number of trading sites, to increase market penetration in existing countries.

Slide 57

Moving to Short Term Outlook.

In terms of External Outlook, external forecasts expect modest growth in Mainland Europe and UK construction activity with the exception of residential new build in UK and Ireland.

Secondly, and of particular importance to SIG, insulation demand is expected to rise and outperform building materials generally.

And thirdly, price inflation is expected in 2008.

Slide 58

Moving to an Internal SIG picture.

Firstly we see further opportunities to strengthen and grow through acquisition.

Secondly, we will continue to expand our market coverage in the UK, Ireland and Mainland Europe.

And finally, trading in 2008 has begun well, with like for like sales up on the UK and Mainland Europe, everywhere except Ireland.

That concludes the formal presentation and I will now hand back to the Chairman and open up the session to take your questions.

Questions and Answers

Charlie Campbell, UBS

Throughout the outlook statement, you have said that you are very confident of making progress in 2008. Clearly, there are quite a lot of acquisitions there. Should we read that comment to say that you are confident of making positive organic profit growth in 2008?

David Williams, Chief Executive, SIG plc

Yes, we are. We have a substantial carry-forward from the acquisition programme in 2007 of about £220 million, so revenue will be incremental but we expect to continue to achieve like-for-like growth too.

Charlie Campbell

In terms of pricing, in an interview with Cantos, you spoke about seeing some points of deflation in UK insulation through last year that were continuing into 2008, yet you have talked about plus 3% pricing last year and plus 2.5% this year. How important are those products and why you are expecting the inflation seen last year to unwind next year? Why are you confident on pricing overall?

David Williams

Insulation deflation is purely a UK play; it was not evident in mainland Europe. The change in building regulations in 2006 was delayed. It was very well headlined and the market knew about it for two years before it happened; therefore, in anticipation of an increase in demand in 2006, a number of manufacturers put down additional plant capacity in the UK and Ireland. As a result, we saw the curve of demand and supply moving out of step, and it is still so. Capacity came on-stream in advance of an increase in demand.

We believe that that demand increase in insulation in the UK and Ireland is beginning to unfold and, therefore, we think that supply and demand will come into better balance in the future. I do not think it will match off this year, so the price deflation caused by oversupply at the manufacturing level that began to weigh down on the average price inflation in the second half of 2006 carried on throughout the 2007. The situation did not deteriorate, but we had some price deflation. I do not think we will see price inflation generally in insulation materials in the UK in 2008. I could be wrong, but the risk is probably marginally on the upside. The insulation picture is more to do with timing than anything fundamental.

John Chivers, Executive Director, SIG plc

In terms of general inflation, we saw 3.2% last year. Offsetting the situation with insulation, we saw higher than normal price inflation for roofing materials, for example, which was closer to 5%, and we also experienced price increases in the building plastics sector and specialist construction products. The outlook for 2008 is 2-3%, within which there will be variations between the different

product segments. We have ongoing issues in terms of fuel costs and feed stock prices, which will come through and push prices up, we anticipate, by 2.5-3% this year.

Charlie Campbell

Would that take into account flat insulation prices?

John Chivers

Yes.

Aynsley Lammin, Citigroup

Given your outlook in the UK, is it fair to assume that you would hope to at least hold your margin in the UK and Ireland, or are there any factors that we should be thinking about such as extra costs?

Second, could you give the like-for-like sales growth that you saw in January and February? Is most of that price or is it still price and volume?

David Williams

We see no significant issues in either direction in terms of margin in the UK. Our approach is to continue to see margin improvement, but there is always a balance in terms of our investment and also in terms of volume. I would not, therefore, look for any significant change in UK and Ireland margins.

In terms of your point on like-for-like sales growth, we commented that we are very comfortable with the levels seen in January and February. After such a short period of time, I do not think that it would be helpful to start giving figures so early in the year, but we are very comfortable with our performance, and I would reference that with what we have seen elsewhere. We are not at all uncomfortable with our position.

Andy Brown, Panmure Gordon

In terms of the current outlook as you see it, you mentioned the public/private sector exposure. How do you see those markets developing? Clearly, there are many concerns about private sector expenditure and financing of big projects. What is your view of this currently? From a public sector point of view in the UK, are you seeing any signs of projects being delayed or expenditure being pushed back further?

David Williams

We are biased towards non-residential construction, which is made up in one direction of public and private and, in the other direction, new build and refurbishment. We have been through cycles before where there is some decline in new build construction activity, which can often tend to spill over into an increase in terms of upgrading and renovation. If an office or any other kind of building is not going to be renewed, it will be renovated. In the office sector, we have often seen cycles where tenant uptake in new property declines. There is then a consequential decline in terms

of perhaps a downturn in new construction, but there is an almost compensatory figure where people improve the quality of buildings that they occupy.

If you 'slice and dice' the market in a number of ways, we continue to remain confident about overall construction activity, with particular emphasis on non-residential. We are not seeing, feeling or hearing any tangible signs of any slowdown at all, either public or private. When we talk to some of our major contractors, who are the key drivers in terms of major infrastructure – hotels, airports, office developments, schools and hospitals – they are talking about extremely strong order books. Generally speaking, for that kind of size of project, funding is in place before an order is placed.

Andy Brown

Is it possible to quantify a volume number in terms of the regulation changes so far?

David Williams

In terms of the 2006 regulation change in the UK, worked out from a thermal impact first of all, it is looking for about a 20% improvement in thermal performance. How that is translated into pound notes demand is rather like knitting fog. It depends on which product people choose and on the pricing movements within those products, but I would quote 20% as a benchmark figure in terms of pound note market growth over a three-year period. We would hope to see something like 5-6% per annum in each of the next three years, in addition to what we see as being natural growth in insulation. That is the kind of super-element that is derived from regulation.

Andy Brown

Could you quantify your exposure to Ireland?

David Williams

Ireland is 6% of the Group's sales revenue.

Howard Seymour, Numis

Could you quantify offices in terms of the UK operation – I appreciate that there is new build and refurbishment etc. Is there any reason why that is any more profitable than the rest of the business?

David Williams

I should make the distinction here that this is not commercial interiors, but non-residential construction. Non-residential construction is about 55% of the total Group, which is broken down further between new build and repairs and maintenance. Of that figure, we think offices are about 40%, which would mean that pure offices are about 20% of the Group as a whole – a similar figure to new build residential. However, that figure is spread across SIG Group, so it would be similar across Europe, as well as the UK.

Howard Seymour

Are the EBIT margins similar?

David Williams

I would not pick out any particular difference there.

Howard Seymour

Travis recently mentioned that there has been quite rapid consolidation of the insulation market, which led to some price flurries, but they are expecting the picture to improve. Would you agree that there has been an element of that and that pricing should improve slightly? Is there still the potential in that consolidated market for market share gains to continue?

David Williams

Is this about consolidation at manufacturer level or distribution level?

Howard Seymour

At the distribution level.

David Williams

This is a past event. We commented last year, or perhaps even in 2006, that, from our point of view, the UK and Irish insulation market had really passed the point in terms of endgame consolidation. It is substantially consolidated. There are no more significant multi-site players who are not already in public ownership. I guess the turning point occurred in 2006. We made an acquisition in the UK insulation market just last week, which was a four-site player. That is really all that is left. We are continuing to act as the main consolidator in a declining tail of independence.

In terms of the issue around what effect that is having, I would not draw any particularly strong inference. As a general point, we are very comfortable competing with other Plcs, because they are driven by the same disciplines that we are driven by.

Nicolas Godet, Exane BNP Paribas

In terms of insulation prices, Rockwool commented yesterday on prices in mainland Europe, highlighting that their products could decline in Eastern Europe by close to 2%, while they were quite stable in the rest of mainland Europe. Do you think that this is mainly their products or do you expect to see similarly weak prices for glass wool and foams?

David Williams

We are not seeing price deflation in insulation materials at present in mainland Europe. I would say that pricing in rock fibre has been quite volatile for the last couple of years, and it is one of the products that we handle. Whenever we give information about price inflation across the piece, it

will always contain some deflationary points and other products moving ahead by double-digit inflation. In the blended price inflation, at any point in time, there will always be some ups and downs.

Chris Davies, Executive Director, SIG plc

In terms of David's point on volatility in stone fibre prices, if we go back to summer 2006, there was a big mismatch in mainland Europe between availability of stone fibre – and particularly heavier density products – and demand, particularly from the eastern part of Europe. That gave Rockwool and a number of other manufacturers extended lead times and led them to drive up prices extraordinarily. As that capacity and supply has returned to a more balanced situation through 2007, some of the heat has dissipated. There was a particular spike at the end of 2006 and in the first part of 2007 in Eastern Europe in stone fibre prices, but it seems to have settled down now as far as we are concerned. Generally, for stone fibre and other insulants, and for other products in mainland Europe, we see a stable to slightly rising price inflation situation this year.

Nicolas Godet

You mentioned your operating profit margins. What has been the like-for-like evolution of your gross margin and what do you expect it to be in 2008, excluding acquisitions?

David Williams

The gross margin is very slightly down. That is a function of mix changes in geography and product, and also the quite substantial impact of recent acquisition activity, where it is commonly the case that, when we acquire a business, the margins are quite lower. If we go through a period of high acquisition activity, often that will weigh into the blended margin for a period of time. We would not signal or expect any significant change in gross margins this year.

Nicolas Godet

You mentioned the trading outlook. Could you clarify your comments on the outlook for Lariviere and its trading so far in 2008 in France? How do you see the coming months in terms of the roofing business?

David Williams

We did not own the business at this stage last year. If we look at the comparatives from their existing numbers at that time, sales are developing quite nicely at this stage. We are starting to see the benefit coming through, as we go through the year, of some of the branch openings that it made during the course of 2007 and this year. Trading is developing nicely at Lariviere and we see this continuing through the rest of the year.

Nicolas Godet

What about the price of roofing products?

David Williams

Again, we are right in the middle of the pricing season. Roofing and tarring manufacturers increase prices around the end of February or the beginning of March. As John mentioned earlier, a tremendous amount of pressure is coming through, particularly in terms of energy for firing roofing tiles etc. Manufacturers have costs that they need to pass on and we feel that they will be doing that this year.

George Gregory, Credit Suisse

In relation to some of the more downbeat comments from some of your suppliers, in the context of Kingspan, who noted a forward order book in insulation down 17%, it made a specific comment on logistics and warehousing, which they have quite a large exposure to. Will that affect you or does that primarily relate to direct sales at Kingspan?

David Williams

We are always cautious about making too many comments about other companies, and particularly listed ones. I would answer your question in two ways. First of all, the overlap between Kingspan's product and geographic mix and that of SIG is not a total overlap by any means. They have significant positions in countries and products that we have no involvement in, and the converse is also true. Our overlap with Kingspan is principally UK core insulation. We are very comfortable with our position this year so far and our outlook and future in terms of core insulation, of which the Kingspan product is part.

The issue about warehousing and distribution facilities in the UK, their main sales into that market would be twin-skin, pre-insulated panels, which bypass distribution completely, where they are providing wall systems for the external envelope of a warehouse. That is not an important market for SIG.

George Gregoy

What do you believe are the key drivers of demand for roofing? We talk a lot about insulation and the various regulatory drivers; is thermal efficiency a key driver for roofing or will it correlate quite closely with general demand for construction?

David Williams

We do not include roof insulation in roofing. Although our roofing branches sell more and more insulation, we code and report it under insulation. The majority of our roofing sales are the external waterproofing elements – the material that forms the external structure of the roof – and there is a very heavy bias there, particularly in the UK, towards essential repairs and maintenance. In the UK, the mix is about 70/30 in favour of repair and maintenance, rather than new build. In France, there is more of a mixture of new build and repair and maintenance.

John Chivers

In September, we commented on the Decent Homes scheme, which got off to a slow start in the first half of 2007 and started to accelerate in the second half of 2007. That is a programme that is

going to be running over the next five to six years – this is not a short-term programme. The percentage of houses that have been completed is still relatively small, so this is a long, ongoing exercise and we would anticipate seeing 2008 carrying on from where 2007 began to develop.

The other interesting issue about insulation is that one of the aspects of Part L of 2006 is that, if you repair more than 25% of a roof structure, you have to upgrade the insulation to current standards, which will drive demand too. As David said, this is a required expenditure in terms of maintaining the integrity of roofs. In terms of the events of the last few days, without wishing to dwell on people's demise, the fact is that storm damage does impact positively on the sales of roofing, although it takes some time to work its way through the system.

Kevin Cammack, Kaupthing

Could you comment on the shape of the balance sheet and, in particular, the movement in the debt and gearing in relation to where your ambitions are, which are still quite high in acquisition terms? Where do you see the two things coming together?

Second, is it possible to do a quick sweep of Europe in terms of which countries might have a similar regulatory background to the UK or something that is mandatory driving the market, rather than anything else?

Lastly, returning to the price issue, if you have no price inflation in insulation in the UK and you are going to achieve 2-3% across the blended price, there are some 5%-plus movements happening elsewhere. Unless there is some big driver in terms of the input cost, would you anticipate margins in the other two businesses going up through pricing mechanisms in 2008?

David Williams

We get quite a good steer in terms of what might unfold from 2007, with overall price inflation of about 3.2%. I think mainland Europe was a little more and the UK a little less than that. I have no hard number for the UK but it was probably 2.9-3%, and mainland Europe was a little more than that. If we anchor on the UK and Ireland price inflation of just less than 3%, that carries within it some embedded price deflation of 2-3% on some, but not all, insulation materials. The arithmetic says that, therefore, some products went up by 4-6%, which they did, not because demand surged ahead and manufacturers saw an opportunity to have a marketing price increase, but because cost input pressures required that.

As John has commented, the feedback that we are getting from quite a wide range of manufacturers of products is that they are seeing further substantial increases in their feed stock pricing. Energy is a major component for a large number of our manufacturers and it takes a lot of energy to make glass in order to make glass fibre, or to make rock in order to make rock fibre, or to produce plasterboard or clay roof tiles. Just this morning, two manufacturers have announced metal price increases to us of 15% on 10 April. We are seeing significant cross-drive pressures through the piece. I would not dwell too much on spot weakness on insulation; it is just one part of the blended margin. I would be very surprised if we did not report 2-3% price inflation again across the piece this year.

Gareth Davies, Finance Director, SIG plc

As far as the balance sheet is concerned, gearing has increased to 75%. Gearing is important but is not really the ratio or the indicator that we keep in kind. We are more focused on interest cover, because one of the covenants with our debt providers is in relation to interest. We are currently at 8.2 times and we would be happy running the business at somewhere between five and six times.

Kevin Cammack

Is it of any concern that the conversion of the free cashflow is not much closer to 100%?

Gareth Davies

At this point in time, we are a growing business. We are growing significantly like-for-like. We need to support the working capital of that like-for-like growth and we are also acquiring businesses and improving customer service there. In terms of the cash conversion, we quoted that it has been in excess of 75% in the last two years, which is not a bad picture, given that we are growing as we are. However, it will continue to be a focus. We are not shying away from the fact that we need to focus on that, and that is a focus of the business.

Chris Davies

The European regulation issue is a very complex picture.

Kevin Cammack

Can you give a very broad, top-line overview?

Chris Davies

It is helpful to look at the different aspects of it and then comment on one or two of the countries. Each country has its own code of building regulations covering new construction, both residential and non-residential, and they deal with things like allowable materials, methods of construction and thermal performance. These regulations differ from country to country. Following the Kyoto agreement, all EU member states have been signed up by the EU to achieve an 8% reduction in CO₂ emissions by 2012, and 20% by 2020. That has been enshrined in the Energy Performance of Buildings Directive (EPBD).

Each country is charged with finding its own response to that particular challenge. France and Germany, for example, introduced new building regulations in 2006. Both are essentially aimed at achieving reduced energy consumption in new buildings but, in fact, insulation is just one possible method of achieving this objective. It can also look at things like glazing, ventilation and the efficiency of the heating system. Encouragingly, these new standards began to be effectively applied in the marketplace in the second half of 2007. Poland, which is another area where we have significant structural insulation requirements, has decided to adopt the European EPBD in 2008 for application in 2009, so they are clearly a year or two behind the game.

In terms of existing buildings, the vast majority do not meet the last standard, let alone the new one, and governments are beginning to figure out how they can bring about change in that area. France

has done it by having a big public consultation, the *Grenelle Environnement* (tr: Environment Roundtable), which has been picked up by President Sarkozy. The main methods being picked out in order to encourage building owners and private individuals to upgrade the energy performance of their buildings are, in essence, tax breaks on remedial work and/or government-back cheap funding through quasi-government institutions. There is a suggestion that, in France, rather like in the UK, the government has written to the major energy generators to tell them that, unless they help to bring about significant energy improvements among their customers, they will be fined. They have until 2009 to come up with some methods of doing that, which may conceivably lead to something like the Carbon Emissions Reduction Target (CERT) scheme in the UK, but it is not there yet.

We also talk about the Energy Performance Certificate from the Home Information Pack in the UK, which has been widely introduced in Europe. However, as in the UK, it is only an advisory document at this stage and has no force. It compels neither buyers nor sellers to carry out any improvement work; it merely sets out the performance of the building.

On existing build, it is really a question of 'watch this space'. Clearly, the more heavily industrialised and well-established western countries – for example, France and Germany – are ahead of eastern countries in this particular trend, where regulation is less well-developed historically, for understandable reasons.

In terms of the need to reduce carbon emissions and to combat the greenhouse gas effect, I should also mention the financial pressure, either direct or indirect, on manufacturers such as petrochemical plants, oil companies or process plant owners to improve their own energy efficiency. We are seeing an enormous amount of upgrading work coming through, as well as new power station builds and improved lagging of power stations right across Europe. There is more investment in power generation capacity, particularly in the west, to comply with EU requirements to reduce CO₂ emissions. We see that as a very big driver for industrial insulation going forward, which for us is very favourable because we are the leading distributor of industrial insulation across Europe and it is a big feature of all of our mainland European, as well as our UK, businesses.

Tian Chen, HSBC

What is the relative size of the Miller Pattison business now? What kind of growth did it see in 2007? What is the net margin of this business compared to your distribution business?

David Williams

We do not break out the exact size of individual subsidiaries. It sits within our UK insulation operations. It is the largest specialist installer, with a mixture of renovation and upgrading business. It also works for housebuilders in the new build sector. We are upgrading significantly our infrastructure because this business will benefit most from the substantial increase in demand that will flow from the CERT scheme.

In terms of its performance in 2007, this was the business that held its sales and revenue flat over 2006 and 2007 because the grant schemes were in sharp downturn in 2007. We believe that that position will reverse out in the second half of 2008, as we see the CERT scheme moving forward.

In terms of net margin, it is slightly higher than the net operating margin of distribution, as is commonly the case in that kind of very specialist contracting. When we look at the net operating

margin in the UK having been held at 8%, part of that margin is a flat picture in Miller Pattison, where there was no growth in profits in the period.

Andy Brown

You had a busy year last year in terms of expenditure on acquisitions. Could you comment on how you see the acquisition outlook panning out this year, particularly in terms of prices? I guess that what has been going on in the general marketplace has helped the prices that you are able to pay, but have vendor expectations adjusted properly yet?

David Williams

As far as overall expenditure is concerned, we have had a good start to the year. The next few weeks will be reasonably active too. There are some transactions directed related to the change in capital gains in the UK, and it is interesting to note that, whereas over the last two years we have had a bias towards mainland Europe in terms of acquisition expenditure, 95% of the action this year has been in the UK. There has been a capital gains influence there, which is not over yet.

In terms of the number of transactions this year, without forecasting, I would expect a similar number, but I do not think that the expenditure or impact will be as great because we are unlikely to have anything in 2008 as large as Lariviere. There are not that many good-fit businesses of that scale and size for SIG to target, but we will have another active year. Our view in terms of medium-term acquisition expenditure has not changed since last year. We think that \$150-200 million a year on average is quite a good working number for us. As we increase the M&A teams in mainland Europe and the UK, the more we find, so we are looking at quite a good pipeline currently.

Andy Brown

What are your thoughts in terms of vendor expectations?

David Williams

The picture has not changed and I do not think that it will. If you are selling a business that you have spent 20-30 years building up, you only get one shot at it. It does not matter what is happening in the wider world, you are going to get the best price that you can. While we have seen no change in expectations from vendors, they always want us to pay them for what we will do with it, although we do not usually agree to that. We have not seen any increase in competition. We are still doing the majority of our deals off-market.

Joel Spungin, Merrill Lynch

What was the revenue and profit contribution in 2007 from Lariviere?

Chris Davies

We do not split out our individual country or sub-business results, so I will pass on that if I may.

Joel Spungin, Merrill Lynch

When you acquired the business, was it running at an operating loss?

Chris Davies

No, it was significantly profitable.

Simon Brown, Landsbanki

In terms of the industrial insulation side, which is now down to about 10% of Group turnover, do you see that trend continuing – i.e. becoming a less significant component of the overall business? It is an area where the margins are particularly good because they are mostly one-off.

David Williams

The decline in the percentage is all about the sale of the US company. The only business that we were in there was industrial insulation. Excluding the US, performance in that sector is growing. We have seen very good like-for-like performance in the UK and across Europe. As Chris mentioned, the world has rediscovered self-determination in terms of energy generation, country-by-country, so we are seeing and will continue to see over the next five years, expansion of energy capacity in all forms on a country-by-country basis. We look at that particular subset of industrial insulation and power generation very positively. The liquefied natural gas (LNG) locations throughout the UK and other parts of Europe are important. There may have been some press coverage in terms of where LNG is going, but that is without any impact on SIG. LNG installations in the UK are very important for technical insulation. We are the leader across Europe in this sector, so we are bullish, not bearish, on industrial insulation demand.

Simon Brown

Are there any acquisitions in that area?

David Williams

We made one last year. We are certainly tracking a number of opportunities. We commented in the press release that one of the UK acquisitions that we made last year has given us a small position in Dubai. It is a fabrication operation, again related to technical insulation. We are looking quite expansively at that sector.

Chris Davies

Returning to an earlier question, the business that we bought in October 2006 was the Wodan business in Poland, which was loss-making at the time. We made a lot more progress in terms of improving that business in 2007 than we had anticipated we would be able to, particularly because of very strong market conditions in Poland and partly because of the additional management expertise that we were able to bring. We had that business back into profitability by the end of the first half of 2007, and finished the year quite nicely there. The business is now on a long-term profitable basis.

Closing Comments

Les Tench

If there are no further questions, that concludes today's presentation. Thank you once again for joining us.