

Annual Report 2005



Profitable growth through technology

Tomkins

Tomkins

Tomkins plc is a world-class global engineering and manufacturing group with market and technical leadership across its two business groups: Industrial & Automotive and Building Products.

Tomkins is executing a focused growth strategy, targeting three key growth areas: Power Transmission; Aftermarket; and Building Products, and is driven by an entrepreneurial culture and incentivised employees.

OUR BUSINESSES

The businesses operate in a variety of end-markets, and this diversity provides the Group with a natural resilience to a weakness in any one particular market. The Group is also geographically diverse, operating in 132 manufacturing facilities and nine research and development facilities in 21 different countries across North America, Europe, Asia and the Rest of the World.

MANUFACTURING FACILITIES

North America	95
Europe	17
China	7
Rest of Asia	7
Rest of the World	6
Total	132

INDUSTRIAL & AUTOMOTIVE



BUILDING PRODUCTS



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HIGHLIGHTS OF THE YEAR

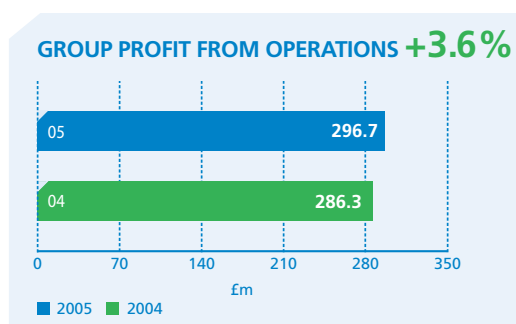
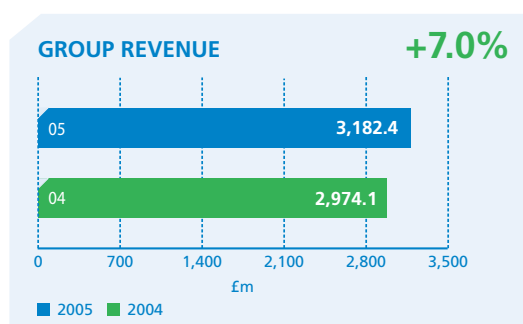
- Revenue increased by 7.0 per cent to £3,182.4 million (2004: £2,974.1 million)
- Profit from operations before restructuring initiatives increased by 1.4 per cent to £308.5 million (2004: £304.3 million)
- Operating margin, based on profit from operations before restructuring initiatives, was 9.7 per cent (2004: 10.2 per cent), with double-digit operating margins maintained in Industrial & Automotive and Air Systems Components
- Profit from operations at £296.7 million (2004: £286.3 million) was up by 3.6 per cent
- Fully diluted earnings per share were ahead by 4.3 per cent at 23.79 pence (2004: 22.81 pence)
- Operating cash flow increased to £217.0 million (2004: £181.7 million) and cash conversion increased to 75.3 per cent (2004: 64.0 per cent)
- Final dividend of 8.16 pence, resulting in a full year dividend of 13.23 pence (2004: 12.60 pence), up by 5.0 per cent
- Completed five acquisitions with annualised sales of more than \$250 million (c. £140 million) since December 2004
- Continued expansion in high growth markets such as China and India

FINANCIAL HIGHLIGHTS

	2005	2004
Revenue	£3,182.4m	£2,974.1m
Profit from operations before restructuring initiatives	£308.5m	£304.3m
Restructuring initiatives (net)	£(11.8)m	£(18.0)m
Profit from operations	£296.7m	£286.3m
Profit before tax on a comparable basis ⁽¹⁾	£269.8m	£260.3m
Profit before tax	£257.7m	£260.3m
Fully diluted earnings per share	23.79p	22.81p
Total dividends per share	13.23p	12.60p
Net debt ⁽²⁾	£(334.5)m	£(244.5)m

⁽¹⁾ Presented on a proforma basis to remove the impact of IAS 32 and IAS 39 from 2005. See page 33 in the Operating and Financial Review section for a breakdown.

⁽²⁾ Net debt is shown excluding the convertible cumulative preference shares.



The Group reports its results in sterling under International Financial Reporting Standards ("IFRS") and in US dollars under US GAAP. Unless otherwise stated, the commentary in this Annual Report refers to the IFRS financial information for the year.

Commentary on the results compares audited results for the 364-day period from 2 January 2005 to 31 December 2005 ("2005") with audited results for the 364-day period from 4 January 2004 to 1 January 2005 ("2004").

Approximately 69 per cent of the Group's revenues arise in the USA. Financial information has been translated at an average rate of £1=\$1.82 in the year ended 31 December 2005 (£1=\$1.83 in 2004). The year-end rate at 31 December 2005 was £1=\$1.72 (year-end rate at 1 January 2005 was £1=\$1.92).

In this Annual Report, the term "underlying" indicates that the amount has been adjusted for the effects of currency translation, and acquisitions and disposals; and in the case of profit from operations, the amount is also stated net of restructuring initiatives. Some figures and ratios mentioned are not readily available from the financial information and details of how these figures and ratios have been arrived at are set out in the Operating and Financial Review.

Tomkins is organised into two which operate in a variety of

GROUP OVERVIEW

Tomkins plc is a global engineering and manufacturing group, listed on the London Stock Exchange (ticker TOMK) and the New York Stock Exchange (ticker TKS) in the form of American Depositary Receipts, with revenue of £3,182.4 million and profit from operations (before restructuring initiatives) of £308.5 million.

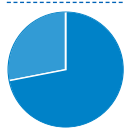
The Company is the ultimate parent of a large number of subsidiaries that are organised into two separate business groups: Industrial & Automotive and Building Products. Both businesses enjoy strong market positions and technical leadership and own some of the best-known brands in their respective markets.

The Group is geographically diverse with 75.7 per cent of revenue to North America, 13.5 per cent to Europe, 6.9 per cent to Asia and 3.9 per cent to the Rest of the World. There are over 37,000 employees in all the regions.

FINANCIAL HIGHLIGHTS

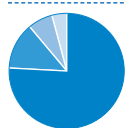
	2005	2004
Revenue	£3,182.4m	£2,974.1m
Profit from operations ⁽¹⁾	£308.5m	£304.3m
Operating margin ⁽¹⁾	9.7%	10.2%
EBITDA margin ⁽²⁾	13.4%	14.1%
Average net operating assets	£1,050.5m	£897.4m
Return on average net operating assets ⁽²⁾	29.4%	33.9%
Return on average invested capital ⁽³⁾	10.3%	11.6%
Capital expenditure	£143.3m	£157.7m
Depreciation	£119.1m	£115.9m
Capex to depreciation (times)	1.2	1.4
Cash generation ⁽⁴⁾	£217.0m	£181.7m
Cash conversion ⁽⁵⁾	75.3%	64.0%
Employees	37,324	36,720

REVENUE BY BUSINESS GROUP



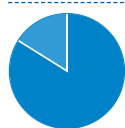
■ Industrial & Automotive 72%
■ Building Products 28%

REVENUE BY GEOGRAPHIC REGION



■ North America 76%
■ Europe 13%
■ Asia 7%
■ Rest of World 4%

AVERAGE NET OPERATING ASSETS BY BUSINESS GROUP



■ Industrial & Automotive 84%
■ Building Products 16%

INDUSTRIAL & AUTOMOTIVE

The Industrial & Automotive group manufactures a wide range of systems and components for the industrial and automotive markets through five principal business areas.

The Industrial & Automotive group represented 72.2 per cent of Tomkins' revenue in 2005 and 76.5 per cent of profit from operations before restructuring initiatives.

OUR INDUSTRIAL & AUTOMOTIVE BRANDS INCLUDE:



BUILDING PRODUCTS

The Building Products group manufactures a wide range of air handling components, bathware, doors and windows and other building components for the residential and commercial construction industries.

The Building Products group represented 27.8 per cent of Tomkins' revenue in 2005 and 23.5 per cent of profit from operations before restructuring initiatives.

OUR BUILDING PRODUCTS BRANDS INCLUDE:

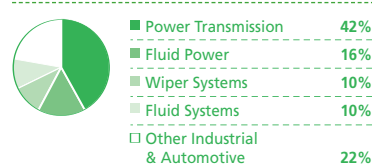


business groups end-markets.

FINANCIAL HIGHLIGHTS

	2005	2004
Revenue	£2,298.6m	£2,182.3m
Profit from operations ⁽¹⁾	£255.2m	£257.6m
Operating margin ⁽¹⁾	11.1%	11.8%
EBITDA margin ⁽²⁾	15.2%	16.0%
Average net operating assets	£891.8m	£729.5m
Return on average net operating assets ⁽²⁾	28.6%	35.3%
Return on average invested capital ⁽³⁾	10.2%	11.9%
Capital expenditure	£119.5m	£140.7m
Depreciation	£95.1m	£90.5m
Capex to depreciation (times)	1.3	1.6
Cash generation ⁽⁴⁾	£162.4m	£132.4m
Cash conversion ⁽⁵⁾	68.7%	55.2%
Employees	25,439	25,270

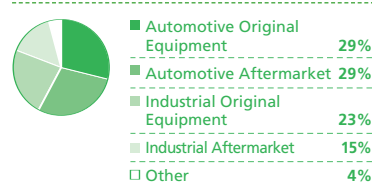
REVENUE BY BUSINESS SEGMENT



REVENUE BY GEOGRAPHIC REGION



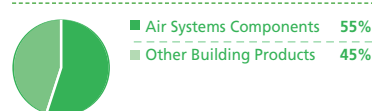
REVENUE BY END-MARKETS



FINANCIAL HIGHLIGHTS

	2005	2004
Revenue	£883.8m	£791.8m
Profit from operations ⁽¹⁾	£78.6m	£70.3m
Operating margin ⁽¹⁾	8.9%	8.9%
EBITDA margin ⁽²⁾	11.6%	12.0%
Average net operating assets	£170.3m	£175.7m
Return on average net operating assets ⁽²⁾	46.2%	40.0%
Return on average invested capital ⁽³⁾	14.0%	12.6%
Capital expenditure	£23.8m	£16.3m
Depreciation	£23.5m	£24.8m
Capex to depreciation (times)	1.0	0.7
Cash generation ⁽⁴⁾	£58.3m	£81.2m
Cash conversion ⁽⁵⁾	75.7%	120.1%
Employees	11,750	11,307

REVENUE BY BUSINESS SEGMENT



REVENUE BY GEOGRAPHIC REGION



REVENUE BY END-MARKETS



(1) Before restructuring initiatives.

(2) Based on earnings before interest, tax, depreciation, amortisation and restructuring initiatives.

(3) Return on average invested capital is calculated for total operations before restructuring initiatives.

(4) Net cash inflow from operating activities less net cash outflow from capital expenditure, before gains on disposal and exit of businesses.

(5) Cash generation to profit from operations before gains on disposal and exit of businesses.

"During 2005, management dealt efficiently with challenging conditions and produced good results"



DAVID NEWLANDS
CHAIRMAN

We continued to make good progress in what was a challenging year for Tomkins.

We experienced weaker automotive production volumes in North America and Europe, the delay in the implementation of the Transportation Recall, Enhancement, Accountability and Documentation ("TREAD") Act, the continuing softness of the non-residential construction market for most of the year and the effect of two severe hurricanes in the southern United States. Despite these difficult end-markets, the Group achieved good growth and operating profit margins. This reflects the ongoing commitment of our executive management team to find pragmatic solutions to improve performance.

OUR CULTURE AND OUR COMPANY

The introduction of our annual bonus incentive plan in 2003 has been a great motivator for our managers and has contributed to a more entrepreneurial focus

in their performance. Our people are committed and enthusiastic. Although our operations are geographically diverse and many functions are decentralised, we take great pride in teamwork and sharing best practice across businesses and regions.

Part of Tomkins' strength is its global reach, and the product and market diversity of its businesses. We manufacture a variety of products, from synchronous belts for engines to whirlpool baths and the key to our progress is that these diverse businesses are bound together by a common factor – manufacturing excellence. Our geographic spread across 21 countries together with the range of end-markets we serve make us not dependent on specific industries or regions.

RESULTS

In 2005, revenue was up by 7.0 per cent at £3,182.4 million (2004: £2,974.1 million) and profit from operations (before restructuring initiatives) rose by 1.4 per cent to £308.5 million (2004: £304.3 million). Profit from operations at £296.7 million (2004: £286.3 million) rose by 3.6 per cent. Fully diluted earnings per share were 23.79 pence (2004: 22.81 pence). Cash flow for the year was positive after interest, tax and dividends, despite a significant contribution to the Gates pension fund.

DIVIDEND

The Board has recommended a final dividend of 8.16 pence per ordinary share which, together with the interim dividend of 5.07 pence per ordinary share paid on 14 November 2005, brings the total dividend for the year to 13.23 pence per ordinary share, an increase of 5.0 per cent. The final dividend, if approved at the Annual General Meeting, will be paid on 31 May 2006 to shareholders on the register at the close of business on 21 April 2006.

We continue to extol the importance of cash flow generation to our business managers, as this supports our progressive dividend policy.

The Board has decided to offer again the Dividend Reinvestment Plan in respect of this final dividend.

CORPORATE GOVERNANCE

We aim for the highest standards of governance and transparency throughout the businesses and in all our market operations. Although the Operating and Financial Review (Reporting Statement 1) is not mandatory, we used this as a guide, since it will help our shareholders to better assess our strategy and goals.

Over the course of 2005, we made further progress in preparing for compliance with Section 404 of the

Sarbanes-Oxley Act of 2002, which we will implement fully in the current financial year.

As shareholders will be aware, Tomkins reports to the markets on a quarterly basis. Our quarterly press releases are available on our website (www.tomkins.co.uk) and hard copies can be requested from ir@tomkins.co.uk. As we are committed to keeping our corporate costs low, we have decided in future, in common with a number of large public companies, to place an advertisement in the national press and no longer produce a printed interim report.

THE BOARD

After five years with Tomkins, we are sad to be losing Ken Minton and Norman Broadhurst, who will be retiring from the Board at the conclusion of the Company's Annual General Meeting on 22 May 2006. Following the substantial reduction in the Gates family's interests in the Company, Marshall Wallach has decided to step down from the Board with effect from 1 May 2006. On behalf of the Board and everyone who had the pleasure of working with them, I would like to thank all three for their outstanding contribution to the Board and our Company and wish them well for the future.

I am pleased to welcome to the Board Richard Gillingwater, Head of the UK Government's Shareholder Executive, Struan Robertson, formerly Chief Executive at Wates Group, and David Richardson, formerly Group Finance Director at Whitbread PLC, who have joined the Tomkins Board as non-executive Directors. They bring to Tomkins broad and invaluable experience that will assist the Board in its work and we are looking forward to working with them.

EMPLOYEES, CUSTOMERS AND INVESTORS

On behalf of the Board, I should like to thank all of our employees for their commitment during the past year.

With the support not only of our employees but also our customers, suppliers and business partners, we can continue on our path of sustained profitable growth. I would also like to thank our investors for their continuing support of Tomkins.


VALUE CREATION

Our strategy remains focused on creating shareholder value through organic growth, geographic expansion and strategic acquisitions. We apply disciplined criteria to all potential acquisitions and capital investments to ensure that they are expected to enhance value. A chart seen below shows the Total Shareholder Return in the Company's shares for each of the past five years ended 31 December, measured against the performance of the FTSE Engineering and Machinery Index.

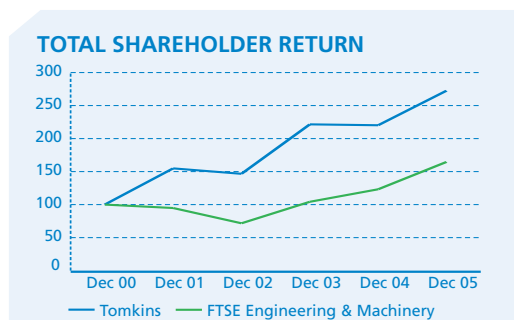
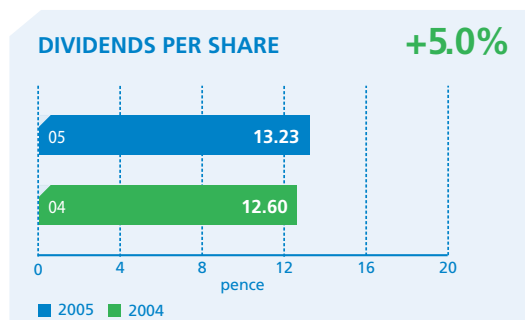
OUTLOOK

During 2005, management dealt efficiently with challenging conditions and produced good results.

Overall, the outlook for our markets in 2006 remains positive. By adhering to our strategy of achieving organic growth, geographic expansion into higher growth markets and the acquisition of value enhancing businesses, our strong management team should again deliver value for Tomkins shareholders in 2006.



DAVID NEWLANDS
CHAIRMAN



“Our businesses are focused on delivering dynamic growth in value through new products, global market expansion and strategic acquisitions”



JAMES NICOL
CHIEF EXECUTIVE

OUR PERFORMANCE IN 2005

In 2005, we increased revenue and profits, notwithstanding difficult end-market conditions, through our managers' focus on operational excellence. This included lean manufacturing and new product and process innovation, as well as the successful integration of businesses acquired during the year. Lean manufacturing initiatives across our businesses resulted in annual lean savings continuing to run in excess of £25.0 million, in addition to increasing both available floor space and machine capacity.

Our managers will continue to focus on operational excellence with a view to achieving growth in sales, operating margins and returns in excess of our cost of capital in the years ahead.

NEW PRODUCTS

Strategically our primary objective is the creation of shareholder value through the development of our businesses.

A key component of this is new product development in order to maintain our market leadership.

In 2005, Fluid Power opened a Customer Solutions Centre in Denver, Colorado, in part to support its leadership position in the port-to-port environment in industrial machinery and equipment. Its patented Quick-Lok™ product has already captured a leading market position in leak-free applications.

In addition to Quick-Lok™, other innovations in 2005 included hurricane-resistant louvers and windows in our Building Products group and several new power transmission innovations in our Industrial & Automotive group, such as variable vane transmission pumps, six-speed carrier systems and advanced drive belt technology.

GLOBAL MARKET EXPANSION

The Gross Domestic Product (“GDP”) of China and India are expected to grow 9.0 per cent and 6.8 per cent, respectively, in 2006. To further service the domestic industrial and automotive markets of these countries we opened two new facilities in China in 2005, increasing our total facilities there to seven, and one new facility in India, increasing our total facilities there to four. Geographic expansion in high growth markets, such as India and China, either through greenfield development or through value-enhancing bolt-on acquisitions will remain a key focus for 2006 and beyond.

STRATEGIC ACQUISITIONS

Since December 2004, we have added more than \$250 million (c. £140 million) in annualised revenue through acquisitions of industrial and building products businesses. Each of these businesses is meeting or exceeding the financial performance criteria used in the business plans to justify their acquisition. We have identified further acquisition opportunities and hope that we can achieve our stated annual target of \$300-\$500 million (c. £160-£270 million) of additional revenues through acquisitions in 2006.

KEY GROWTH AREAS

Power Transmission remains a growth area as industrial and automotive original equipment manufacturers (“OEMs”) look for innovative new products and the trend continues in automotive OEM outsourcing. Governments, OEMs and end-users are increasingly focused on products that provide fuel economy and reduced emissions. With operationally efficient products such as our stop-start system, variable vane pumps and six-speed carrier systems we are ideally placed to take advantage of this trend.

Industrial and automotive aftermarket revenue showed good growth in 2005 and is expected to grow steadily in the future. We plan to expand our market share by growing our product lines and leveraging our strong brand names and distribution network, especially in China where aftermarket sales grew in 2005 by 9.6 per cent.

The businesses within our Building Products group performed well in 2005, helped by new product introductions such as the Lasco "Contours™" luxury whirlpool and shower range. Lasco is one of the largest manufacturers of bathtubs in the United States. In 2005, we made significant investments in our bathware manufacturing facilities to increase efficiency through robotics and to comply with increased government emissions requirements through the installation of concentrators. We believe this will give us a significant competitive advantage going forward in dealing with those national and regional competitors that have not made these necessary investments.

Our Air Systems Components group also introduced a number of new products in 2005, such as the hurricane-resistant louvers and energy recovery ventilators, and is expected to continue to grow through product innovation and bolt-on acquisitions, benefitting from an anticipated upturn in the commercial construction sector in 2006.

MARKET DRIVERS

The 2006 outlook for our end-markets is mostly positive. In our Industrial & Automotive group, automotive production is expected to remain flat in North America and in Europe, with accelerated growth in South America and China. We expect to benefit from increased outsourcing of highly engineered power transmission systems in automotive original equipment and from a continuing growth in industrial production – industrial sales becoming increasingly important, as our exposure to automotive original

equipment has decreased to less than 22.0 per cent of sales. The industrial and automotive aftermarkets are expected to stay strong.

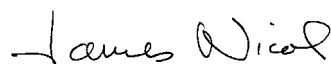
In our Building Products group, the residential construction market is expected to fall slightly from the record level of 2005, but to remain very healthy, while commercial construction is expected to grow steadily over the next few years.

OUR PEOPLE

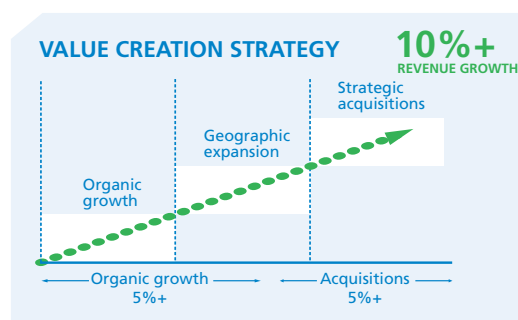
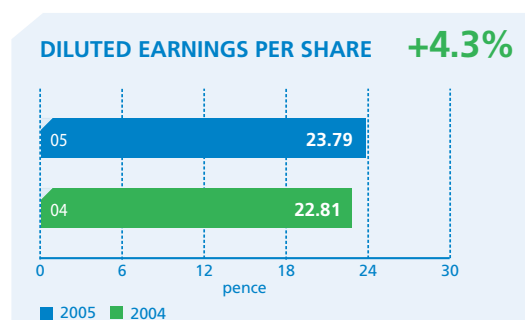
We closely aligned the interests of management with those of our shareholders through our annual bonus incentive plan introduced in 2003 under which managers participate in the value creation of the businesses they manage. This has changed our corporate culture by creating an entrepreneurial spirit within the Tomkins Group. Our managers understand the importance of value creation and in addition to operational excellence are now focused on key growth objectives such as new product development, geographic expansion and acquisitions.

LOOKING TO THE FUTURE

Our solid performance this year reflects our commitment to strengthen our businesses. I am particularly pleased with the success achieved on our strategic initiatives, including our new product introductions, the integration of our five recent acquisitions and our expansion in China and India. The operational initiatives taken during 2005 should result in our Group continuing this success and achieving growth in 2006.



JAMES NICOL
CHIEF EXECUTIVE



The Quick-Lok™ Growth Story

THE FLUID POWER BUSINESS

Fluid Power manufactures hydraulic hoses, assemblies, connectors and port-to-port solutions that are the arteries and veins of the mobile hydraulic equipment used principally in the construction, mining and agricultural industries. The global business operates in 19 plants in eight countries. Fluid Power is a leading player in a market estimated to be in excess of \$2.5 billion, with a market share of around 20 per cent.

THE FLUID POWER MARKET

Each year there are over 400 million connections made in hydraulic equipment and with existing threaded technology the key issues are the time taken to make a connection and the difficulty in controlling the process to ensure a leak-free environment. Fluid Power has responded to the customers' needs and developed a new technology known as Quick-Lok™ that provides a quick and leak-free solution to hydraulic hose assembly.

WHAT IS QUICK-LOK™?

Quick-Lok™ is a family of threadless hydraulic couplings that have a simple snap-in and verifiable connection that eliminates torque and requires no assembly tools. Since the process is virtually error-free there is a reliable, leak-free connection. Once in place, the assembly cannot be inadvertently disconnected, or released under pressure, which is an important safety feature.

WHY IS QUICK-LOK™ A KEY GROWTH STORY?

Quick-Lok™ provides a solution to the problems of threaded couplings and will be the product of choice in a wide range of applications. By reducing installation and maintenance costs, Quick-Lok™ lowers the customer's cost of ownership dramatically when compared to threaded assembly.

“We like Quick-Lok™ because it's simple, easier to put together and saves on re-work, which allows us to produce more machines.”

TIM WOLLES, FROM THE ADVANCED PRODUCT GROUP AT GEHL

In 2005, Fluid Power was awarded \$3.5 million of sales of its new Quick-Lok™ technology and this contributed to total sales growth in the business of 10.6 per cent over 2004 and double-digit operating margins. Looking to 2006 and beyond, a number of significant new Quick-Lok™ contracts have been awarded.

Customers who are using Quick-Lok™ include major industry names such as Gehl, Bobcat, JCB and Workhorse Custom Chassis.

QUICK-LOK™ IN ACTION



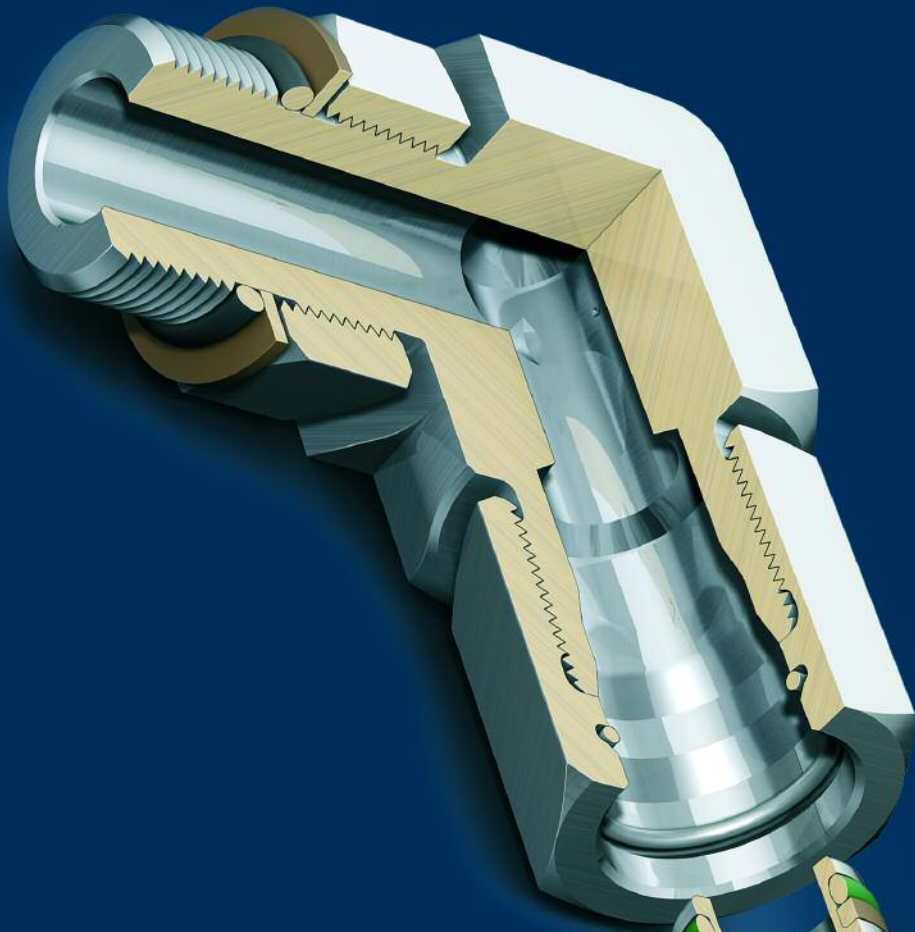
FOR SPEEDY CHANGEOVER
Live field demonstrations showed that it took one tenth of the time to assemble the Quick-Lok™ connectors compared to the standard threaded connections.



QUICK-LOK™ APPLICATIONS
The Quick-Lok™ family of connectors is designed to replace threaded connections in up to 70 per cent of hydraulic equipment applications, such as the mobile industrial machine shown above.



EASY TO SERVICE, NO SPECIAL TOOLS NEEDED
No special tools are needed to remove the Quick-Lok™ adaptor from the port – just a common wrench.



QUICK-LOK™ – FROM FLUID POWER

Quick-Lok™ connections are designed to increase productivity and safety with quick, easy, leak-free connections.

QUICKLOK



The Contours™ Bathware Range Growth Story

THE LASCO BATHWARE BUSINESS

Lasco Bathware is one of the largest manufacturers of bathtubs in the United States, producing nearly a quarter of all bathtubs sold. Lasco's products include luxury whirlpools, bathtubs, showers and shower units. The business operates from nine manufacturing facilities across the United States with national distribution to builders, home centres and wholesalers.

THE BATHTUB AND FIXTURES MARKET

Since 2000, the United States bathtub, shower and whirlpool baths market has been growing at an annual rate of around 3.0 per cent. In 2005, the overall market was estimated at \$1.9 billion and by 2013 is forecast to be around \$2.4 billion, with a particularly strong annual growth rate in showers and whirlpool baths. The drivers for this growth are record new housing sales to historic levels and a trend towards increased re-modelling spend, with more people renovating ageing properties and installing additional baths and showers in their homes.

WHAT IS THE CONTOURS™ RANGE BY LASCO BATHWARE?

By positioning itself at the high-end of the product offering with the Contours™ range, Lasco Bathware is gaining market share through both the quality of its products and design features. The Contours™ range of baths and showers includes features such as an air-and-water hydrotherapy system that creates a stress-reducing massage and an in-line heater that guarantees a constant temperature while bathing.

The showers feature steam and body spray systems and a teak floor insert to create a spa-like environment.

“The Contours™ Radius Series of baths are incredible – we’re placing the new Contours™ Radius whirlpool in our showroom as a featured product.”

BRENDA JOHNSON, SHOWROOM MANAGER AT FERGUSON

WHY IS THE CONTOURS™ RANGE A KEY GROWTH STORY?

The Contours™ range has created a higher profile brand recognition of Lasco Bathware in multiple market segments. The exposure the Contours™ product range received at the International Builder Show and the Kitchen & Bath Industry Show has resulted in increased sales in all product categories.

In 2005, Lasco Bathware achieved 15.7 per cent sales growth and double-digit operating margins, in part due to the success of the new Contours™ range. Lasco Bathware's market share is expected to grow in 2006, as new products are added to the Contours™ line and exposure to the hotel and leisure market increases.

Customers who are featuring the Contours™ product range in their showrooms and new homes include industry leaders such as Ferguson, Hajoca and KB Homes.

CONTOURS™ RANGE IN ACTION



CONTOURS™ RADIUS ROUND BATH

The Radius Round is roomy enough for two, with individual headrests, lumbar jets and therapeutic air massage with pre-warmed bubbles.



ROBOTICS

Lasco Bathware is driving innovation in its business through the use of robotics to produce its products. A robot is used to spray gel coat onto the outside layer of a non-acrylic bath.



RESIDENTIAL HOUSING

Lasco Bathware manufactures nearly a quarter of all bathtubs sold in the United States.

CONTOURS™
by LASCO BATHWARE



Lumbar jets and side-wall air injectors help you to relax by concentrating the water movement and massage action. The electronic panel offers one-touch functionality for control of the variable-speed blower, pump and lighting effects.



The Innovision™ Beam Blade Growth Story

THE TRICO WIPERS BUSINESS

Trico is one of the world's largest windscreen wiper blade manufacturers and a leading producer of wiper systems. Trico operates eight plants around the world, supplying customers in 67 countries, including General Motors, Ford, DaimlerChrysler, Honda, Infiniti, Land Rover, Jaguar and Nissan. Sales to the automotive aftermarket now represent over 40 per cent of Trico's total sales.

WIPER BLADE TECHNOLOGY

The main requirements of a wiper blade are that it delivers a consistent wipe and is durable. Traditional wiper blades have struggled to deliver the required performance, especially in bad weather conditions such as snow and ice. Trico has developed a revolutionary wiper blade design known as the Innovision™ beam blade that provides a solution to these problems.

WHAT IS THE INNOVISION™ BEAM BLADE?

The Innovision™ beam blade features a unique low profile that reduces wind lift at higher speeds. The blade has an infinite number of pressure points that provide continuous pressure across the length of the blade. The design of the blade with a jointless structure also maximises durability and ensures a quieter, more efficient operation. Innovision™ blades outperformed traditional blades in all snow and ice tests.

WHY IS INNOVISION™ BEAM BLADE A KEY GROWTH STORY?

The Innovision™ line continues to grow because Trico is able to offer the latest technology to fit the vast majority of vehicles on the road today. Consumers appreciate the unique styling, performance and easy installation of the beam blade. Innovision™ has created a new Premier category in the wiper market.

“Trico has managed to creatively bring newness and innovation to the wiper blade category. I have been very pleased with these new blades, both as a retailer and a consumer, and sales have exceeded my expectations.”

MONIQUE SHEPARD, AUTOMOTIVE BUYER AT FRED MEYER

Innovision™ was launched in 2004, and during 2005 revenue capacity was tripled to meet the continually rising demand, with nearly 2.6 million units sold. Management estimates that in 2006, the beam blade aftermarket will be approximately \$100 million, with a growth rate of 10 per cent in each of the next few years.

Innovision™ is currently being supplied to major names in the North American automotive aftermarket including Canadian Tire, NAPA, CARQUEST, Pep Boys, Fred Meyer and O'Reilly Auto Parts.

BEAM BLADE IN ACTION



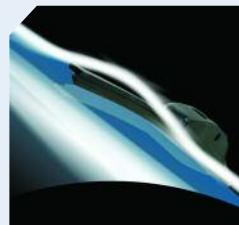
INNOVISION™ WINDOW

As with all Trico blades, Innovision™ is easy to install. It comes with a pre-assembled connector for simple installation on the most popular arm style, right out of the package.



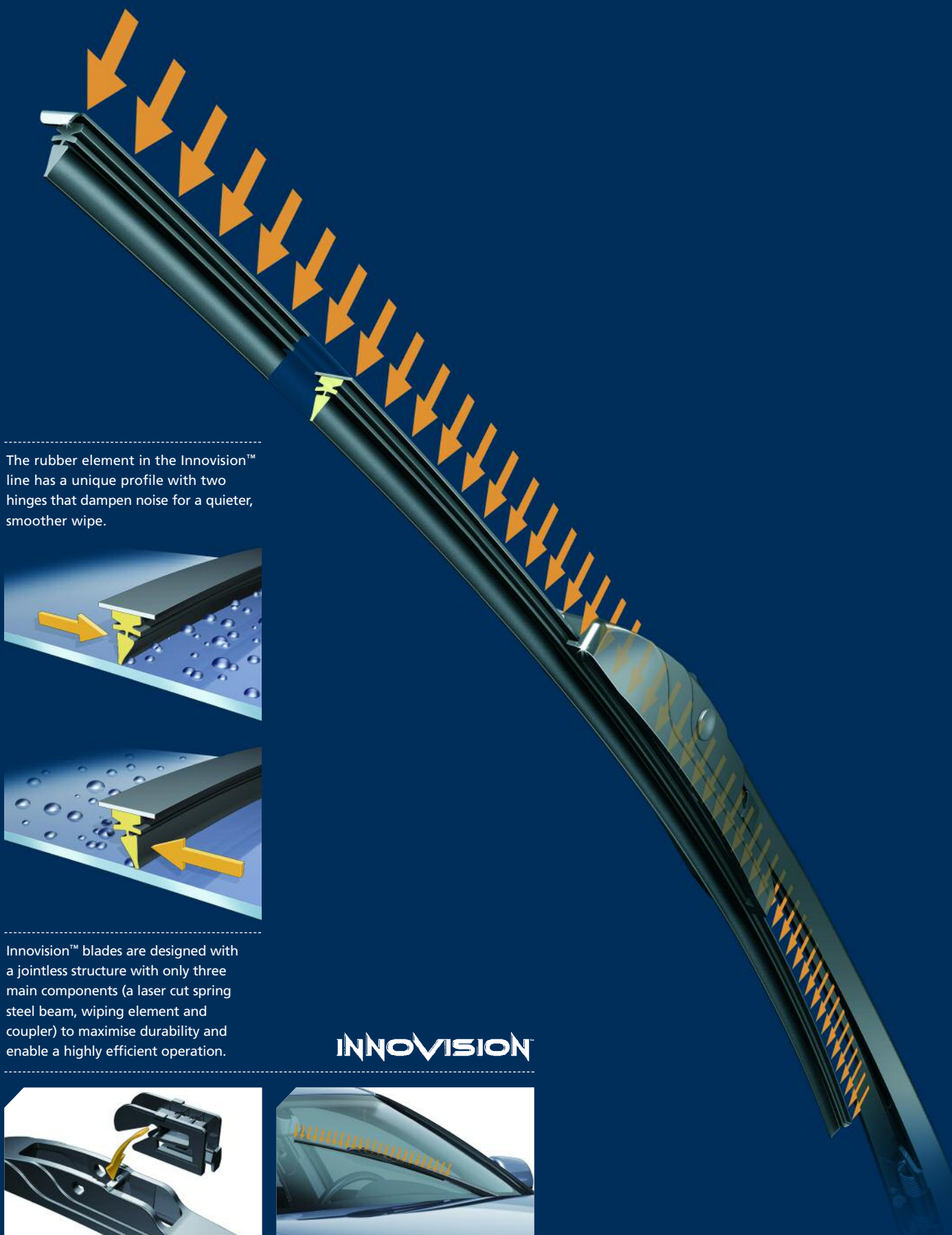
INNOVISION™ AWARDS

The Innovision™ Beam Blade won six awards at the APEX Global Design awards, including two Best in Show.

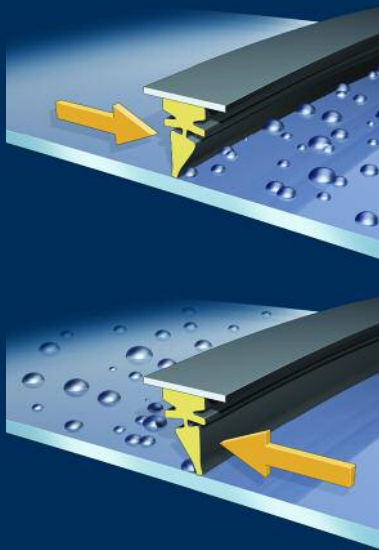


INNOVISION™ AIR FLOW

The unique low profile reduces windlift at higher speeds of up to 115 mph.



The rubber element in the Innovision™ line has a unique profile with two hinges that dampen noise for a quieter, smoother wipe.



Innovision™ blades are designed with a jointless structure with only three main components (a laser cut spring steel beam, wiping element and coupler) to maximise durability and enable a highly efficient operation.

INNOVISION™



Market Overview

Industrial & Automotive

AUTOMOTIVE ORIGINAL EQUIPMENT

Encompassing: Power Transmission, Fluid Power, Fluid Systems, Wiper Systems and Other Industrial & Automotive

2005: 21.1 per cent of Group sales

Global automotive production in 2005 increased by 3.9 per cent compared to 2004 according to CSM auto database, with a total of 62.2 million light vehicles manufactured. In North America, 15.8 million units were produced, which was the same output as in 2004. According to Ward's Autos, production volumes at General Motors and Ford were down by 8.4 per cent and 10.5 per cent respectively, whereas DaimlerChrysler increased volumes by 3.7 per cent. In Western Europe, production declined by 2.2 per cent to 15.8 million units, but in Japan and Korea production grew by 5.1 per cent in 2005. There was continued strong growth in South America and the emerging markets, including China, which grew by 14.0 per cent and 13.8 per cent respectively.

Looking ahead to 2006, CSM is forecasting North American production to remain at the 15.8 million unit level, Western European production to decline by 1.5 per cent, and production in Japan and Korea to be ahead by 3.9 per cent. The strong growth rate seen in 2005 in South America and the emerging markets, including China, is forecast to continue into 2006 with an increase in production of 8.7 per cent and 11.6 per cent respectively.

AUTOMOTIVE AFTERMARKET

Encompassing: Power Transmission, Fluid Power, Fluid Systems, Wiper Systems and Other Industrial & Automotive

2005: 21.3 per cent of Group sales

The global automotive aftermarket showed steady growth in 2005. Factors such as the weather, stock rebalancing and customer consolidation are all variables that can impact the market on a quarter-by-quarter basis. While the hurricanes in the United States in the third quarter of the year had a negative impact with a number of distribution stores closed, a strengthening of both the US and European markets in the fourth quarter of the year had a positive impact on the full year. In 2006, we expect the market in North America and Europe to grow in line with GDP.

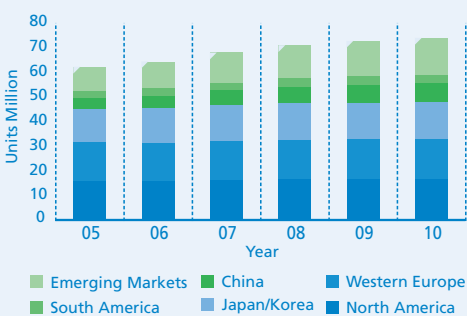
INDUSTRIAL ORIGINAL EQUIPMENT

Encompassing: Power Transmission, Fluid Power, Fluid Systems and Other Industrial & Automotive

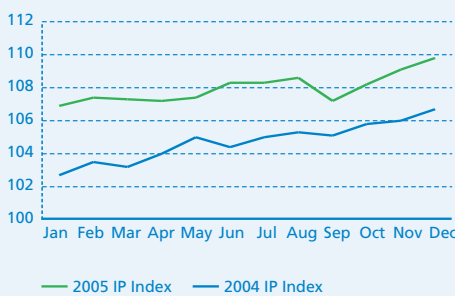
2005: 16.3 per cent of Group sales

In 2005, the market continued to show good year-on-year growth in all regions. Total industrial production as measured by the US Federal Reserve was 2.9 per cent higher and capacity utilisation was 1.3 per cent higher when compared to 2004. The construction and mining sectors rebounded strongly in the final quarter of 2005 following the negative impact of the two US hurricanes earlier in the year. The market is expected to show continuing modest growth in 2006.

GLOBAL AUTOMOTIVE PRODUCTION OUTLOOK



NORTH AMERICAN INDUSTRIAL PRODUCTION INDEX



“Overall, the outlook for our markets in 2006 remains positive”

INDUSTRIAL AFTERMARKET

Encompassing: Power Transmission, Fluid Power, Fluid Systems and Other Industrial & Automotive

2005: 11.1 per cent of Group sales

The industrial replacement market performed strongly in 2005. Distributors have experienced strong end-market demand due to the strength in US industrial activity. Predictions are that this market will remain strong in 2006.

Building Products

RESIDENTIAL CONSTRUCTION

Encompassing: Air Systems Components, Lasco Bathware and Philips

2005: 12.0 per cent of Group sales

The US residential construction market recorded another year of strong growth in 2005, despite concerns early in the year that the market would decline. The US Census Bureau recorded residential building permits on a year-to-date basis of 2.1 million, an increase of 3.4 per cent when compared to 2004, housing starts were up 5.6 per cent and completions were up 4.8 per cent. In 2006, the National Association of House Builders (NAHB) is forecasting the market to be down around 6.5 per cent at 1.93 million units. This remains a strong market by historic standards.

NON-RESIDENTIAL CONSTRUCTION

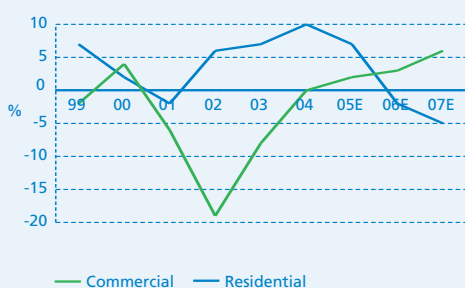
Encompassing: Air Systems Components, Lasco Bathware and Lasco Fittings

2005: 12.7 per cent of Group sales

The performance of the non-residential construction market, measured in square footage terms, finished the year flat compared to 2004 according to the Dodge construction report. This indicated a far stronger performance in the second half of 2005 given that square footage was lower by 9.5 per cent in the first half. The US Census Bureau measures the performance in dollar terms and reported that the market was ahead by 5.7 per cent. It appears that a slow recovery in the market has begun and Dodge has forecast a 4.0 per cent increase in 2006.

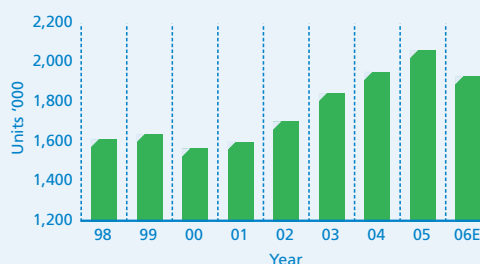
The remaining 5.5 per cent of Group sales relate to other varied markets, including recreational vehicles and manufactured housing.

UNITED STATES YEAR-ON-YEAR CHANGE IN RESIDENTIAL AND COMMERCIAL CONSTRUCTION SPENDING



Source: Cazenove, PCA and EcoWin

NORTH AMERICAN RESIDENTIAL HOUSING STARTS



Source: US Census Bureau and National Association of Home Builders

Our Business Industrial & Automotive

INTRODUCTION

The Industrial & Automotive group ("I&A") manufactures a wide range of systems and components for the industrial and automotive markets through five business units: Power Transmission, Fluid Power, Fluid Systems, Wiper Systems and Other Industrial & Automotive. This group has 85 manufacturing facilities located in 21 countries and employs 25,439 employees.

BUSINESS DESCRIPTIONS

POWER TRANSMISSION

Manufactures from various materials accessory drive belts, synchronous timing belts, pulleys and tensioners, automatic transmission gear carriers, high strength gears and oil pumps used primarily in automotive engines and transmissions and also industrial belt products.

FLUID POWER

Manufactures hoses, connectors and port-to-port systems used in hydraulics and other liquid transfer systems used in mobile equipment, typically in the construction, mining, agriculture, food processing and railroad markets.

FLUID SYSTEMS

Manufactures radiator, oil and fuel caps, engine thermostats for use in automotive fuel systems, and tyre valves including remote tyre pressure monitoring systems.

WIPER SYSTEMS

Manufactures windscreen wiper systems and components for use in the automotive original equipment market and aftermarket.

OTHER INDUSTRIAL & AUTOMOTIVE

This includes the manufacture of hose clamps, power steering hose assemblies and air and lubrication products for use in automotive and industrial markets; axles for the industrial utility market; and trailers and frames used in the recreational vehicle and mobile home markets; and the manufacture and installation of material handling systems used in the automotive, postal and bulk handling markets.

OUR END-MARKETS AND CUSTOMERS

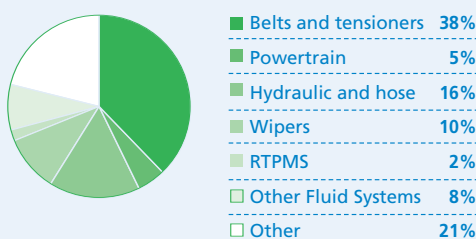
The Industrial & Automotive group sells globally into the automotive original equipment market ("AOE"), the automotive aftermarket ("AM"), the industrial original equipment market ("IOE") and the industrial aftermarket ("IAM"). Sales are diversified across these four principal markets as highlighted by the chart below. The 'Other' markets include the recreational vehicle market and the manufactured housing market.

General Motors, the largest customer, represents 6.0 per cent of Group sales (2004: 6.9 per cent). Ford and DaimlerChrysler represent 4.4 per cent (2004: 5.5 per cent) and 3.3 per cent (2004: 3.7 per cent) respectively of Group sales. A list of the top fifteen customers is shown on the next page. These customers represented 39.4 per cent of Industrial & Automotive sales in 2005.

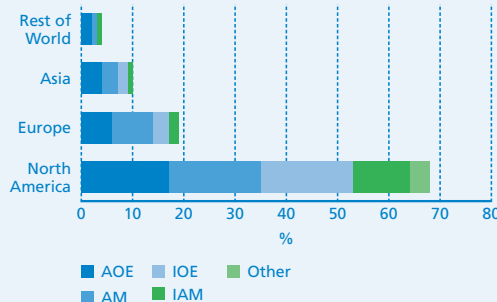
KEY MARKET DRIVERS

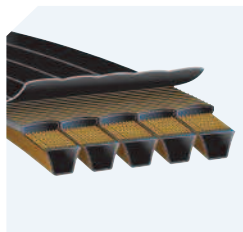
Automotive sales are linked to consumer spending in the various economies of the world, which in turn affects demand for new automotive vehicles and impacts the spending on vehicle maintenance and automotive replacement parts. Consumer spending is affected principally by interest rates and taxation

REVENUE BY MAJOR PRODUCT CATEGORY

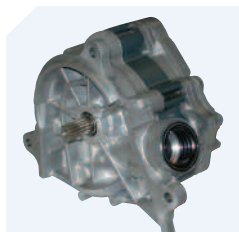


REVENUE BY REGION AND END-MARKETS





PREDATOR® POWERBAND
The Predator® Powerband belt that is used in the Petroleum industry for its strength and durability.



VV PUMP
The Stackpole variable vane transmission pump is used in small to medium-sized front wheel drive cars and SUVs.

rates in an economy. The relative prices of the vehicle and population growth are also key factors that will impact demand for new automobiles.

Demand for our products will also be impacted by inventory or stock levels of vehicles or replacement parts. A number of factors drive the long-term demand for aftermarket products such as the number of vehicles on the road, the age of the vehicles, the distance travelled and the average cost of repair.

The demand for industrial products is driven by industrial production levels in the economies of the world, with capital spending by the major manufacturers of mobile equipment used in the construction, mining, and agricultural sectors directly impacting our business. Sales of products into the industrial aftermarket are affected by stock levels in the distribution channel.

OUR COMPETITIVE POSITION AND STRATEGY

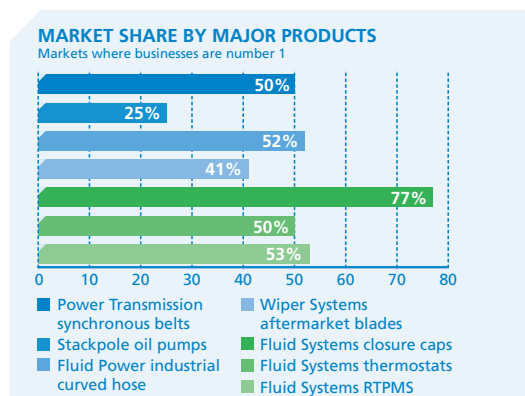
The businesses in the Industrial & Automotive group have market leading positions and strong brand names. They are able to supply their customers globally and offer a range of technology-driven and differentiated products. The principles of lean manufacturing continue to be applied in their businesses to improve efficiency. Product and process innovation is also key for all Tomkins' businesses to sustain and enhance our competitive position, and the next section features examples of several successful product introductions in the Industrial & Automotive group. Our geographic expansion continues, particularly in the high growth Asian markets, with contract wins in the year including Hyundai, Toyota and SAIC. The Industrial & Automotive group made

two strategic acquisitions during 2005, namely Eifeler Maschinenbau GmbH ("EMB") and L.E. Technologies, together with the Mectrol business at the end of 2004. All these businesses have been fully integrated into the Group and have added new technologies and, in the case of EMB and Mectrol, brought access to the growth market of China.

NEW PRODUCTS

In 2005, new products developed in the previous three years accounted for 8.5 per cent of Industrial & Automotive sales. Examples include:

- Predator® Powerband, Power Transmission: a series of belts that provide a longer run-time for oil pump equipment and reduced maintenance costs.
- Variable Vane Transmission Pump, Stackpole: the business has designed a variable vane transmission pump consisting of a modular construction that provides added fuel efficiency benefits and is a cost competitive solution compared to conventional systems. Stackpole has won contracts for over one million units in 2006 and expects to win further contracts during the year.
- Quick-Lok™, Fluid Power: this leading technology provides a quick and leak-free solution to hydraulic hose assembly.
- Innovision™ Beam Blade, Wiper Systems: this is a revolutionary wiper blade that outperformed traditional blades in all snow and ice tests.



MAJOR CUSTOMERS IN INDUSTRIAL & AUTOMOTIVE

General Motors	Nissan
Ford	Toyota
DaimlerChrysler	Volkswagen
Genuine Parts Company/NAPA	PSA/Peugeot
Motion Industries	Advance
CARQUEST	Ozark Automotive
Redneck	Hyundai
Renault	

Our Business Building Products

INTRODUCTION

This group of companies manufactures air handling components, bathtubs and whirlpool baths, doors and windows, and other building components through two business segments: Air Systems Components ("ASC") and Other Building Products ("OBP"). This group has 47 manufacturing facilities located in the United States, the United Kingdom and Asia, and employs 11,750 people.

BUSINESS DESCRIPTIONS

AIR SYSTEMS COMPONENTS

Manufactures air handling components supplying the heating, ventilation and air conditioning markets, principally in North America. Residential products are sold under the brand names of Hart & Cooley, Milcor and American Metal Products, and the industrial and commercial products are sold under the brand names of Titus, Ruskin, Krueger, Actionair and Rooftop Systems.

OTHER BUILDING PRODUCTS

This business comprises Lasco Bathware, Lasco Fittings and Philips Doors and Windows. Lasco Bathware manufactures acrylic and fibreglass baths and shower cubicles, and a range of luxury whirlpools that are all sold through distributors and the retail market. Lasco Fittings manufactures a range of PVC pipe fittings and accessories for pressure applications including irrigation and drain, waste and vent applications. Philips Doors and Windows manufactures uPVC doors and windows for the residential and manufactured housing markets, sold through national distributors.

OUR END-MARKETS AND CUSTOMERS

The principal markets for the Building Products group are the residential, industrial and commercial construction markets. The 'Other' markets include the recreational vehicle and manufactured housing market. The products are sold through a variety of manufacturers' representatives, wholesalers, distributors and retailers. A list of the top ten customers in the Building Products group is shown on the next page. These customers represent 15.7 per cent of Building Products sales in 2005.

KEY MARKET DRIVERS

Sales to the residential construction market are driven by the level of new homes constructed and the home re-modelling market. Both of these markets are linked directly to consumer spending in the United States, which is affected by interest rates and taxation rates in the economy.

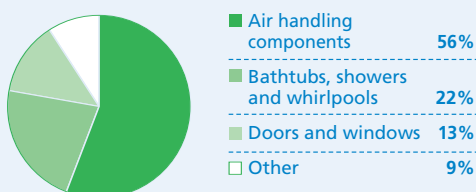
The long-term trend of new home building is related to the balance of demand and supply, which is determined by demographics and affordability and is connected to disposable income and interest rates. The re-modelling market is affected by the age of the housing stock and the disposable income of home occupants in the United States.

The non-residential market is driven by rental rates and occupancy rates that are affected by macroeconomic factors such as growth in GDP, the level of employment and industrial production levels.

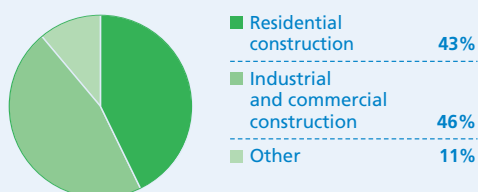
OUR COMPETITIVE POSITION AND STRATEGY

In Air Systems Components the products are sold under strong brand names and the business has a

REVENUE BY MAJOR PRODUCT CATEGORY



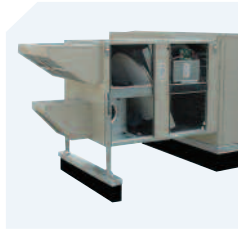
REVENUE TO END-MARKETS





RUSKIN HURRICANE-RESISTANT LOUVERS

The hurricane-resistant louvers are able to withstand wind loads of up to 160 psf and nearly 9 inches of rainfall. Ruskin was the first manufacturer to gain approval for its louvers from the Florida Building Compliance Office.



NRG INDUSTRIES

The energy recovery ventilator has a patented wheel design that rotates out of the airflow when not needed. This means the incoming outside air is not warmed, only then having to be cooled back down again.

leading market share. The business has national manufacturing and distribution capabilities and an established relationship with manufacturers' representatives, architects and engineers. In Other Building Products the Lasco Bathware business manufactures nearly a quarter of all baths sold in the United States, and has positioned itself at the high-end of the bathtub, shower and whirlpool market with the new 'Contours™' range. This market has grown with record sales of new homes and a trend towards increased spend on re-modelling of homes. Lean manufacturing continues to be extended across the businesses. A number of new products were successfully launched in the year and some examples are included in the new products section below. The acquisition of Milcor and NRG Industries Inc. has given the group access to new product lines and customers, and a manufacturing base in China. Milcor has been successfully integrated and NRG is nearing full integration. Both businesses are performing ahead of expectations, with additional synergies expected to be realised in 2006.

to win significant new contracts, including the Miami Performing Arts Center in the state of Florida.

- Energy recovery ventilators, NRG Industries: in September 2005, Tomkins acquired NRG Industries which manufactures commercial air conditioning products including energy recovery ventilators (ERVs). The ERV meets the growing need for energy conservation among building owners.
- The Contours™ bathware range, Lasco Bathware: during 2005, Lasco Bathware launched a new range of luxury whirlpools, baths and showers known as the 'Contours™' range that is receiving industry acclaim and has helped the business to grow sales by 15.7 per cent in 2005.

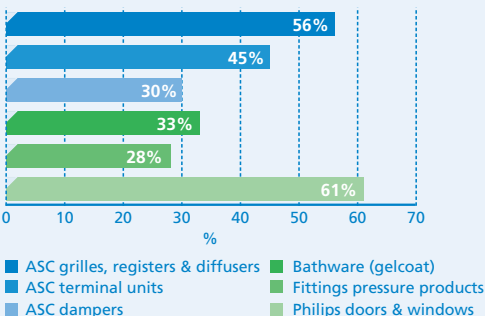
NEW PRODUCTS

In 2005, new products developed in the past three years accounted for 6.5 per cent of Building Products' sales. Examples include:

- Hurricane-resistant louvers, Ruskin: in response to the widespread failure of the various buildings in the southern United States, Ruskin has developed hurricane-resistant louvers. The louvers can hold up under pressure in severe weather by preventing wind and rain damage. This technology is helping Ruskin

MARKET SHARE BY PRODUCT

Markets where businesses are number 1



MAJOR CUSTOMERS IN BUILDING PRODUCTS

- Ferguson Enterprises
- Home Depot
- Watsco
- Fleetwood Enterprises
- Tom Barrow
- Thor Industries
- Norman S Wright
- Insight Glass
- Trane Co.
- York International

Corporate Social Responsibility

2005 has seen continuing improvement in the social, environmental and ethical standards prevalent throughout the Group's operations.

Tomkins believes in the importance of social responsibility in its business practices. This is consistent with a growing regulatory environment that requires greater emphasis on social responsibility in the conduct of the affairs of a public company. To this end, the Company and its businesses seek to achieve the highest standards consistent with its obligations to its shareholders, employees and customers to provide products and services that customers are prepared to buy, whilst continuing employment opportunities and providing an acceptable return to shareholders.

Tomkins continues to take a number of initiatives that advance these principles including lean manufacturing which has seen, amongst other things, cost-savings through a reduction in the use of raw materials, levels of waste and use of energy, together with a substantial improvement in health, safety and environmental performance in many of the Group's facilities. In the design, engineering and production of the Group's products, consideration is given to the environmental impact of the manufacture of such products and use to which they are put. Emphasis is placed on reducing waste and the use of energy in production processes. The Board of Tomkins encourages such policies within its businesses.

This report sets out initially the Tomkins' Code of Conduct and Ethics and Human Rights Policy. It then provides a summary in three parts of the work the Group has undertaken during the year in the area of Corporate Social Responsibility (CSR) consistent with the principle of continuous improvement, and highlights the main achievements. The first part of the CSR Report deals with health, safety and the environment; the second part covers Socially Responsible Investment (SRI) and finally Community Involvement.

CODE OF CONDUCT AND ETHICS & HUMAN RIGHTS POLICY

Tomkins' Code of Conduct and Ethics (the "Code") and Human Rights Policy form the basis on which uniform standards are applied across the Group in all countries where the Group operates. The Code sets out a series of ethical policies and principles of conduct to be followed by all Tomkins' companies and applies to all Directors, officers and employees, who are expected to conduct Company business with integrity

and in compliance with the laws of the countries in which they operate. The Code covers a number of important areas including competing fairly and complying with anti-trust and competition laws, employee health and safety laws and environmental laws. It also reaffirms Tomkins' commitment to fair treatment of all employees, ethical and lawful behaviour, and sets out some general principles, which are important in dealing with suppliers and customers and with governments and government agencies. The Code emphasises the importance of employees protecting the Company's intellectual property. Any waivers to the Code require the approval of the Board and will be published on the Company's website. During the year, no waivers have been either sought or granted.

Tomkins' Human Rights Policy (the "Policy") has established a number of principles that are applied across the Group to all companies, no matter where they operate. These principles cover anti-discrimination, employee rights (in the areas of health and safety, wages and working hours), prohibition of child labour and social responsibility (covering environmental impact and community relations). Employees are expected to maintain the highest standards in conformity with the principles.

A copy of the full text of the Code and the Policy (in several languages) can be found in the corporate governance area on Tomkins' website or a printed copy is available by application to the Company Secretary at the Company's registered office. From time-to-time, the Board reviews the Code and the Policy to ensure that they reflect best practice. During the year, a paragraph was added to the Code and to the Policy which allowed those Tomkins businesses that have their own existing code of conduct and ethics and human rights policy or similar documents to retain them, provided such documents incorporate the principles of the Tomkins' Code and the Policy and they have received the prior approval of the Chief Executive Officer of Tomkins.

Senior management throughout the Group are required to confirm annually that they and their businesses have complied with the principles set out in both the Code and the Policy and to report any breaches. For 2005, no breaches were reported by any of the operating businesses. Adherence to the Code and the Policy forms part of the business risk assurance monitoring process, which has assisted in ensuring the dissemination of the Code and Policy throughout the



The Code of Conduct and Ethics describes long-standing principles of conduct that Tomkins follows to ensure its business is conducted with integrity and in compliance with the law in the countries in which it operates. The Code of Conduct is available in several languages on the Tomkins website.



Tomkins plc and its subsidiaries are committed to conducting their businesses with care for the health and safety of all employees and with respect for the environment. The HSE policies are available in several languages on the Tomkins website.

Group. The Board does not believe that an independent external process of verification is required at this time, but will keep this under review.

1. HEALTH, SAFETY AND THE ENVIRONMENT (HSE)

The priority and importance placed by the Board and management of Tomkins on HSE matters is driven by a belief and experience that Tomkins' commercial success and high HSE performance are mutually reinforcing objectives. It was because of the importance placed on HSE matters that the Health, Safety and Environment Committee was formed by the Board in January 2003.

In recognising its responsibilities to its employees and the communities in which Tomkins operates, the Group's approach to HSE is one of continuous improvement. Key to the maintenance of the standards the Group sets for itself is the work of the Health, Safety and Environment Committee of the Board and a supporting team of specialist professionals (the "HSE team") operating throughout the Group. They have been active in guiding operating businesses to achieve the highest internationally recognised standards including Occupational Health and Safety Assessment Series (OHSAS) 18001 and ISO 14001 or equivalent. The OHSAS standard has been created to allow companies to develop systematic controls relating to their health and safety risks and to seek external accreditation of the HSE management system.

POLICY, OBJECTIVES AND COMPLIANCE

The intention of Tomkins' HSE policy is to provide a safe and healthy workplace for all employees and to minimise the impact of the Group's operations on the environment. Tomkins is committed to the highest HSE standards consistent with regulatory requirements and best management practices. The Group's businesses are required to operate their facilities consistent with this commitment. All employees have a part to play in that commitment and they are encouraged and expected to do so. Amongst the HSE Committee's responsibilities is the determination on behalf of the Board of the framework or broad policy and objectives in the areas of HSE and to propose any amendments to existing policies and objectives for approval by the Board.

The Group's policies and objectives are translated by management into specific action plans for each

operational site. All business groups are encouraged to set realistic HSE targets and objectives within their annual business plans in order to pursue a strategy based on continuous performance improvement. The HSE activities of individual businesses in the Group are monitored by the HSE team which carries out regular performance audits. The audit reports produced are given to local management who are responsible for correcting any deficiencies that come to light. A summary is provided to the HSE Committee. At every quarterly business review with senior management, an analysis of incidents of industrial accident and environmental exposure is considered and discussed.

The Tomkins Annual Bonus Incentive Plan for management is focused on a sharing of a proportion of Group after-tax profits after deduction of a charge for the cost of capital. An intrinsic feature of the Group's ability to generate sustained value is the need to maintain high standards of HSE controls in all operating businesses worldwide. There is much evidence that actions to improve standards of HSE are financially beneficial to the Group. Furthermore, high standards of HSE are often paralleled by high standards of product quality control and customer service. For these reasons, the Board does not believe it is necessary to identify separately the performance on HSE matters as a specific criterion in determining bonus payments.

HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

The Committee plays a key role in the Group's HSE activities and is comprised of two non-executive Directors and the Chief Executive and normally meets at least three times a year. In 2005, there were meetings and inspections at the Gates plant at Legnica, Poland; the Stackpole plants at Ancaster, Canada; and the Schrader plants at Belfast and Carrickfergus, Northern Ireland. Meetings always take place at one of the Group's facilities and normally form part of a programme during which the Committee will, where possible, visit more than one site. Site visits enable the Committee to gain an understanding at first hand of HSE activities of business units and the issues facing them. This process allows the Committee to maintain a strong and continuing overview of the way the Group's HSE policies and objectives are being implemented. Site visits by top management also enable facility personnel to recognise the importance the Committee and Tomkins Board places upon such matters.

The Committee has formal terms of reference which can be found in the Corporate Governance section of the Company's website. The Committee reports regularly to the Board on its activities, which assists the Board in making informed decisions about the businesses of the Group, particularly relating to any proposed new investment in manufacturing facilities and the related HSE implications. The reports received by the Committee also highlight current areas of HSE focus and improvement and any event or potential breach of regulatory requirements. Any potentially serious breach is communicated immediately to the Chief Executive of Tomkins and the Committee. This enables the Committee to monitor fully the compliance record of each business unit and ensure corrective action is taken in a timely manner. Of the environmental deficiencies found by regulators or discovered during audits in 2005, the substantial majority related to reporting deficiencies. On health and safety, the majority of the Occupational Safety and Health Administration ("OSHA") citations and informal inquiries were resolved promptly.

HSE ASSURANCE

The HSE Committee receives detailed quarterly reports from the HSE team on the current status of all matters which require attention, including a description of what action has been taken to address those matters and the timetable to completion. The adoption of international or comparable internal standards, tailored to the individual requirements of a growing number of operating businesses, increases the Committee's confidence in the effectiveness and accuracy of the reporting systems and procedures.

Business risk assurance audits are conducted by Tomkins' own professionals together with the site management teams, to ensure that processes and controls are in place to maintain compliance with Group policy and the applicable local and national HSE legislation.

Tomkins places a great deal of importance on HSE matters in its acquisition processes. The Tomkins HSE team forms part of the due diligence team and where appropriate, external environmental advisers are employed to review and assess any environmental risks to which the Group could become exposed if an acquisition were to proceed. In addition, health and safety is also a key area for which a full review is undertaken including the level of compliance with all

applicable laws and regulations. Environmental due diligence was performed at all acquired facilities during the year to ensure that no outstanding remedial obligations were assumed unless properly defined and reserved and that any compliance issues were properly identified prior to acquisition and addressed promptly. A review is made of a potential acquisition's environmental management system, relationships with regulatory officials and general level of respect and care shown for the environment. Where necessary, an indemnity is sought from the vendor to cover any potential liabilities, but it is possible that a potential acquisition would be rejected if the HSE risks were considered to be too high. Tomkins may require a vendor to undertake HSE improvements before a transaction is concluded.

During the year, the Tomkins' Excellence Award was instituted which provides incentives for each location to meet specified standards in 12 areas including: safety indices (incident and severity rates); waste indices (landfill & total wastes); environmental management systems; regulatory compliance; HSE self-assessment; loss prevention report review and follow-up; citizenship; HSE professional development; third-party HSE audit response; and corporate HSE audit response.

HSE COMMUNICATION AND INFORMATION

In support of the Group's HSE activities, a secure internet-accessible HSE database became fully operational in 2005. A streamlined data collection, storage and reporting system to track HSE performance as well as the ongoing HSE audit process began operation. Data is currently provided for approximately 185 of Tomkins' operating locations. Verification of the completeness and quality of collected data will be accomplished through annual data reviews completed by Tomkins' facilities and through periodic internal and third party HSE assessments conducted by the Tomkins HSE team. Data is derived from information maintained for each location, including the number of employees, a description of the operations, site information including the size and geographic location of the site, age and size of buildings on-site, and information on environmental, safety and quality management systems employed by the location. An HSE risk assessment has been completed for each location as well as HSE information relating to: permits, consents, and approvals held by the operation; above ground and



Tomkins has a secure internet-accessible HSE database that tracks HSE performance for each plant in every country.



Group photo of our local HSE professionals at Tomkins' first Asian HSE conference in February 2005.

underground tanks on-site; and data indicating the presence and management of any asbestos or PCB – containing equipment or materials that may be on-site. The data collected on a separate intranet-based system now allows accurate reporting of incident and severity rates across the Group (see graph on page 25). Following the gathering of basic data, it will be possible to report on a number of other areas including waste rates, emissions and other HSE data which will allow more detailed reports in future. Data is collected relating to emissions from the facility and reduction efforts are monitored against company-established targets for Gates; in the future, other companies may choose to use this tool for waste Key Performance Indicators (“KPIs”).

Work has continued during the year to complete an integrated approach to the Group's HSE activities which has been supported by the development of Tomkins' HSE intranet website which is available to the Group's HSE community. It offers a wide range of information and assistance in many important areas including training.

HSE HIGHLIGHTS

Two major HSE conferences were held during the year for Tomkins Group HSE professionals: one in Asia (Singapore) and the other in North America (Columbus, Ohio). In February 2005, the first Asian HSE Conference was held to educate and expand the culture of compliance and best practice to facilities in the region. The Conference agenda included a presentation by each business represented of one or more of their best practices. The benefits for participants included team building, understanding the HSE organisational structure and practices, knowledge sharing, improvement in HSE performance, networking with colleagues and the development of strong motivation. In November 2005, the North American HSE conference attracted more than 150 attendees, and an intensive three days of HSE training was provided, with an emphasis on integrating HSE into lean practices and included the introduction of the Tomkins' HSE Excellence Model. Tomkins' commitment to HSE was evidenced by the presence of Tomkins' Chief Executive, Jim Nicol, who provided the opening address, explaining that excellence in HSE is a requirement and a priority for all Tomkins businesses.

The emphasis on training continues to remain an HSE priority with a whole range of programmes

provided to employees, from basic plant-based programmes to the more advanced training for HSE professionals.

There were many notable health and safety achievements throughout the Group during the year, and some representative examples are summarised below:

- Four Stant plants have achieved substantial periods without a lost-time accident; Connersville (381 days), Tijuana (750 days), Pontypool (over 1200 days) and Karvina (300 days). Similar results have been achieved by other companies including Ideal, Gates Iola, Gates Salt Lake City, Gates Siloam Springs, Lasco Fittings, Lasco Bathware (Lancaster) and Dearborn Mid-West;
- A substantial number of facilities have improved the level of lighting with a change to more efficient lighting installations with longer bulb life which leads to the creation of a safer working environment, a reduction in the use of electricity and reduced costs. These lighting units are environmentally-friendly and can also be disposed of as general refuse, unlike the metal halide fixtures which contain mercury and require a licensed waste hauler for disposal;
- Five of Lasco Bathware's facilities installed in 2005 control technology which reduces employee exposure to styrene by an estimated 85 per cent while controlling air emissions by more than 90 per cent; and
- Behaviour Based Safety training has been introduced throughout the Group during the year, and several plants have begun implementation of the programme.

A large number of awards were received by Tomkins' operating businesses from local, regional and national organisations, reflecting the attainment and maintenance of high standards in health and safety throughout the Group's facilities.

There were a number of notable environmental achievements during the year where targets were either met or exceeded, and, by way of example, some are summarised below:

- Recycling and waste reduction efforts have been made in a large number of Tomkins' facilities with notable results achieved under their HSE Excellence Model by Gates facilities in North America, Europe and Asia. Recycling activities are extensive and include metal scrap, vinyl, glass, cardboard, water, plastic wrap and inkjet cartridges;

- At Gates, Aachen, Germany, zero waste to landfill has been achieved since 1998 (although such German regulatory requirements came into effect much later in June 2005). The key elements to achieving zero landfill waste include a thorough knowledge and careful analysis of all waste streams, strict policies covering incoming material, packaging and resulting waste and whole life product and process design;
- Lasco Bathware is upgrading its transport fleet to reduce nitrous oxide emissions by requiring improved pollution control for diesel engines;
- A great deal of success has been achieved in reducing the use of electricity throughout Tomkins, not just in lighting, but also production processes and a range of other areas. Gates Unitta Asia achieved a substantial reduction in the use of electricity in the Belt Testing facility in their Technical Department by developing the regenerative dynamometer brake (by re-engineering the existing dynamometer brake). This generates electricity while giving resistance torque to the belt. The electricity generated is fed back into the system. Accordingly, the test rig now consumes only half as much electricity as the traditional test rig;
- By siting two satellite factories close to their major customers, Ruskin has reduced freight costs (and resultant vehicle emissions) and packaging materials;
- Out of adversity sometimes comes opportunity and Stackpole discovered that Hurricane Katrina had reduced substantially the supply of hydrogen available, since it was sourced in the areas badly affected. A thorough re-assessment of its production processes was undertaken, which has led to a reduction in its hydrogen usage of 30 per cent;
- The Philips facility at Stayton, Oregon has reduced waste by more than 40 per cent, primarily due to glass recycling efforts;
- The Ideal plant in St Augustine, Florida, has eliminated all industrial wastewater discharged and reduced its hazardous waste by 51 per cent in 2005; and
- Aquatics and Lasco Bathware have engaged in research and development effort to reduce air emissions by as much as 22 per cent through the use of modified resins in their products.

There are a number of continuous improvement

projects run by operating businesses that continue to yield year-on-year gains in environmental and financial performance, reductions in hazardous waste being a good example.

There are numerous examples throughout the Group where changes to processes can yield environmental, HSE safety and financial benefits in one operation.

MANUFACTURE OF ENVIRONMENTALLY ADVANTAGEOUS PRODUCTS

Many of Tomkins' businesses have adopted a "Green Purchasing" routine by which sustainable materials are given preference in the purchasing process. Additionally, Tomkins supplies a number of products that have a positive impact on the environment. By way of illustration, two examples are drawn from Dearborn Mid-West Conveyor Company (DMW) and Ruskin.

The US Environmental Protection Agency's Clean Air Interstate Rule furthers the objectives of the US Clean Air Act, which requires coal burning power plants to reduce sulphur dioxide emissions by 70 per cent and nitrogen oxides by 60 per cent by 2015, compared to 2003 levels, across a region including 28 eastern states. DMW is furnishing bulk material handling systems to some of the leading United States energy companies in this unprecedented effort to improve air quality. Flue-Gas Desulphurisation requires lime or limestone in the chemical process to remove sulphur dioxide from flue gases. A by-product of the process is gypsum or sludge. All of these materials are transported, stored, and retrieved by DMW equipment. In some cases the gypsum will be conveyed or loaded out for shipment to nearby plants as the primary ingredient for the manufacture of plasterboard. DMW is assisting other plants who will achieve emission reductions by converting to lower sulphur coal, or blending a fuel mix that results in lower emissions. Different physical and combustion properties require that the existing material handling systems be modified or expanded.

Ruskin, in common with its sister companies in the Air Handling group, has signed up to the objectives of the US Green Building Council whose mission is to promote buildings that are environmentally responsible, profitable and healthy places to live and work. Just one of a number of products developed to support this initiative is the Electronic Air Measurement Station.



Air Systems Components plant in the United States before lean manufacturing initiatives.



Lean manufacturing has led to a safer working environment, increased efficiency and reduced costs.

This innovative product enables the building operator to keep leakage of conditioned air to below three cubic feet per minute per square foot while maintaining a healthy supply of fresh outside air to the building occupants. Ruskin's success in this field was recognised when its President was a featured speaker at the 2005 Engineering Green Buildings Conference.

HSE PERFORMANCE

At the end of 2005, 115 of the Group's 152 facilities had adopted an Environmental Management System ("EMS"), of which 73 facilities were ISO 14001 accredited (2004: 65). A further 24 facilities are currently ISO compliant but not registered. A further 18 facilities have alternative EMSs in place (these facilities have implemented fully functional EMSs that were not based on the ISO 14001 outline but achieve similar results and are not intended for ISO certification); the remainder of the facilities (except those facilities opening in 2005 or scheduled to close) have been tasked to achieve ISO compliance with fully functional EMSs in 2006.

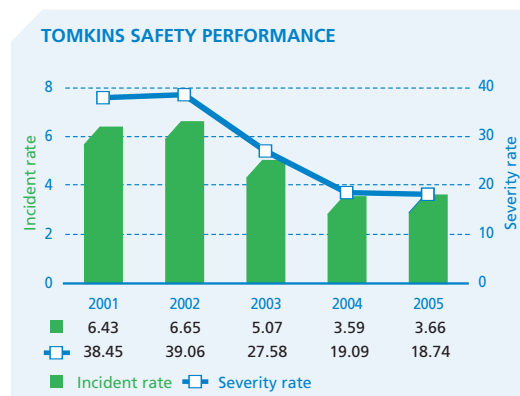
All of the businesses have established a range of HSE KPIs within their current business plans to monitor and assess HSE performance on an ongoing basis. The HSE Committee monitors the KPIs on a regular basis to ensure that HSE focus and continuous improvement in performance are being delivered by all business groups. Examples of the KPIs used include incident/accident and severity rates, raw material wastage and energy consumption per applicable production unit, and compliance with Tomkins' HSE policy and local environmental legislation.

Trends on accidents within Tomkins' manufacturing plants and distribution facilities are measured using OSHA standards, since the majority of the Group's operations are based in North America. The Tomkins database provides Group-wide performance data on the incident rate and the resulting lost days, and the severity rate, which are tracked in all individual facilities. A target incident rate of 2.0 (meaning 2 reportable incidents per 100 workers over a period of one year) has been set for certain of Tomkins operations and for the remainder, reductions in the incident rate and severity rate from year to year, have been set. The graph opposite shows the trend over the past five years – a reduction of over 40 per cent in the incident rate. The very slight increase in the incident rate in 2005 is entirely due to newly acquired

businesses for which Tomkins' HSE policies have not yet been fully implemented. Without those businesses, the improvement year-on-year would have continued.

The target severity rate (average number of lost workdays per incident) has been set at zero and for the five-year period a reduction of over 50 per cent was recorded. The results were affected by the performance of businesses acquired in recent years, but work continues to improve performance year-on-year.

Waste generation has been measured in Gates' facilities as part of the HSE Excellence Model, although a number of other companies have also tracked waste. Expansion of the new intranet database now provides an opportunity for central measurement of results and data worldwide. Actual amounts of total waste and waste to landfill may be tracked. Waste is defined as "any goods being shipped off-site for either disposal or for other beneficial use besides the intended original end-product function", that is, any non-saleable good or product. In the Gates facilities, waste volume is then compared to net production volume (tonnes of good product manufactured and shipped to warehouse or to customers or, for distribution centres, tonnes of product shipped). Due to the significant amount of waste inherent in some production processes (e.g. grinding dust of belts, or swarf in hose coupling production), for the purpose of evaluation, waste indices are calculated as a percentage of net production. This enables performance to be benchmarked. The "Total Waste Index" is rated as tonnes of total waste per tonne of net production. The "Landfill Waste Index" is rated as tonnes of waste to landfill per tonne of net production. Indices calculated from the aggregated data for 2003 and



2004 for Gates show a total waste reduction of 11.14 per cent with a reduction in landfill waste of 9.33 per cent. Since land-filling is considered by many countries to be the worst method of waste disposal, the focus has been on reducing this, while at the same time not losing sight of total waste reduction. The target is to show continuous year-on-year reduction of waste. Once the Group has "waste" as a KPI measurement worldwide, specific percentage improvement targets may be set. Other companies may choose to use a different measurement than waste compared to net production volume; the intention is to incorporate this new performance indicator into the continuing effort for manufacturing excellence by having the facility select a customised KPI measurement most appropriate to its operations. Energy consumption data has also been aggregated for many Tomkins affiliates, however no detailed analysis is yet available.

2. SOCIALLY RESPONSIBLE INVESTMENT

The Board regularly takes account of the significance of social, environmental and ethical ('SEE') matters and how these impact the Group's businesses and value. The Board ensures that appropriate and effective systems are in place to manage significant risks. This manifests itself in a number of ways. At the quarterly business reviews conducted by senior management, the significant risks facing each business are considered and strategies to mitigate these risks are discussed and agreed. Periodically, the Board receives a summary of the Group Risk Profile that sets out the most important risks facing the Group and its businesses, which may have an impact on the short, medium and long-term value of the Group. These risks cover a whole range of issues including pricing pressures, growth, investment, timing of acquisitions and disposals, currency exposures, products, strategies for developing countries and any failure adequately to identify and manage significant HSE issues. Each of the risks is assessed for its impact on profit and cash flow, the likelihood of its occurrence, and the scope for mitigation or reduction of the risk. The risks are kept under review until they are either wholly mitigated or no longer represent a significant risk to the Company and its short, medium and long-term value.

Other important areas where SEE issues are taken into account include major capital expenditure proposals considered by the Board, where operating businesses are required to take account of, and report on, SEE matters

where there is any potential impact. The Business Risk Assurance group has included in its overall business risk assurance process, specific requirements to examine and assess SEE matters in its list of responsibilities. The results of the work of the Business Risk Assurance group are reported quarterly to the Audit Committee, which, in turn, reports to the Board.

3. COMMUNITY INVOLVEMENT

CHARITABLE GIVING

The Board's policy on charitable giving was reviewed during the year and whilst no changes were made to the underlying policies, donations of an exceptional nature were included in the policy framework. Tomkins has well-established guidelines that determine the nature of organisations to which support is given. Tomkins recognises its responsibilities to the wider community in which its businesses operate to provide balanced and targeted charitable assistance. The charities given assistance cover a wide range of activities including health and welfare, education, civic and community projects, culture and the arts. Tomkins prefers to spread its charitable giving over many smaller local charities that usually do not have the organisation, structure or resources to compete with the marketing skills of the larger, high-profile charitable bodies. Each year donations are made to hundreds of charities. Tomkins makes further donations through advertising, sponsorship, products for prizes and volunteers or other in-kind support.

In the UK, applications are normally made to Tomkins' corporate office in London. Requests for donations are made from a variety of charities and Tomkins tries to respond positively to as many requests as possible, provided they come from small local charities and are registered with the Charity Commission. The Company and its employees continued with their support during the year for The Aplastic Anaemia Trust through donations and participation in a London to Paris Triathlon. The Trust in turn supports a specialist unit at St George's Hospital, near to Tomkins' corporate headquarters in south west London. Aplastic Anaemia is a rare but devastating disease that causes the bone marrow to cease producing red blood cells.

In the US most requests for support are made locally and donations can be made in a number of ways. The Tomkins Foundation makes matching gifts, foundation



Ken Minton, Non-Executive Director, and Stephen McClelland, Managing Director of Schrader Electronics Ltd. at an HSE meeting at Schrader Electronics, Ireland.



Gates Korea contributed to a charity programme for The House of Hee-Lak orphanage.

gifts and contributions to United Way, an external charitable organisation that distributes funds to charities. Tomkins' US subsidiary companies also make donations to United Way. In addition to their charitable giving activities, the businesses also run a range of initiatives for the benefit of local communities. These include allowing employees time off to participate in community activities and other charitable support. Examples of the many organisations to which help was provided during the year include the American Heart Association, the American Cancer Society and "March of Dimes" (an organisation that helps prevent birth defects and infant mortality). Support was given to Drug Awareness Resistance Education ("DARE"), a programme which aims to keep children off drugs, and Relay for Life Walk for cancer. Some US businesses use their industrial and commercial expertise to support charities, and Habitat for Humanity receives support from a number of Tomkins' companies. In response to Hurricane Katrina in August 2005, which had such a devastating effect on the southern United States and in particular New Orleans, the Company made a donation of over US\$290,000 including matched donations made by employees of US\$40,000. The Group's contribution was donated to the American Red Cross who were closely associated with the relief efforts.

No donations were made to any organisation in which any of the independent non-executive Directors serves in an executive capacity. During the year, the Board approved a donation of £100,000 to Seeability (formerly known as the Royal School for the Blind), a charity whose purpose is to enable individuals who are blind or partially sighted with additional disabilities to achieve their full potential, to realise opportunities, make choices and enhance their quality of life. Seeability launched its "eye 2 eye" campaign during the year which aims to raise £2 million to fund ten community development officers nationally to provide support to individuals with sight loss and a learning disability. David Newlands is non-executive Chairman of the Trustees of Seeability and took no part in the Board's decision to make the one-off donation. Total charitable donations during the year are shown in the Directors' Report.

COMMUNITY ASSISTANCE

In the US and many other countries in which Tomkins operates, many employees serve their local community through work on boards, committees and other bodies

covering a wide range of activities, giving their time and expertise free to the local community – something Tomkins encourages and supports. In the UK, the Company's employees have an annual vote to select a community project and in 2005 the choice was property maintenance at a local school. There is widespread Company and employee support in many countries for giving blood and in the US this was done in co-operation with local Red Cross organisations. Many of the Group's facilities hold "Open Days" where members of an employee's family and the local community are invited to visit the facility and gain a greater understanding of what the plant produces and how it is produced.

EMPLOYEE HEALTH AND WELFARE

Many of Tomkins' businesses operate a range of voluntary preventative healthcare programmes with the purpose of maintaining and supporting employee health and welfare. The programmes are wide-ranging and include health screening, weight loss, free influenza immunisation, breast screening and other forms of preventive healthcare. One company which has facilities some distance from primary medical care and consequently long emergency response times, has purchased defibrillators for those facilities.

At Schrader Electronics, Northern Ireland, focus is put on the total lifestyle of employees through comprehensive health and lifestyle assessments covering the measurement of cholesterol (HDL and LDL), glucose, height, weight, body fat, blood pressure, carbon monoxide, suppleness and strength. The assessments also cover exercise, smoking, diet, alcohol, stress levels and other aspects of everyday life. Lifestyle training was provided to shift workers and was designed to address shift workers' issues in the areas of shift scheduling, sleep hygiene, circadian physiology, substance abuse, nutrition, stress management, family counselling and organisational management. It also provided practical solutions for easing day-to-day difficulties associated with shift work lifestyles.

POLITICAL DONATIONS

It is Tomkins' practice not to use shareholders' funds for the purpose of making political donations either in the form of cash donations or other in-kind benefits and consequently we have not sought shareholder approval to make such donations.



KEN LEVER
FINANCE DIRECTOR

Financial Review

OVERVIEW OF PERFORMANCE AND FINANCIAL POSITION IN THE YEAR

REVENUE AND PROFIT FROM OPERATIONS

Sales increased by 7.0 per cent to £3,182.4 million (2004: £2,974.1 million) and profit from operations before restructuring initiatives increased by 1.4 per cent to £308.5 million (2004: £304.3 million). Profit from operations was also higher at £296.7 million (2004: £286.3 million), an increase of 3.6 per cent.

These results reflect good contributions from the recent acquisitions, organic growth from new products, increased operational efficiency, price increases made to offset the higher cost of raw materials and expansion in high growth markets. Collectively, these positive factors allowed the Group to overcome the challenges faced throughout the year from weak North American automotive production volumes, particularly at General Motors and Ford, the delay in the implementation timetable of the TREAD Act, and softness in the non-residential construction market.

The Group continues to undertake certain restructuring initiatives aimed at improving the cost base, and in 2005 the net cost of the restructuring initiatives was £11.8 million (2004: £18.0 million). This comprised restructuring costs of £20.3 million (2004: £20.5 million) and a profit on disposals and exit of businesses of £8.5 million (2004: £2.5 million).

The net impact from raw material and energy cost increases was broadly neutral for the year as a whole.

MARGINS

The Group operating profit margin before restructuring initiatives was 9.7 per cent, compared to 10.2 per cent in 2004. We maintained double-digit operating margins in Industrial & Automotive of 11.1 per cent (2004: 11.8 per cent) and in Air Systems Components of 10.3 per cent (2004: 11.3 per cent). The operating margin in Other Building Products was 7.2 per cent (2004: 6.2 per cent).

“Our results reflect good contributions from the recent acquisitions, organic growth from new products and increased operational efficiency”

INDUSTRIAL & AUTOMOTIVE

Sales in Industrial & Automotive increased by 5.3 per cent to £2,298.6 million (2004: £2,182.3 million) and profit from operations (before restructuring initiatives) was £255.2 million (2004: £257.6 million). The lower automotive production volumes in the North American automotive original equipment (“OE”) market generally, and particularly at General Motors and Ford, had an impact on sales volumes and margins. The group also had to contend with the delay in the TREAD Act that pushed back a significant number of Remote Tyre Pressure Monitoring System (“RTPMS”) orders until the second half of 2006, and

GROUP OPERATING PERFORMANCE INDICATORS

	2005	2004
Revenue	£3,182.4m	2,974.1m
Profit from operations ⁽¹⁾	£308.5m	£304.3m
Operating margin ⁽¹⁾	9.7%	10.2%
EBITDA margin ⁽²⁾	13.4%	14.1%
Average net operating assets	£1,050.5m	£897.4m
Return on average net operating assets ⁽¹⁾	29.4%	33.9%
Return on average invested capital ⁽³⁾	10.3%	11.6%
Capital expenditure	£143.3m	£157.7m
Depreciation	£119.1m	£115.9m
Capex to depreciation (times)	1.2	1.4
Cash generation ⁽⁴⁾	£217.0m	£181.7m
Cash conversion ⁽⁵⁾	75.3%	64.0%
Employees	37,324	36,720

GROUP FINANCIAL PERFORMANCE INDICATORS

	2005	2004
Interest and preference dividend cover (times)	7.7	9.2
Effective tax rate ⁽⁶⁾	21.5%	19.6%
Fully diluted earnings per share	23.79p	22.81p
Return on equity after tax	11.9%	12.5%
Dividend cover – earnings (times)	1.9	1.9
Dividend cover – cash flow (times)	1.0	1.2

(1) Before restructuring initiatives.

(2) Based on earnings before interest, tax, depreciation, amortisation and restructuring initiatives.

(3) Return on invested capital is calculated for total operations before restructuring initiatives.

(4) Net cash inflow from operating activities less net cash outflow from capital expenditure, before gains on disposal and exit of businesses.

(5) Cash generation to profit from operations before gains on disposal and exit of businesses.

(6) Calculated on profit before tax and before preference dividend.

in the third quarter of the year the two hurricanes in the gulf coast region of the United States temporarily disrupted the supply chain and caused a spike in raw material prices.

The Industrial & Automotive group completed two acquisitions in 2005 (L.E. Technologies and EMB), with the Mectrol business being acquired at the end of 2004. In total, the annualised revenue added by the businesses is around \$160 million (c. £88 million). The acquisitions have all been integrated effectively into their respective businesses and are making contributions ahead of our initial expectations. In 2006, we expect to realise further cost synergies and to expand the product offering into new markets.

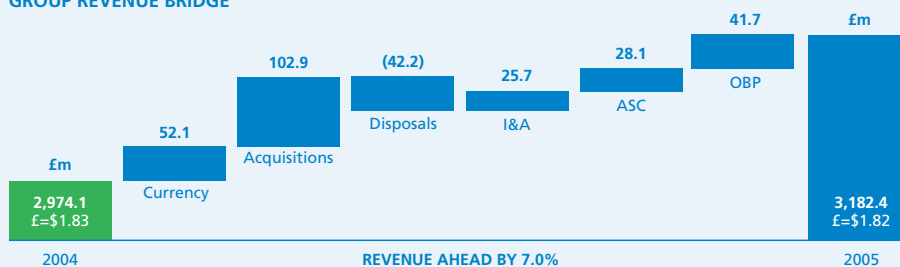
In 2005, automotive OE represented 21.1 per cent of our global sales (2004: 25.1 per cent) and North American automotive OE represented 12.0 per cent of global sales (2004: 14.4 per cent).

POWER TRANSMISSION

There was good underlying growth in industrial markets and automotive aftermarket, offsetting the lower automotive OE volumes. The Mectrol industrial belt business made a strong contribution during 2005 and is targeting a number of new applications for its products in markets such as food processing and print and paper processing.

Automotive original equipment sales were impacted throughout 2005 by production cuts, especially at General Motors and Ford. The business is taking action to address this, and in the year won new business in Asia of around \$30.0 million (£16.5 million) with Hyundai, Toyota and SAIC, and new business in Europe of around \$22.0 million (£12.1 million) with Renault/Nissan, PSA/Peugeot, VW and Fiat. The business continued to expand in China, with sales ahead by 17.2 per cent, and secured an award from Chery Automotive for 'Excellent Technical Co-operation'.

GROUP REVENUE BRIDGE



30 OPERATING AND FINANCIAL REVIEW

FINANCIAL REVIEW CONTINUED

INDUSTRIAL & AUTOMOTIVE

	2005	2004
Revenue	£2,298.6m	£2,182.3m
Profit from operations ⁽¹⁾	£255.2m	£257.6m
Operating margin ⁽¹⁾	11.1%	11.8%
EBITDA margin ⁽²⁾	15.2%	16.0%
Average net operating assets	£891.8m	£729.5m
Return on average net operating assets ⁽¹⁾	28.6%	35.3%
Return on average invested capital ⁽³⁾	10.2%	11.9%
Capital expenditure	£119.5m	£140.7m
Depreciation	£95.1m	£90.5m
Capex to depreciation (times)	1.3	1.6
Cash generation ⁽⁴⁾	£162.4m	£132.4m
Cash conversion ⁽⁵⁾	68.7%	55.2%
Employees	25,439	25,270

(1) Before restructuring initiatives.

(2) Based on earnings before interest, tax, depreciation, amortisation and restructuring initiatives.

(3) Return on invested capital is calculated for total operations before restructuring initiatives.

(4) Net cash inflow from operating activities less net cash outflow from capital expenditure, before gains on disposal and exit of businesses.

(5) Cash generation to profit from operations before gains on disposal and exit of businesses.

Automotive aftermarket sales were ahead by 4.3 per cent, with particular strength in Europe where sales were ahead by 13.2 per cent. The business in Europe benefitted from the launch of the new Micro-V® XF belt and, in North America, Power Transmission won a key contract to supply tensioners to CARQUEST. The business continues to look at expansion opportunities in high-growth markets such as Russia and the Middle East, and during the year won a "Supplier of the year award" in Russia from AD International, a large Pan European organisation, for the quality of its order fulfilment.

At Stackpole, the profitability of the business suffered from the lower automotive OE production volumes. We took action during the year to contain costs and implement profit protection plans and, in February 2006, announced the closure of the Pump Components Division ("PCD") facility. These actions are expected to improve the operational efficiency of the business in 2006. An increase in volumes on new platforms, as the OEMs move to six-speed transmission, should also drive an improvement in performance.

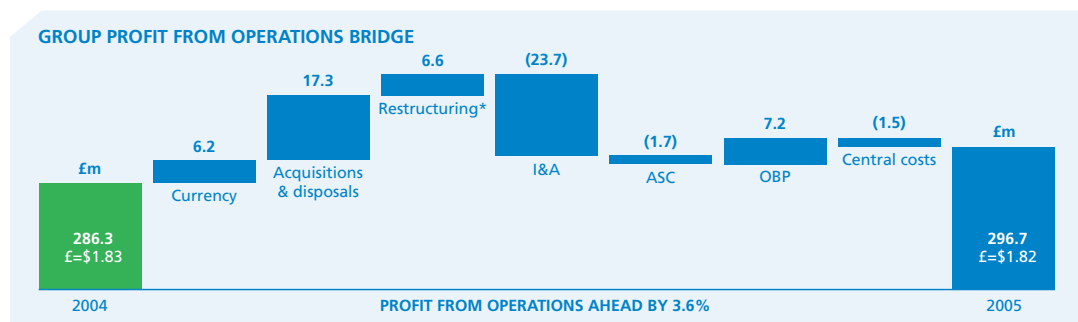
FLUID POWER

The Fluid Power business performed strongly in 2005, with sales ahead by 10.6 per cent. In North America, the business capitalised on the strength in industrial production with the result that sales of both hydraulic

OE and industrial aftermarket products were significantly ahead. Sales of automotive aftermarket were also strong in the fourth quarter of 2005. The balance of the sales growth was provided by good contributions from Europe and India, where a new facility was opened at Faridabad. The EMB business that was acquired in July 2005 has been successfully integrated and made a good contribution in the second half of the year. The development of new products continued and the Quick-Lok™ family of products was introduced at the start of the year. This product has been well received by customers, with several new contracts awarded for 2006 and 2007. The new Customer Solutions Centre in Denver was opened in the second quarter of 2005 and emphasises our focus on developing new product technology in industrial applications.

WIPER SYSTEMS

2005 was a difficult year for the Wiper Systems business. Sales volumes were lower, impacted by the challenging OE environment, the failure of MG Rover in Europe and a strategic decision to exit some of the less profitable contracts with the OEMs. Profitability was impacted by the losses at the Wipers facility in Pontypool, Wales, and the decision was announced in November 2005 to cease production at this facility. In contrast, the aftermarket side of the business performed well, particularly in the second half



of 2005, and now represents 42.0 per cent of the business (2004: 29.2 per cent). Aftermarket growth was driven by strong demand for the InnoVision™ beam blade that was launched at the end of 2004. This product won a gold award at the APEX Global Design Awards and production was more than doubled during 2005. Extra capacity is being added in 2006 to meet demand and there will also be further new product introductions in the aftermarket. In the fourth quarter of 2005, production commenced at the Wipers facility in Suzhou, China. This facility is a key part of Trico's Asian strategy for both the aftermarket and the OEM business, and has already won a number of awards to supply this market, including a \$1.1 million (£0.6 million) contract with DaimlerChrysler.

FLUID SYSTEMS

The performance of the Fluid Systems business was in line with 2004, but was impacted by the delay in the TREAD Act and lower automotive OE volumes. At the start of the year, Schrader Electronics had expected a significant ramp-up in volumes of RTPMS due to the requirements of the TREAD Act. The ramp-up will now start in the second half of 2006. The management at Schrader Electronics took swift action during the year to limit the impact on profit from the reduced volumes and was also successful in winning several new contracts for its snap-in sensor technology to supply General Motors, DaimlerChrysler, PSA/Peugeot, Subaru and Nissan.

The Stant operation showed good year-on-year performance as sales of new valve products rose and a spike in demand for locking fuel caps occurred in the final quarter of 2005. The balance of the Fluid Systems business was held back by lower automotive OE volumes.

Fluid Systems opened two new facilities in 2005. Stant commenced production at a plant in Karvina, Czech Republic and Schrader-Bridgeport completed the build of a 36,000 square feet valve-manufacturing facility in Suzhou, China. There were significant start-up costs incurred during the year as production levels picked up and extra capacity was added to the plants.

OTHER INDUSTRIAL & AUTOMOTIVE

Sales and profit from operations in 2005 were significantly ahead. Dexter recovered from lower volumes in the first quarter of the year to deliver a strong performance assisted by Federal Emergency

Management Agency ("FEMA") sales in the final quarter of the year. The acquisition of the L.E. Technologies business in March 2005 added to the product offering, and this business is already making a significant contribution ahead of our expectations.

The Dearborn Mid-West business performed well and has a strong order backlog for 2006.

Ideal and Plews were both impacted by higher raw material costs for brass and PVC that have been difficult to pass on to customers. The Ideal business opened its Suzhou plant in China in the third quarter of 2005.

BUILDING PRODUCTS

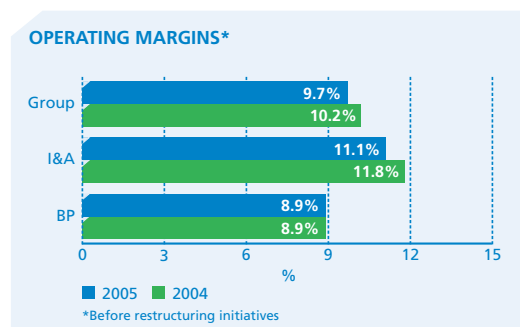
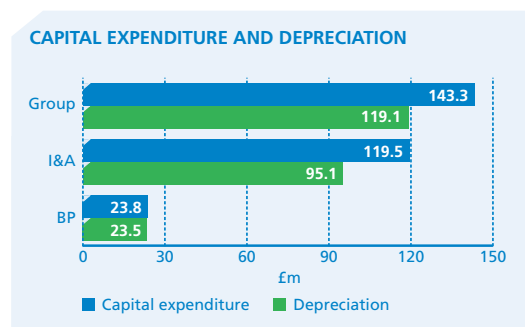
During 2005, sales in Building Products increased by 11.6 per cent to £883.8 million (2004: £791.8 million) and profit from operations (before restructuring initiatives) was ahead by 11.8 per cent at £78.6 million (2004: £70.3 million). This was achieved through good contributions from the acquisitions, price increases made to offset higher material costs, successful new product introductions, and the continued strength in the residential housing market. The operating margin in the Building Products group remained at 8.9 per cent.

AIR SYSTEMS COMPONENTS

Sales were up by 14.8 per cent on 2004. The Hart & Cooley business capitalised on the continued strength in the United States residential housing market and, in January 2005, acquired Milcor. This business has now been fully integrated and made a strong contribution to sales and profit, and has presented opportunities for cross-selling of products with Hart & Cooley and of sourcing low-cost materials from its China manufacturing operation.

Despite the slow non-residential market, the order intake level remained healthy and benefitted from both new product introductions and new customer wins. In the third quarter, Ruskin successfully completed the acquisition of NRG Industries Inc. and is making good progress in integrating this business and developing growth opportunities.

There were a number of plant rationalisations during the year, with the closure of the Tabor City and Englewood facilities and the transfer of production to other facilities in the business. Ruskin commenced production at its new facility in Monterrey, Mexico.



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FINANCIAL REVIEW CONTINUED

BUILDING PRODUCTS

	2005	2004
Revenue	£883.8m	£791.8m
Profit from operations ⁽¹⁾	£78.6m	£70.3m
Operating margin ⁽¹⁾	8.9%	8.9%
EBITDA margin ⁽²⁾	11.6%	12.0%
Average net operating assets	£170.3m	£175.7m
Return on average net operating assets ⁽¹⁾	46.2%	40.0%
Return on average invested capital ⁽³⁾	14.0%	12.6%
Capital expenditure	£23.8m	£16.3m
Depreciation	£23.5m	£24.8m
Capex to depreciation (times)	1.0	0.7
Cash generation ⁽⁴⁾	£58.3m	£81.2m
Cash conversion ⁽⁵⁾	75.7%	120.1%
Employees	11,750	11,307

(1) Before restructuring initiatives.

(2) Based on earnings before interest, tax, depreciation, amortisation and restructuring initiatives.

(3) Return on invested capital is calculated for total operations before restructuring initiatives.

(4) Net cash inflow from operating activities less net cash outflow from capital expenditure, before gains on disposal and exit of businesses.

(5) Cash generation to profit from operations before gains on disposal and exit of businesses.

Operating margins in 2005 were impacted by costs associated with the plant rationalisations, although the reduced cost base should see improved margin performance in 2006.

OTHER BUILDING PRODUCTS

A strong performance in the second half of 2005 resulted in full-year sales ahead by 8.0 per cent compared to 2004. Lasco Bathware achieved strong sales growth and double-digit operating margins before restructuring initiatives, driven by the record level of housing starts in the United States residential market and the successful launch of several new products, such as the 'Contours™' range of luxury whirlpools and showers.

Lasco Fittings achieved year-on-year improvements in sales and profit, with higher volumes from new product introductions and market share gains. New product sales accounted for over 30 per cent of the growth in sales in 2005. The business experienced significant pricing pressure in 2005 from the increased cost of PVC, but was able to implement a series of price increases.

The Philips doors and windows business had a good fourth quarter and full-year sales were ahead

compared to 2004. The operating margin in the business was impacted by a bad-debt write-off of \$1.9 million in the first quarter of the year.

EVENTS IMPACTING OUR FINANCIAL PERFORMANCE AND POSITION

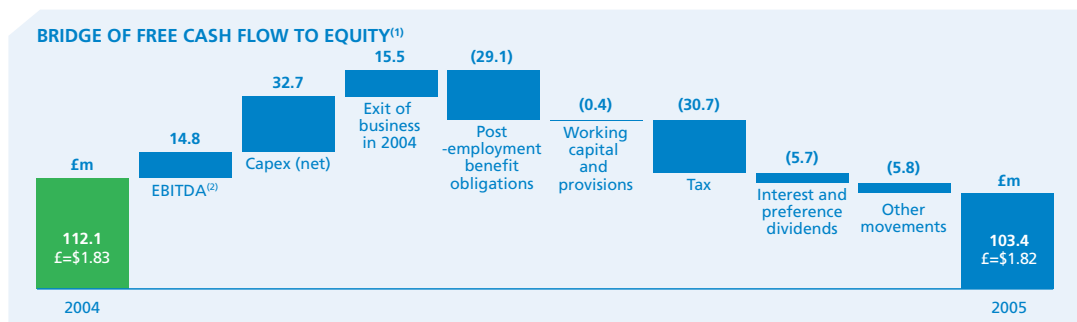
RESTRUCTURING INITIATIVES

Net restructuring initiatives were at £11.8 million (2004: £18.0 million). Restructuring costs were £20.3 million (2004: £20.5 million) and primarily related to the transfer of the manufacturing capability from the Wiper Systems facility in Pontypool to more cost competitive locations and the rationalisation of production facilities at Air Systems Components.

The disposals and exit of businesses in 2005 resulted in a profit of £8.5 million (2004: £2.5 million). Of this, £9.0 million related to a profit on the disposal of the Gutter Helmet business, and the balance arose from the disposal of businesses and properties as part of the restructuring initiatives.

PROFIT BEFORE TAX

Tomkins adopted IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement"



(1) Free cash flow to equity is defined as cash flow before acquisitions and disposals, ordinary dividends and ordinary share movements.

(2) EBITDA is defined as profit from continuing and discontinued operations, including share of profits of associates, less gain on disposal of businesses, depreciation, amortisation and impairment of property plant & equipment.

PROFIT BEFORE TAX

£ million	2005	2004
Profit before tax	257.7	260.3
Adjust for:		
Preference dividend (note 5 to financial statements)	16.3	–
Fair value gains on derivative instruments (note 7 to financial statements)	(4.2)	–
Profit before tax on a comparable basis	269.8	260.3
Increase	3.6%	–

prospectively from 2 January 2005. As a result, profit before tax for the year ended 31 December 2005 shown on the face of the income statement is not directly comparable to profit before tax year ended 1 January 2005. In 2005, the preference dividend is disclosed within interest payable, while in 2004, it is shown below profit for the period. In addition, fair value gains on derivative instruments are included as Other Finance Income in 2005, while this adjustment was not recognised in 2004.

The table above sets out the effect of the adjustments in 2005 and shows the movement on Profit before tax on a comparable basis.

INTEREST PAYABLE, INVESTMENT INCOME AND FINANCE INCOME

Interest payable for 2005 was £83.5 million (2004: £64.8 million). This includes the interest cost of £40.5 million (2004: £43.3 million) related to our liability for post employment benefits and £16.3 million (2004: nil) of dividends payable on the convertible cumulative preference shares, reflecting the reclassification of preference dividends to interest payable. Bank and other interest payable was £26.7 million (2004: £21.5 million).

Investment income was £40.3 million (2004: £38.8 million), which included the expected return on post employment benefits plan assets of £34.6 million (2004: £32.4 million). Bank and other interest receivable was £5.7 million (2004: £6.4 million).

Fair valuation gains arising on derivative hedging instruments of £4.2 million have been recognised under Other Finance Income following the adoption of IAS 32 and IAS 39 prospectively from 2 January 2005.

EARNINGS PER SHARE

Basic earnings per share from total operations were 24.92 pence (2004: 23.93 pence), an increase of 4.1 per cent. Fully diluted earnings per share from total operations were 23.79 pence (2004: 22.81 pence).

DIVIDENDS

The dividends to our preference shareholders are dollar denominated and, in 2005, the sterling equivalent was £16.3 million (2004: £15.6 million).

The dividends to holders of ordinary shares for 2005 were 13.23 pence (2004: 12.60 pence), an increase of 5.0 per cent. The dividend earnings cover was 1.9 times and cash cover was 1.0 times. Cash cover is based on cash flow after interest, tax and preference dividends (free cash flow to equity) compared to ordinary dividends paid.

The Group continues to emphasise the importance of cash flow generation in our businesses, which supports its progressive dividend policy.

CAPITAL EXPENDITURE

Net capital expenditure in 2005 was £119.5 million (2004: £152.2 million). Gross capital was £143.3 million (2004: £157.7 million), representing 1.2 times depreciation (2004: 1.4 times). Proceeds from asset disposals amounted to £23.8 million (2004: £5.5 million). In 2006, net capital expenditure is expected to be around £150 million.

WORKING CAPITAL

Working capital, net of provisions, was £513.8 million (2004: £429.8 million). The average working capital as a percentage of moving annual total sales for the year was 14.0 per cent compared to 12.9 per cent in 2004. The increase in working capital during the year was due in part to the change in the US dollar/Sterling exchange rate at the respective balance sheet dates, and the impact of the acquisitions and disposals. Of the balance of the movement, this was primarily due to higher inventory levels in the Fluid Power business in order to respond to service level requirements of customers.

CASH FLOW

In 2005, operating cash flow was ahead of 2004 by 19.4 per cent. The cash effect of increased profit from operations was offset by the effect of an increase of £20.5 million in pension contributions, however, capital expenditure reduced by £32.7 million. Net expenditure on acquisitions and disposals in the period was £74.0 million. Net debt also increased due to the impact of the strengthening of the US dollar and the fair value adjustment to the Group's outstanding bonds. Overall, net debt, excluding the reclassification of preference shares, amounted to £334.5 million.

The table overleaf shows the net debt movement for the year.

For a reconciliation of the net debt movement to the consolidated cash flow statement please see the Supplemental Cash Flow Analysis on page 123.

Cash generation is calculated on net cash inflow from operating activities less net cash outflow from capital expenditure, before gains on disposal and exit of businesses. Cash conversion is cash generation to profit from operations, before gains on disposals and exit of businesses. Cash conversion increased to 75.3 per cent (2004: 64.0 per cent).

NET DEBT MOVEMENTS*

	2005 £ million	2004 £ million
Opening debt (excluding preference shares)	(244.5)	(264.7)
Adjustment for the adoption of IAS 32 and IAS 39	3.8	–
Adjusted opening debt (excluding preference shares)	(240.7)	(264.7)
Cash generated from operations	336.5	333.9
Capital expenditure (net)	(119.5)	(152.2)
Operating cash flow	217.0	181.7
Tax	(70.5)	(39.8)
Interest and preference dividends	(37.1)	(31.4)
Other movements	(6.0)	1.6
Free cash flow to equity shareholders	103.4	112.1
Acquisitions and disposals	(74.0)	(2.7)
Ordinary dividends	(99.4)	(94.5)
Ordinary share movements	0.9	(2.9)
Foreign currency translation	(28.1)	8.2
Net funds movement	(97.2)	20.2
Non cash movements	3.4	–
Closing debt (excluding preference shares)	(334.5)	(244.5)

*See page 123 for the reconciliation to the Supplemental Cash Flow Analysis.

FUNDING AND DISTRIBUTION POLICY

Funding for sustaining investment and investment for organic growth is met initially from internally generated cash flow (cash flow after interest, tax and preference dividends). The net cash flow available for equity holders after organic investment, together with debt finance available within the debt capacity of the Group, will determine the funding available for acquisitions and distributions. The debt capacity of the Group is determined by our objective to maintain a stable capital structure and the Group's investment grade debt rating.

We aim to grow the dividend steadily and progressively in line with the overall long-term cash generation of the Group. When the Group generates surplus cash and existing investment needs are met, then the economics of share repurchases or special dividends to shareholders will be examined.

ECONOMIC PERFORMANCE

ACCOUNTING METRICS

We assess the accounting return on capital invested in our businesses in two ways.

Return on net operating assets is a pre-tax measure of the return on the book value of capital employed

in the businesses and represents a measure of the financial productivity of the cash invested in the operating assets of the business.

Return on invested capital is an after-tax measure of the return on the invested capital employed in the business, taking into account the goodwill associated with the acquisition of the business, and represents a measure of the financial return on the total financial investment in the business.

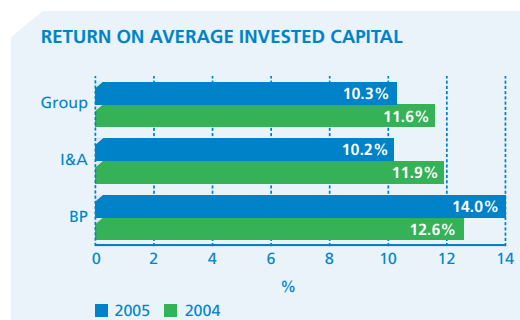
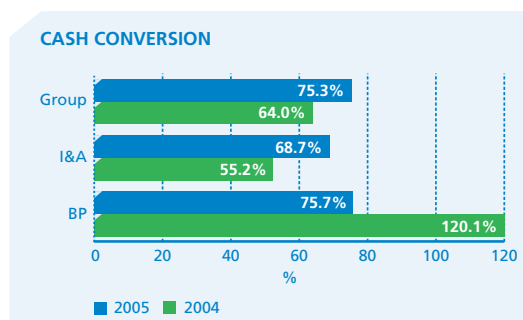
The charts below set out the return on average invested capital and the return on average net operating assets for each business and the Group.

CASH FLOW METRICS

We assess the cash flow performance of each of our businesses based on the percentage of profit from operations (before gains/losses on disposal and exit of businesses) converted to operating cash flow (cash conversion). The cash conversion for each of the business groups and for the Group as a whole is shown below.

ECONOMIC METRICS

To track the economic performance of the Group we look at cash added value and economic return. Cash added value is an absolute measure of value created based on after-tax EBITDA less sustaining



investment and a charge for cost of capital. The charge for cost of capital is based on the weighted average cost of capital applied to the average book value of investment in the business including goodwill associated with acquisitions.

The economic return is based on cash added value expressed as a percentage of the average book value of investment.

The trends of cash added value and economic return are used to assess the allocation of capital over the long-term.

WEIGHTED AVERAGE COST OF CAPITAL

The weighted average cost of capital is the weighted average by value of the after-tax costs of each of the elements of the Group's capital structure.

The cost of equity is calculated using the capital asset pricing model, with the risk-free rate based on a ten-year sterling government bond rate, an equity beta of one and an equity market risk premium of 4 per cent. The value of equity is the current market value of the ordinary shares of Tomkins.

The cost of debt comprises both the cost of the perpetual preference shares and the cost of the Group's net debt after tax at a normalised tax rate of 30 per cent. The value of net debt used is the actual current sterling value of the Group's net debt. The value of the preference shares is the current sterling equivalent nominal value of the preference shares.

A graph showing the weighted average cost of capital during the year is shown below.

RESEARCH AND DEVELOPMENT

Applied research and development is important to the Group's manufacturing businesses. The Group maintains development centres in Japan, Europe and the United States. Businesses within the Group are encouraged to review their products regularly and to develop them in accordance with perceived market trends. The Group's measured expenditure on research and development was £47.1 million in 2005 (2004: £51.3 million) of which £0.4 million was capitalised (2004: £nil).

LIQUIDITY AND CAPITAL RESOURCES

Our medium-term aim is to maintain an appropriate mix of equity and debt to ensure an efficient capital structure consistent with our desired investment grade

financial profile. Our debt capacity is assessed within this aim. Our long-term debt finance requirements are also defined within these parameters and with an understanding of our future financial needs for investment dividends and acquisitions.

TREASURY MANAGEMENT

TREASURY RESPONSIBILITIES AND PHILOSOPHY

The primary responsibilities of the central treasury function are to procure the Group's capital resources, maintain an efficient capital structure, and management of the Group's liquidity, foreign exchange, interest rate, insurance and pensions risks on a Group-wide basis.

The central treasury function operates within strict policies and guidelines approved by the Board. Compliance with these policies and guidelines is monitored through the regular reporting of treasury activities.

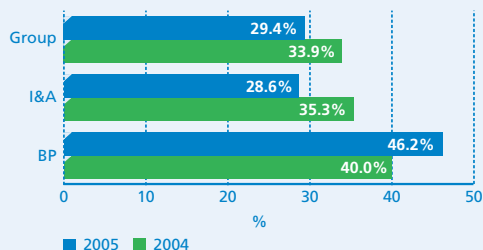
A key element of our treasury philosophy is that funding, interest rate and currency risk decisions and the location of cash and debt balances are determined independently from each other. For example, the Group's debt requirements are met by raising funds in the most favourable markets, with the desired currency profile of net debt being achieved by entering into foreign exchange contracts where necessary. Similarly, the desired interest rate maturity of net debt is achieved by taking account of all debt and cash balances together with any foreign exchange transactions used to manage the currency profile of net debt. We operate systems to ensure that all relevant assets and liabilities are taken into account on a Group-wide basis when making these decisions. This portfolio approach to financial risk management enables our activities in these areas to be carried out effectively and efficiently and with a high degree of visibility.

DETAILS OF CORPORATE BONDS AND EMTN PROGRAMME

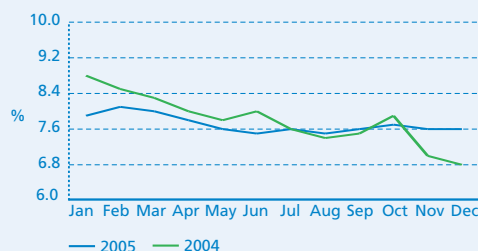
We have a Euro Medium Term Note ("EMTN") Programme under which Tomkins may issue bonds up to a total maximum principal amount of £750 million. Our initial bond under the programme in December 2001 was for £150 million with a ten-year maturity and was issued at a coupon of 8 per cent.

In September 2003, we issued a further £250 million bond with a twelve-year maturity at a

RETURN ON AVERAGE NET OPERATING ASSETS



WEIGHTED AVERAGE COST OF CAPITAL



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FINANCIAL REVIEW CONTINUED

coupon of 6.125 per cent. The proceeds of this bond issue were used to finance the early redemption of the convertible cumulative preference shares, which took place in August 2003.

CREDIT RATING

In December 2001, we established long-term credit ratings with Moody's and Standard & Poor. Our ratings have remained unchanged since this date at Baa2 and BBB respectively. They cover our EMTN Programme and £250 million bond issued by Tomkins Finance plc, a directly owned subsidiary of Tomkins plc that carries out all of the Group's central treasury activities, together with our £150 million bond issued by Tomkins plc. We also have a short-term rating of P-2 with Moody's. Our aim is to manage the Group's capital structure to preserve these ratings.

MATURITY PROFILE OF BORROWINGS AND BORROWING FACILITIES

The chart below shows the maturity profile of our borrowing facilities.

Our committed bank borrowing facilities mainly comprise a multi-currency revolving credit facility of £400 million, the maturity of which was extended in August 2005, from February 2009 to August 2010.

Borrowing facilities are monitored against forecast requirements and timely action is taken to put in place, renew or replace credit lines. Our policy is to reduce financing risk by diversifying our funding sources and by staggering the maturity of our borrowings.

LEVELS OF BORROWINGS AND SEASONALITY

During 2005, our gross and net borrowings (excluding the impact of IFRS adjustments and convertible cumulative preference shares) increased marginally, with gross debt of £592.9 million and net debt of £334.5 million on 31 December 2005 (2004: £434.8 million and £244.5 million respectively). The higher level of gross debt relative to net debt at the end of the year arose principally as a result of the payment of dividends from various subsidiaries to Group companies located in the United States, under the Internal Revenue Code Section 965. The peak level of net debt during the year was £385.5 million. Expenditure on acquisitions of £101.3 million less disposal receipts of £29.3 million contributed to an overall increase in net debt of

£90.0 million. Other cash flows during the year are detailed in note 14 to the Financial Statements. As the majority of the Group's debt is denominated in US dollars, reported net debt also increased by £28.1 million as a result of the strengthening of the US dollar during the period.

We operate in a wide range of markets and geographic locations and as a result the seasonality of our borrowing requirements is low. Underlying cyclicalities before capital expenditure is driven principally by the timing of our ordinary and convertible cumulative preference dividends and interest payments.

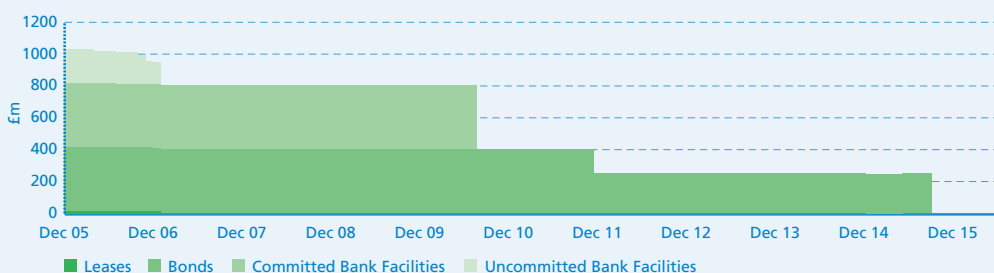
FUNDING REQUIREMENTS FOR INVESTMENT COMMITMENTS AND AUTHORISATIONS

At 31 December 2005, we had surplus cash balances in excess of the operational needs of our businesses. Accordingly, our present policy is to fund new investments, firstly from existing cash resources and then from borrowings sourced centrally by Tomkins Finance plc. It is our intention to maintain surplus un-drawn borrowing facilities sufficient to enable our credit ratings to be maintained and to enable us to manage the Group's liquidity through the operating and investment cycle. We maintain a regular dialogue with the rating agencies, and the potential impact on our credit rating is taken into consideration when making capital allocation decisions.

CURRENT VERSUS PROSPECTIVE LIQUIDITY

At 31 December 2005, our committed 2010 £400 million multi-currency revolving credit facility was drawn by £119.9 million. We had a further £244.4 million of other, mainly uncommitted, credit facilities and finance leases, of which £37.2 million was drawn for cash and £75.9 million was utilised through the issuance of bank guarantees and standby letters of credit. Total headroom under the facilities was £545.1 million in addition to cash balances of £236.2 million. If all of our uncommitted credit facilities were to have become unavailable, our total committed borrowing headroom would have been £311.0 million, in addition to our cash balances. It is our policy to retain sufficient liquidity throughout the capital expenditure cycle to maintain our financial flexibility and to preserve our investment grade credit rating.

MATURITY OF BORROWINGS & BORROWING FACILITIES



MAXIMISING RETURNS ON CASH BALANCES

Our central treasury function is responsible for maximising the return on surplus cash balances within liquidity and counterparty credit constraints imposed by our Board-approved liquid funds policy. This is done, where practical, by controlling directly all surplus cash balances and pooling arrangements on an ongoing basis and by reviewing the efficiency of all other cash balances across the Group on a weekly basis. At 31 December 2005, £164.6 million of cash was under the direct control of Group treasury.

Our weighted average cost of debt at 31 December 2005 was 6.5 per cent (2004: 6.5 per cent).

The net interest charge for the year to 31 December 2005 of £39.0 million was £23.9 million higher than the charge for the previous year reported under UK GAAP. This increase was principally due to IFRS adjustments, including the reclassification of dividends payable on convertible cumulative preference shares to interest expense (£16.3 million), post employment benefits expense (net of the interest cost on benefit obligations and the expected return on plan assets) (£5.9 million) and fair value gains relating to derivative financial instruments (£4.2 million). The remaining increase in the interest charge of £5.9 million comprises mainly an increase in average interest rates over the year (£2.6 million) and higher average net debt balances (£3.3 million).

At 31 December 2005, our total cash and investments were £236.2 million. Of this amount, £140.8 million was invested in short-term deposits by our treasury department, £7.5 million of cash was held in our captive insurance company, Tomkins Insurance Limited, £33.2 million of cash was held in our Asian Unitta companies and £54.3 million of cash was held in centrally controlled pooling arrangements and with local operating companies. £213.8 million of our cash was interest earning. Our policy is to apply funds from one part of the Group to meet the obligations of another part wherever possible, to ensure maximum efficiency of the Group's funds. No material restrictions apply that limit the application of this policy. It is anticipated that surplus cash in excess of that required for operating purposes held in operating companies will be repatriated or reinvested in new investments during 2006.

CASH FLOW AND NET DEBT

We do not anticipate any material long-term

deterioration in our overall liquidity position in the foreseeable future.

CONTRACTUAL OBLIGATIONS AND FINANCIAL COMMITMENTS

At 31 December 2005, we had £75.9 million of bank and insurance company issued bonds, guarantees and standby letters of credit in issue. These were issued primarily in favour of insurance companies to cover potential workers' compensation claims in the United States in the course of normal business, in addition to other contractual counterparties for operational purposes. Our annual operating lease rentals were £20.7 million in 2005 (2004: £21.5 million).

FOREIGN CURRENCY TRANSACTION EXPOSURES

The foreign currency transaction exposures in the business are protected with forward currency purchases and sales. These are put in place when foreign currency trading transactions are committed or when there is a high likelihood of such transactions arising. All foreign exchange contracts are carried out by our central treasury function, except in cases where this is prohibited by local regulations. In these cases, local transactions are reported to central treasury on a systematic basis.

Our principal net currency transaction exposures arising during the year ended 31 December 2005 were US dollar to sterling (£31.9 million), US dollar to Mexican peso (£30.0 million), and sterling to euro (£50.9 million). The impact of the movement in average exchange rates between 2004 and 2005 on the Group's transaction exposures was £0.4 million negative. Under the Group's foreign exchange transaction exposure policy, certain exposures are hedged. Compared to the average actual rates for the year, the effect of these hedging activities was a gain of £2.9 million.

FOREIGN CURRENCY TRANSLATION EXPOSURES

The majority of the Group's activities are transacted in US dollars but the reporting currency of the Group is sterling. This gives rise to potential currency translation exposures in the balance sheet, income statement and cash flow. The Group's net borrowings are generally retained in proportion to the currencies in which the Group's assets are denominated, to hedge the foreign currency translation exposure arising from the Group's overseas investments. The proportion of overseas

LEVELS OF BORROWINGS

	Committed £ million	Uncommitted £ million	Total £ million
Available borrowing facilities	814.7	234.1	1,048.8
Cash drawings	(531.4)	(37.2)	(568.6)
Bonds, standby letters of credit, bank guarantees	–	(75.9)	(75.9)
Total headroom			545.1
Less uncommitted facilities			(234.1)
Committed headroom			311.0
Cash balances (incl. cash investments)			236.2

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FINANCIAL REVIEW CONTINUED

investments effectively funded by shareholders' equity is not hedged. The table below shows the net debt profile by currency.

	2005 £ million	2004 £ million
Sterling	(7.7)	(14.0)
US dollar	(235.6)	(164.2)
Euro	(42.5)	(25.9)
Canadian dollar	(67.5)	(58.5)
Other	18.8	18.1
Total	(334.5)	(244.5)

We do not hedge foreign currency profit and loss translation exposures and the reported results may be affected by the translation effect of currency fluctuations. We estimate a movement of 10 per cent in the US dollar/sterling exchange rate has an impact on reported profit from operations of around 7 to 8 per cent. The impact on reported earnings per share is partly offset to the extent that interest arises on foreign currency net borrowings.

Interest payments on foreign currency net borrowings are funded with cash flows generated by the corresponding foreign currency investments. The main potential impact of movement in the US dollar/sterling exchange rate movement is the effect on dividends. Much of the Group's cash flow is generated in US dollars from the cash flows generated by overseas investments, but dividends on ordinary shares are paid in sterling by converting the foreign currency cash flows at the time of payment of the dividend.

Information on our use of derivatives and financial instruments is given in note 28 to the financial statements.

INTEREST RATE RISK MANAGEMENT

Our central treasury function manages the interest rate profile within the policy established by the Board. This is achieved by considering the portfolio of all of our interest bearing assets and liabilities across the Group. Our net desired interest rate profile in each currency is then managed by entering into interest rate swaps, options and forward rate agreements. At 31 December 2005, the interest rate maturity profile of our Canadian dollar, euro and sterling net debt was less than three months.

The graph below shows our US dollar interest rate maturity profile as at 31 December 2005.

BORROWING COVENANTS

We are subject to covenants, representations and warranties commonly associated with investment grade borrowings on our committed 2010 £400 million multi-currency revolving credit facility, our £150 million 2011 bond and our £250 million 2015 bond.

We are subject to two financial covenants under our committed 2010 £400 million multi-currency revolving credit facility. The ratio of net debt to consolidated EBITDA must not exceed 2.5 times and the ratio of consolidated profit from operations to consolidated net interest charge must not be less than 3.0 times. Throughout 2005, we have been comfortably within these limits. These financial covenants are calculated by applying UK GAAP frozen as at 31 December 2002 and are therefore unaffected by accounting changes associated with the transition to International Financial Reporting Standards.

PENSIONS

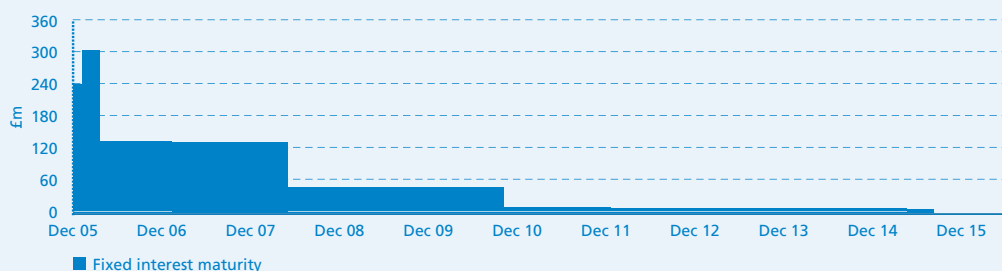
RISK MANAGEMENT

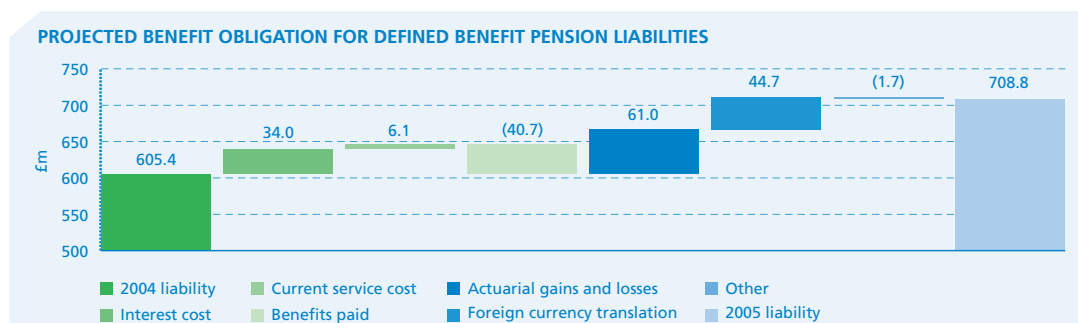
Management of the Group's defined benefit pension risks is the responsibility of our Group treasury function. We are seeking to improve the management of our defined benefit pension risks, and a number of changes consistent with this objective have taken place during 2005.

A primary objective is to identify and manage the risk of both the assets and liabilities of the defined benefit pensions plans. Each of our defined benefit pensions plans is therefore under review, with a view to identifying potential risk and cost reduction measures. As these reviews are completed they will be discussed with the respective trustee boards and agreement sought to maintain appropriate risk management and cost control measures.

On 1 December 2005, the Tomkins North American Retirement Board redenominated existing fixed income assets in our US defined benefit pension plans amounting to £88.4 million and entered into £179.3 million of US dollar denominated interest rate swaps with a combined average duration of 11.5 years. This has resulted in a hedge of the interest rate risk inherent in the Accrued Benefit Obligation ("ABO") of

US DOLLAR INTEREST RATE MATURITY PROFILE





the plans, whereby future changes in the ABO value arising from changes in the interest rate will be matched by equal and opposite movements in the value of the assets, thus protecting the deficit from future interest rate changes. Reporting procedures have been established to measure the effectiveness of this hedging arrangement. We are currently evaluating the merits of hedging the interest rate and other risks of the UK and Canadian defined benefit pension plans.

As at 31 December 2005, the value of the Group's defined benefit pension liabilities was £708.8 million (2004: £605.4 million). The graph above shows the attribution of the increase in the liabilities during the year of £103.4 million.

FUNDING POLICY

The Group remains committed to funding pensions responsibly. In the UK, this means satisfying the funding agreements made with the trustees of the schemes in order to eliminate deficits over a reasonable period of time. In the United States, funding objectives generally seek to avoid Pension Benefit Guaranty Corporation ("PBGC") variable rate premiums and accelerated funding charges mandated by the Employee Retirement Income Act of 1974 (ERISA), and remain above the ERISA required minimum funding levels. Accordingly, most of the United States plans are funded on the basis of reaching or exceeding a 90 per cent funded level on a current liability basis.

Tomkins recognises its responsibility to fund defined benefit pension plans deficits and views these deficits as being debt-like in nature. Accordingly, where beneficial, Tomkins plc intends to issue guarantees in respect of certain of the UK defined benefit pension plan deficits in order to improve the credit standing

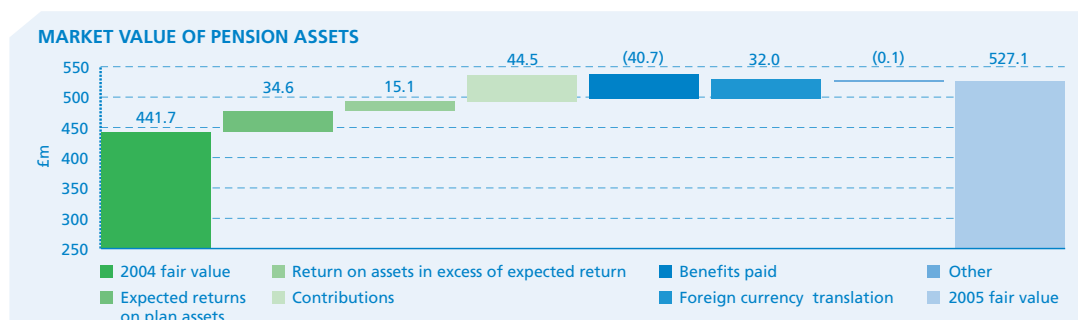
of these plans. This will also have the effect of minimising the cost of the Pension Protection Fund's risk-based levy.

Cash contributions to the defined benefit pension plans in 2005 were £44.5 million (2004: £24.0 million) and £3.9 million was charged to the income statement (2004: £8.3 million). The market value of the related assets was £527.1 million (2004: £441.7 million), resulting in net defined benefit pension liabilities before the effect of the asset ceiling and before tax of £181.7 million (2004: £163.7 million). The graph below shows the attribution of the increase in the market value of assets during the year of £85.4 million.

ACTUARIAL ASSUMPTIONS

Actuarial assumptions are reviewed on a regular basis and updated where appropriate. Since 2004, mortality assumptions have been reviewed and updated where recommended by our actuaries. Tomkins believes that all defined benefit pension plans reflect appropriate mortality assumptions.

Of our total defined benefit pension plan liabilities of £708.8 million, £305.4 million relates to benefits that are deferred or currently being drawn, £235.1 million relates to plans frozen to further service accrual, and a further £34.6 million relates to plans with benefits based on length of service rather than changes in salary scale. Therefore, £575.1 million of liabilities are not sensitive to changes in salary scale. All defined benefit pension plans are closed to new entrants and therefore the impact of changes in salary scale is limited. £133.7 million, or 18.9%, of the total defined benefit pension plans liabilities are sensitive to salary scale. The table on the following page shows the estimated sensitivity of the defined benefit pension plans liabilities



40 OPERATING AND FINANCIAL REVIEW

FINANCIAL REVIEW CONTINUED

Assumption	Assumption change	Impact on:	Estimated impact
Life expectancy	Increase by 1 year	Liabilities	Increase by 2.7 %
		Service cost	Increase by 2.5%
		Interest cost	Increase by 2.9%
Salary scale	Increase by 0.5%	Liabilities	Increase by 0.6%

to changes in the mortality and salary scale. The impact of changes in the discount rate and expected return on assets is shown in note 31 to the financial statements.

INVESTMENT POLICY

Investment of assets within the defined benefit pensions plans is the responsibility of independent trustee boards over which Tomkins has varying degrees of influence based on national regulations. In order to clarify its preferences regarding the investment of assets by the trustee boards, Tomkins plc has set out a statement of its investment preferences. This has been communicated to the North American Retirement Board, which oversees our largest defined benefit pension plans, and will be communicated progressively to each of the other trustee boards with responsibility for defined benefit pensions plans as these plans are reviewed during 2006. The statement of investment preferences is based on an underlying philosophy that assets should first be used to hedge risks implicit in the associated pensions liabilities and to the extent that assets are not invested for this purpose, it is the preference of Tomkins plc that the assets are invested in investment grade bonds and/or a broad based local equity index.

The performance of assets and liabilities in defined benefit pensions plans is measured and reported to Tomkins' Board and used as the basis for dialogue between Tomkins and trustee boards.

TAXATION

The overall objective of the Group tax function is to plan and manage the tax affairs of the Group efficiently within the various local tax jurisdictions of the world, so as to achieve the lowest tax cash cost consistent with compliance with the local tax regulations.

The total tax charge for the year relating to continuing activities was £59.0 million (2004: £51.1 million). This represents an effective tax rate of 22.9 per cent (2004: 19.6 per cent) on profit before tax of £257.7 million (£260.3 million). In 2005, profit before tax is stated net of preference dividends of £16.3 million following the prospective adoption of IAS 39 whereas, in 2004, preference dividends are treated as a distribution. In 2005, the profit before tax and before preference dividends was £274.0 million (2004: £260.3 million). The effective rate of tax in 2005 on profits before tax and before preference dividends was 21.5 per cent (2004: 19.6 per cent). During 2005, there was a release of provisions for

uncertain tax positions of £58.7 million. This followed the successful resolution of outstanding tax issues in the United States, the expiry of time during which tax audits could be performed in certain tax jurisdictions, and the change of views on the likely outcome of challenges by various tax authorities. In addition during the year, there were other tax charges amounting to £30.1 million included in arriving at the overall tax charge for the group. Prior to these adjustments, the total tax charge for 2005 would have been £87.6 million, representing an effective rate of 32.0 per cent applied to profit before tax and before preference dividends and 34 per cent applied to profit before tax. The tax rate for 2006 is expected to be around 30 per cent.

Generally the charge for taxation is affected by the varying tax rates in different jurisdictions applied to taxable profits and the mix of those profits, by the rules impacting deductibility of certain costs, such as finance costs, and by the rules relating to double taxation relief.

We have been successful in minimising the cash tax cost of the Group, however, as countries around the world increase their focus on taxation as a means of raising revenue for their local economies, the tax cash cost of multinational corporations is likely to increase over time. We will continue to plan the Group's tax affairs efficiently to minimise the tax cash cost but a gradual increase is likely.

We manage the Group's tax affairs and provisions for uncertain tax positions in accordance with the Group's best estimate of the likely outcome of a challenge by the authorities.

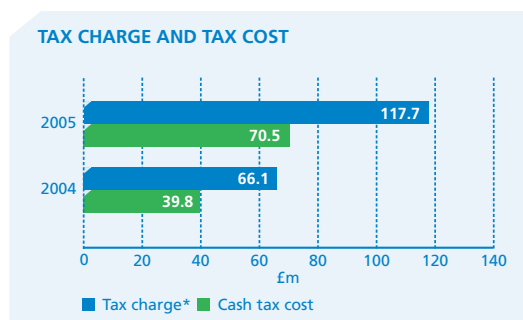
RISK FACTORS

This document contains certain forward-looking statements, which involve risk and uncertainty as they relate to future events and circumstances. Our business is affected by a number of factors, not all of which are in Tomkins' control. This section highlights specific areas where Tomkins is particularly sensitive to business risk. Our financial condition or results of operations could be materially adversely affected by any of these risks. Additional risks not currently known to us, or risks that we currently regard as immaterial, could also have a material adverse effect on our financial condition or the results of operations.

As a part of the Performance Management Framework of the Group, each business considers strategic, operational, commercial and financial risks and identifies risk mitigation actions. The Group has categorised the foregoing risks as those relating to:

- The markets within which the Group operates;
- The competitive position of the Group and its businesses; and
- The financial position of the Group.

Risk can be considered either as downside risk, the risk that something can go wrong and result in a financial loss or financial exposure for the Group, or volatility risk. Volatility risk is the risk associated with



* For continuing operations excluding the release of provisions for uncertain tax positions.

uncertainty, which means there may be an opportunity for financial gain as well as potential for loss.

RISKS RELATING TO THE MARKETS WITHIN WHICH THE GROUP OPERATES

There are a number of risks in the markets in which we operate that could have a material adverse effect on our business, financial condition, or results of operations.

Cyclical nature of the markets – Approximately 70 per cent of our sales are to markets where the demand is ultimately affected by consumer spending and consumer preferences.

Improvement in vehicle component life – The greater quality, performance and reliability of the components we manufacture improves service life and could affect demand in the aftermarket business segment.

Regulatory environment – In the industries in which we operate we are subject to a variety of environmental regulations, particularly relating to waste water discharges, air emissions, solid waste management, and hazardous chemical disposal.

Operations in foreign and emerging markets – We operate principally in the automotive, industrial, and construction-related markets in a number of geographic regions of the world, including emerging markets. Operations in emerging markets may present additional risks.

Customer demand – Our Industrial & Automotive business segment is directly impacted by global automotive production. The automotive industry is characterised by overcapacity and fierce competition. In North America, it is also affected by significant pension and healthcare liabilities. North American automotive OEMs have recently announced production cuts for a number of platforms.

RISKS RELATING TO THE COMPETITIVE POSITION OF THE GROUP AND ITS BUSINESSES

There are a number of risks to our competitive position that could have a material adverse effect on our business, financial condition, or results of operations.

Industry consolidation may result in more powerful competitors and fewer customers – Some of our customers and some of our competitors in a number of our markets especially in the automotive aftermarket, and to a lesser extent in the

markets of the Air Systems Components business unit, are consolidating to achieve greater scale or market share. Such changes could affect our customers and their relationship with us. As our customers become larger and more concentrated, they could exert pricing pressure on all suppliers, including ourselves.

Revenues are generated from ten major customers in the Industrial & Automotive business – 24.4 per cent of our total revenues come from the top ten customers of our Industrial & Automotive business.

Price reductions by automotive customers – 21.1 per cent of our sales are to automotive OEMs. It is normal practice for such customers to seek reductions in their costs from their suppliers over the duration of any committed supply arrangement.

To meet any such requests for price reductions whilst maintaining our profit margins, we have to achieve corresponding cost savings in our business, by strategic sourcing of raw materials and by improving production and manufacturing efficiencies.

Increased competition from low cost producers – Manufacturers in the developed economies of the world are increasingly facing competition from low-cost sources in the developing economies of the world.

Increasing raw material and energy costs – Steel, aluminium, oil-based resins and energy are a significant part of our cost structure, and increases in these costs may impact competitiveness.

Reliance on certain raw materials and suppliers of key components – Our productive processes do require certain raw materials and components, and arrangements are in place to ensure continuity of supply. Failure to obtain adequate and timely supplies may impact our ability to service our customers.

Dependence on our strong relationships with manufacturers' representatives, distributors and wholesalers – Deterioration in the relationships with manufacturers' representatives, distributors and wholesalers or a change in our products' route to market could affect sales.

Product liability claims due to the nature of our products – We face an inherent business risk of exposure to product liability claims in the event that a failure of a product results in, or is alleged to result in, bodily injury, property damage, or consequential loss.

Technological changes – The markets for our products and services are characterised by evolving industry standards and changing technology that may lead to commoditisation of our products. Continual development of advanced technologies for new products and product enhancements is an important way in which we maintain acceptable pricing levels.

Dependence on the continued operation of our manufacturing facilities – Our manufacturing facilities are located principally in the United States and Europe. A major disruption of our critical manufacturing facilities could result in significant interruption of our business and potential loss of customers and sales.

Capacity, reliability and security of our computer

hardware, software and telecommunications infrastructure – We currently secure our networks by means of back-up, hardware, virus protection and other measures, but any systems interruption could lead to a reduction in performance or loss of services. A breach of network security could result in reduced revenues and could have an adverse effect on our businesses, financial condition or results from operations. Our systems are vulnerable to damage or interruption caused by human error, network failure, natural disasters, sabotage, computer viruses and similar disruptive events.

Intellectual property rights – Our proprietary technology is protected by patents and trade secrets which could be at risk if:

- Competitors are able to develop similar technology independently;
- Our patent applications are not approved;
- Steps taken to prevent misappropriation or infringement of our intellectual property are not successful; or
- We do not adequately protect our intellectual property.

Trade unions or other employment organisations – Some of our employees are members of trade unions, and over many years we have been able to maintain successful relationships with the unions and employment organisations.

FINANCIAL RISKS

There are certain financial risks that could have a material adverse effect on our business, financial condition, or results of operations.

Cash flow from subsidiaries – Tomkins plc is a holding company with no independent operations or significant assets other than investments in, and advances to, subsidiaries. Accordingly, it depends upon the receipt of sufficient funds from its subsidiaries to meet its obligations, including its ability to repay any amounts it borrows under its Euro Medium Term Note Programme or to pay its dividends. The ability of Tomkins plc to access that cash flow may be limited in some circumstances.

Pension plans – We operate both defined benefit and defined contribution pension plans, the majority of which are in the United States and the United Kingdom. The schemes were in deficit by £183.6 million as at 31 December 2005. Deterioration in asset prices or changes to long-term interest rates could lead to an increase in the deficit or give rise to an additional funding requirement.

Healthcare and workers compensation – Healthcare and workers compensation are provided by certain United States subsidiaries to current and former employees. Healthcare costs in the United States are increasing at a faster rate than the general cost inflation and these cost increases have to be absorbed in the business.

Tax cash outflows – Tomkins operates within multiple tax jurisdictions and is subject to audit in those jurisdictions. These audits can involve complex issues,

which may require an extended period of time for resolution. Although provision has been made for such issues the ultimate resolution may result in tax cash outflows.

Funding growth – We may require capital to expand our business, implement our strategic initiatives and remain competitive. At present, our established sources of funding are through equity, corporate bond markets (through the Euro Medium Term Note Programme), bank debt and cash flow from operations. We believe that the sources of funding currently available will be sufficient to fund our operations. If our plans or assumptions regarding our funding requirements change, however, we may need to seek other sources of financing, such as additional lines of credit with commercial banks, vendors, public financing, or to renegotiate existing bank facilities.

Bondholders' rights – We have a Euro Medium Term Note Programme under which Tomkins may issue bonds. Our bondholders have the right to require us to redeem our outstanding bonds at par, in the event of a change of control of Tomkins plc and also in the event that our credit rating falls below investment grade as a result of us making either acquisitions or disposals that comprise more than 25 per cent of the Group's profit from operations in a twelve calendar month period.

Fluctuations in currency exchange rates – We have manufacturing facilities in, and sell products to many countries worldwide. The principal currencies in which we trade are US dollars, Canadian dollars, euros and sterling. Currency exchange movements can give rise to the following risks:

- **Transaction risk** – This arises where sales or purchases are denominated in foreign currencies and exchange rates can change between entering into a purchase or sale commitment and completing the transaction;
- **Translation risk** – This arises where the currency in which the results of an entity are reported differs from the underlying currency in which business is transacted; and
- **Economic risk** – This arises where the manufacturing cost base of a business is denominated in a currency different from the currency of the market into which the products are sold.

CRITICAL ACCOUNTING ESTIMATES

Details of the Group's significant accounting policies are set out in the Group's consolidated financial statements prepared in accordance with IFRS that are contained in the Financial Statements section. When applying the Group's accounting policies, management must make assumptions and estimates concerning the future that affect the carrying amounts of assets and liabilities at the balance sheet date, the disclosure of contingencies that existed at the balance sheet date and the amounts of revenue and expenses recognised during the accounting period. Management makes these assumptions and estimates based on factors such as historical experience, the observance of trends in the industries in which the Group operates and

information available from the Group's customers and other outside sources. Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes could differ from those assumptions and estimates. An analysis of the key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year is provided below.

POST-EMPLOYMENT BENEFITS

The Group operates defined benefit pension plans in several countries; in particular, in the United Kingdom and the United States. The Group also provides other post-employment benefits, principally health and life insurance cover, to certain of its employees in North America by way of unfunded defined benefit plans.

The Group accounts for these defined benefit plans in accordance with IAS 19 "Employee Benefits", whereby the cost of providing the benefits is determined based on actuarial valuations of the plans that are carried out annually at the Group's balance sheet date by independent qualified actuaries. As at 31 December 2005, the defined benefit liability recognised on the Group's balance sheet was £296.3 million. The defined benefit liability comprises the net total for each plan of the present value of the benefit obligation, minus any past service costs not yet recognised, minus the fair value of the plan assets at the balance sheet date. Where a plan is in surplus, the defined benefit asset recognised in respect of the plan may be subject to limitation by the so-called asset ceiling.

As at 31 December 2005, the present value of the benefit obligation was £821.5 million. The benefit obligation is calculated using a number of assumptions, including future salary increases, increases to pension benefits, mortality rates and, in the case of post-employment medical benefits, the expected rate of increase in medical costs. The present value of the benefit obligation is calculated by discounting the benefit obligation using market yields on high-quality corporate bonds, where available, or government bonds at the balance sheet date. As at 31 December 2005, the fair value of the plan assets was £527.1 million. The plan assets consist largely of listed securities and their fair values are subject to fluctuation in response to changes in market conditions. As at 31 December 2005, the Group was unable to recognise a surplus of £1.9 million due to the effect of the asset ceiling.

Effects of changes in the actuarial assumptions underlying the benefit obligation, effects of changes in the discount rate applicable to the benefit obligation and effects of differences between the expected and actual return on the plan assets are classified as actuarial gains and losses and are recognised directly in equity. During 2005, the Group recognised a net actuarial loss of £44.1 million. Further actuarial gains and losses will be recognised during the next financial year. For more information please refer to the sensitivity analysis on page 40.

IMPAIRMENT OF NON-CURRENT ASSETS

Goodwill, intangible assets and property, plant and equipment are tested for impairment whenever events or circumstances indicate that their carrying amounts might be impaired. Such events and circumstances include the effects of restructurings and new product development initiated by management. Additionally, goodwill and capitalised development expenditure relating to a product that is not yet in full production are subject to an annual impairment test. Impairment testing of goodwill requires the calculation of the value in use of the cash-generating units to which the goodwill is allocated. Due to the nature of the Group's operations, it is generally not possible to estimate the recoverable amount for individual items of property, plant and equipment and impairment testing of these assets is also usually based on the value in use of the cash-generating unit to which the asset belongs.

Value in use represents the net present value of the cash flows expected to arise from the relevant cash-generating unit and its calculation requires management to estimate those cash flows and to apply a suitable discount rate to them. Management bases the estimated cash flows on assumptions such as the future growth in sales volumes, future changes in selling prices, and expected changes in material prices, salaries and other costs. Discount rates used are based on current market interest rates adjusted to reflect the risks specific to the relevant cash-generating unit.

As at 31 December 2005, the aggregate carrying amount of goodwill, intangible assets and property, plant and equipment was £1,173.2 million. During 2005, the Group recognised an impairment loss of £5.3 million in respect of these assets. Further impairment losses could arise within the next financial year if changes are necessary to the assumptions underlying the estimated future cash flows of cash-generating units or if there are changes in market interest rates that affect the discount rates that are applied to those cash flows.

INVENTORY

Inventories are stated at the lower of cost and net realisable value, with due allowance for excess, obsolete or slow moving items. Net realisable value is based on current assessments of future demand, market conditions and new product development initiatives. As at 31 December 2005, the carrying value of inventories was £444.7 million. During 2005, the Group recognised an impairment loss on inventory of £1.2 million. Further impairment losses may be recognised within the next financial year in response to changing circumstances.

FINANCIAL INSTRUMENTS

The Group adopted IAS 39 "Financial Instruments: Recognition and Measurement" prospectively from 2 January 2005. Accordingly, the derivative financial instruments that the Group holds for the purpose

of hedging its currency and interest rate exposures are recognised as assets and liabilities in the Group's balance sheet measured at their fair value at the balance date. As at 31 December 2005, the Group recognised a net asset of £16.0 million in respect of derivatives. The fair value of derivatives continually changes in response to changes in prevailing market conditions. Where permissible under IAS 39, the Group uses hedge accounting to mitigate the impact of changes in the fair value of derivatives on the income statement.

ENVIRONMENTAL LIABILITIES

Provision is made for the estimated cost of known environmental remediation obligations in relation to the Group's current and former manufacturing facilities. Cost estimates include the expenditure expected to be incurred in the initial remediation effort and, where appropriate, in the long-term monitoring of the relevant sites. For each remediation project management monitors the costs incurred to date against expected total costs to complete, and operates procedures to identify possible remediation obligations that are presently unknown. As at 31 December 2005, the provision for environmental remediation costs amounted to £6.2 million. Further provision may be necessary within the next financial year if actual remediation costs exceed expected costs, new remediation obligations are identified or there are changes in the circumstances determining the Group's legal or constructive remediation obligations.

PRODUCT WARRANTIES

Provision is made for the estimated cost of future warranty claims on the Group's products. Management bases the provision on historical experience of the nature, frequency and average cost of warranty claims and takes into account recent trends that might suggest that the historical claims experience may differ from future claims. As at 31 December 2005, the Group's provision for warranty claims amounted to £6.2 million. Further provision may be necessary within the next financial year if actual claims experience differs from management's estimates.

TAXATION

The Group is subject to tax in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes.

The Group recognises provisions in respect of uncertain tax positions whereby additional current tax may become payable in future periods following the audit by the tax authorities of previously filed tax returns. Provisions for uncertain tax positions are based upon management's assessment of the likely outcome of issues associated with assumed permanent differences, interest that may be applied to temporary differences, the possible disallowance of tax credits and penalties and are classified as non-current liabilities. Provisions for uncertain tax positions are reviewed regularly and are adjusted to reflect events such as the expiry of limitation periods for assessing

tax, administrative guidance given by the tax authorities and court decisions. As at 31 December 2005, the Group recognised a provision for uncertain tax positions amounting to £94.9 million. It is possible that the final outcome of these matters may differ from management's estimates.

Deferred tax is accounted for using the liability method, whereby deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. As at 31 December 2005, the Group recognised deferred tax assets amounting to £101.9 million. It is possible that the deferred tax assets actually recoverable may differ from the amounts recognised if actual taxable profits are lower than management's estimates.

As at 31 December 2005, the aggregate amount of undistributed earnings of foreign subsidiaries for which deferred tax liabilities had not been recognised was £1,948.9 million. Deferred tax was not recognised because the Group is in a position to control the timing of those earnings and it is probable that they will not be distributed in the foreseeable future. Income tax may be payable on these amounts if circumstances change and either their distribution can no longer be controlled by the Group or they are actually distributed.

US GAAP

Operating income from continuing operations under US GAAP in the year was \$485.0 million (2004: \$477.1 million). Net income under US GAAP was \$313.0 million (2004: \$377.7 million).

Shareholders' equity under US GAAP was \$3,034.4 million at 31 December 2005, compared to \$2,923.1 million at 1 January 2005.

The differences between IFRS and US GAAP arise from the treatment of restructuring costs, intangible assets, inventory, product development costs, post-employment benefits and share-based incentives. Net income under US GAAP is subject to additional adjustments relating to the treatment of costs associated with exit or disposal activities, capitalised interest, derivatives and hedge accounting, deferred tax and minority interest. A reconciliation of financial information prepared under IFRS and US GAAP is shown on page 124.

OPERATING STATISTICS, PERFORMANCE ANALYSIS AND FINANCIAL DATA

ANALYSIS OF MOVEMENT IN REVENUE AND PROFIT FROM OPERATIONS FROM 2004 TO 2005

Group	Revenue		Profit from operations before restructuring initiatives		Restructuring initiatives		Profit from operations	
	£ million	Change	£ million	Change	£ million	Change	£ million	Change
Group								
2004	2,974.1		304.3		(18.0)		286.3	
Exchange rate effect	52.1		6.3		(0.1)		6.2	
Disposals	(42.2)		4.4		6.6		11.0	
	2,984.0		315.0		(11.5)			
Acquisitions	102.9		12.9		–		12.9	
Restructuring initiatives	–		–		(0.3)	(2.6)%	(0.3)	
Underlying change	95.5	3.2%	(19.4)	(6.2)%	–	–	(19.4)	
							10.4	3.6%
2005	3,182.4		308.5		(11.8)		296.7	
Industrial & Automotive								
2004	2,182.3		257.6		(8.4)		249.2	
Exchange rate effect	47.7		6.0		(0.1)		5.9	
Disposals	(28.0)		4.1		(9.8)		(5.7)	
	2,202.0		267.7		(18.3)			
Acquisitions	70.9		9.8		–		9.8	
Restructuring initiatives	–		–		(1.4)	(7.7)%	(1.4)	
Underlying change	25.7	1.2%	(22.3)	(8.3)%	–	–	(22.3)	
							(13.7)	(5.5)%
2005	2,298.6		255.2		(19.7)		235.5	
Building Products								
2004	791.8		70.3		(9.6)		60.7	
Exchange rate effect	4.4		0.5		–		0.5	
Disposals	(14.2)		0.3		16.4		16.7	
	782.0		71.1		6.8			
Acquisitions	32.0		3.1		–		3.1	
Restructuring initiatives	–		–		1.1	16.2%	1.1	
Underlying change	69.8	8.9%	4.4	6.2%	–	–	4.4	
							25.8	42.5%
2005	883.8		78.6		7.9		86.5	
Central Costs								
2004	–		(23.6)		–		(23.6)	
Exchange rate effect	–		(0.2)		–		(0.2)	
			(23.8)		–			
Underlying change	–	–	(1.5)	(6.3)%	–		(1.5)	
							(1.7)	(7.2)%
2005	–		(25.3)		–		(25.3)	

Board of Directors



David Newlands
Non-executive Chairman
Aged 59

Appointed to the Board in August 1999 and became Chairman in June 2000. He is Chairman of KESA Electricals plc and PayPoint plc, and a director of a number of other companies. He was formerly Finance Director of The General Electric Company, p.l.c. and Chairman of Britax International plc.



James Nicol
Chief Executive Officer
Aged 52

Appointed to the Board in February 2002. Former President and Chief Operating Officer of Magna International Inc., the Canadian automotive parts company. He joined Magna in 1987 as Vice-President, Special Projects, following a successful career as a commercial lawyer. He left in 1992 to set up TRIAM Automotive Inc. and returned to Magna as Vice-Chairman when Magna acquired TRIAM in 1998.



Ken Lever
Finance Director
Aged 52

Appointed to the Board in November 1999. He is a non-executive director of iSOFT Group plc. He is a Chartered Accountant and a member of the ICAEW Financial Reporting Committee and Chairman of the Hundred Group Financial Reporting Committee. He has held executive directorships at Albright and Wilson plc, Alfred McAlpine PLC and Corton Beach plc and was a partner in Arthur Andersen.



Jack Keenan
Independent Non-executive Director
Aged 69

Appointed to the Board in November 2001. He is presently a non-executive director of Marks and Spencer Group p.l.c. and The Body Shop International plc, and is the patron of the Centre for International Business and Management at Cambridge University. Previously he was Chairman of Kraft International, Chief Executive of Guinness United Distillers & Vintners Ltd and an executive director of Diageo plc until he retired in October 2001.



Richard Gillingwater
Independent Non-executive Director
Aged 49

Appointed to the Board in December 2005. He is currently Head of Shareholder Executive, the body responsible for the Government's shareholdings in major publicly-owned businesses. He previously held a number of senior investment banking positions with CSFB, BZW and Kleinwort Benson after qualifying as a solicitor with Lovell White Durrant.



Struan Robertson
Independent Non-executive Director
Aged 56

Appointed to the Board in December 2005. He is currently a non-executive Director of Forth Ports PLC, Henderson TR Pacific Investment Trust plc and International Power plc. He was Group Chief Executive of Wates Group Limited between 2000 and 2004, having previously spent 25 years with BP in a number of senior positions. He was the Senior Independent Director at WS Atkins plc from 2000 to 2005.



Sir Brian Pitman
Senior Independent
Non-executive Director
Aged 74

Appointed to the Board in June 2000. He is a non-executive director of The Carphone Warehouse Group PLC, Singapore Airlines Limited, Virgin Atlantic Airways Limited and ITV plc, and is a senior advisor to Morgan Stanley. He retired in April 2001 from Lloyds TSB Group plc where he was Chief Executive for 13 years and Chairman for 4 years. He was also non-executive Chairman of NEXT Group plc from 1998 until May 2002.



Marshall Wallach
Non-executive Director
Aged 63

Appointed to the Board in August 1999. He is President of Wallach Capital Advisors which is based in Denver, Colorado and advises the Gates family on its interests in the Group's perpetual preference shares and other investments.



Norman Broadhurst
Independent Non-executive
Director
Aged 64

Appointed to the Board in December 2000. He is currently Chairman of Chloride Group PLC and Freightliner Limited. He is also Deputy Chairman of Cattles plc and a non-executive director of Old Mutual plc and United Utilities PLC. He was Group Finance Director of Railtrack PLC from 1994 to 2000.



Ken Minton
Independent Non-executive
Director
Aged 69

Appointed to the Board in December 2000. He is Executive Chairman of 4Imprint Group plc and a non-executive director of Solvay SA and Elementis plc. He spent most of his career at Laporte plc where he was Managing Director for five years and then Chief Executive for ten years. Subsequently he was Executive Chairman of Arjo Wiggins Appleton PLC. He was also non-executive Chairman of John Mowlem & Company PLC and SGB Group Plc.



David Richardson
Independent Non-executive
Director
Aged 54

Appointed to the Board in March 2006. He is currently a non-executive director of Serco Group plc, Dairy Crest Group plc, Forth Ports PLC and De Vere Group Plc. He held a number of senior financial management and strategic planning positions in Whitbread PLC from 1983 to 2005 becoming Group Finance Director in 2001. Prior to his time at Whitbread, he had worked for ICL plc and Touche Ross & Co. (now Deloitte & Touche LLP).

The Directors present their report and the financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

Tomkins is a world-class global engineering and manufacturing group with market and technical leadership across its two business groups, Industrial & Automotive and Building Products. The principal subsidiary and associated undertakings and their activities are listed in the Investor Information section on page 182.

RESULTS

The audited financial statements for the year ended 31 December 2005 are set out on pages 66 to 121. Profit attributable to shareholders is £192.2 million (year ended 1 January 2005 – £184.4 million).

A review of the businesses, activities and future developments of the Company and its subsidiaries is given on pages 4 to 45 and should be read as part of this report.

ORDINARY DIVIDENDS

The Directors recommend an ordinary final dividend of 8.16p per ordinary share, to be paid on 31 May 2006 to ordinary shareholders on the register as at the close of business on 21 April 2006. Together with the ordinary interim dividend of 5.07p per share paid on 14 November 2005, this makes a total dividend for the year of 13.23p (year ended 1 January 2005 – 12.60p).

ACQUISITIONS AND DISPOSALS

See notes 40 and 41 to the financial statements on pages 104 to 106.

RESOLUTIONS AT THE ANNUAL GENERAL MEETING

Resolution 10 renews the Directors' authority to issue relevant securities up to an amount not exceeding £12,881,003, representing 257,620,060 ordinary shares of 5p each, being 33⅓ per cent of the issued ordinary share capital (excluding treasury shares) as at 21 February 2006, until the next Annual General Meeting. The Company held 1,658,803 shares in treasury as at 21 February 2006, being 0.21 per cent of the issued ordinary share capital (excluding treasury shares) as at that date. There are at present no plans to exercise this authority, except in relation to share options and other similar categories of allotment.

Resolution 11 renews the Directors' authority to allot or, in the case of treasury shares, sell, shares for cash without first offering them to existing shareholders on a pro rata basis until the next Annual General Meeting. The authority sought is limited to the issue or, in the case of treasury shares, sale of up to 38,725,940 ordinary shares of 5p each (£1,936,297), being approximately (but not more than) 5 per cent of the issued ordinary share capital as at 21 February 2006. Your Board confirms its intention, in line with the guidelines issued by representatives of institutional investors, that not more than 7.5 per cent of the issued ordinary share capital will be allotted, or, in the case of treasury shares, sold, for cash on a non pre-emptive basis during any three-year period.

SPECIAL BUSINESS AT THE ANNUAL GENERAL MEETING

Resolution 12 seeks authority for the Company to make market purchases of its own ordinary shares up to a maximum of 10 per cent of the issued ordinary share capital. Your Board may make purchases of the Company's shares if it considers such purchases will result in an increase in earnings per share and are in the best interests of

shareholders generally. The Company may also purchase its own shares in order that they can, at the relevant time, be allocated to employees as required under the Company's Annual Bonus Incentive Plan. If the Company purchases any of its ordinary shares pursuant to resolution 12, the Company may cancel these shares or hold them in treasury. Such decision will be made by your Board at the time of purchase on the basis outlined above.

At last year's Annual General Meeting, the Company was given authority to make market purchases of up to 77,408,588 ordinary shares of 5p each. 676,800 ordinary shares of 5p have been purchased by the Company in the market since last year's AGM.

Options to subscribe for a total of 27,951,195 ordinary shares of 5p each in the Company, being 3.62 per cent of the issued ordinary share capital (excluding treasury shares), were outstanding at 21 February 2006. If the Company were to purchase the maximum number of ordinary shares permitted (under the existing authority and resolution 12), the options outstanding at 21 February 2006 would represent 4.52 per cent of the issued ordinary share capital (excluding treasury shares).

Resolution 13 seeks approval for the introduction of The Tomkins 2006 Performance Share Plan. This is a share-based long-term incentive arrangement which more closely aligns the interests of executives with shareholders. Details of the Plan are set out in the accompanying letter to shareholders.

DIRECTORS

The Directors of the Company at the year end are listed in the table on page 49. They were all Directors throughout the year, with the exception of Messrs. R D Gillingwater and D D S Robertson who were appointed as Directors on 20 December 2005. Messrs. N N Broadhurst and K J Minton will retire from the Board at the conclusion of the Annual General Meeting on 22 May 2006.

In accordance with the Articles of Association, Messrs. M F Wallach and K Lever retire by rotation and, being eligible, offer themselves for re-appointment. Messrs. R D Gillingwater and D D S Robertson, having been appointed after the last Annual General Meeting, retire in accordance with the Articles of Association and, being eligible, offer themselves for re-appointment.

DIRECTORS' INTERESTS

The interests of the Directors in the share capital of the Company are shown on the next page. No Director had any beneficial interest in the shares or loan stock of any other Group undertaking. The executive Directors, as potential beneficiaries, are technically deemed to have an interest in all ordinary shares held by the Tomkins Employee Share Trust (the "Trust") or in which the trustees of the Trust are interested. The table includes, however, only those Trust shares which are specifically allocated to the individual Director.

No changes took place in Directors' interests during the period from 1 January 2006 to 21 February 2006.

For details of the Directors' options to purchase ordinary shares, please refer to the Remuneration Committee report on pages 50 to 55.

RESEARCH AND DEVELOPMENT

Applied research and development work continues to be directed towards the introduction of new and improved products and the application of technology to reduce unit and operating costs and to improve services to customers.

Directors' interests	31 December 2005		1 January 2005 ⁽¹⁾	
	No. of shares ⁽²⁾		No. of shares ⁽²⁾	
Sp ordinary shares	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Executive Directors:				
K Lever	429,362	–	341,476	–
J Nicol	1,596,967	–	1,384,844	–
Non-executive Directors:				
N N Broadhurst	14,000	–	12,000	–
R D Gillingwater	–	–	–	–
J M J Keenan	17,185	–	15,185	–
K J Minton	110,000	–	108,000	–
D B Newlands	308,515	20,000	296,515	20,000
Sir Brian Pitman	15,717	–	13,717	–
D D S Robertson	6,500	–	–	–
M F Wallach	119,000	–	117,000	–
Perpetual preference shares				
M F Wallach	8,766,071	112,537	240,244	112,537

(1) Or later date of appointment.

(2) Includes 125,361 Deferred shares for K Lever and 342,047 Deferred shares for J Nicol.

(3) Includes 69,566 Deferred shares for K Lever and 211,976 Deferred shares for J Nicol.

EMPLOYMENT POLICIES

Each company in the Group is encouraged to implement comprehensive employment policies designed to identify employees with its achievements and to determine ways in which their knowledge and skills can best contribute towards its success. Schemes are operated to encourage loyalty and performance. The Tomkins 2005 Sharesave Scheme provides an opportunity to purchase shares in Tomkins and is open to all eligible employees. Employee involvement and communication programmes continue to be developed, designed to provide equal opportunity to all, irrespective of sex, race, religion or colour. Each company in the Group endeavours to provide equality of opportunity in recruiting, training, promoting and developing the careers of disabled persons.

SUPPLIER PAYMENT POLICY

Tomkins requires its operating companies to determine terms and conditions of payment for the supply of capital and revenue items just as keenly as they negotiate prices and other commercial matters. Suppliers are made clearly aware of the agreed terms and how any disputes are to be settled and payment is made in accordance with those terms.

The number of days' credit taken by the Company for trade purchases at 31 December 2005 was 30 days (year ended 1 January 2005 – 20 days). The number of days' credit taken by Group companies for trade purchases at 31 December 2005 ranged from 10 days to 182 days (year ended 1 January 2005 – 15 days to 151 days). The average number of days taken was 48 days (year ended 1 January 2005 – 55 days).

PENSIONS

The Group operates retirement plans covering most employees. A proportion are defined benefit plans funded by contributions from both employer and employee, at rates determined by independent actuaries in the light of regular valuations. Except where legislation makes pre-funding financially inappropriate, the remainder are money purchase plans funded by contributions from employer and employee.

The funds are held independently of the Group's finances and administered by trustees. In the United Kingdom, Tomkins requests that trustees prohibit fund managers from investing directly in the Company.

CHARITABLE AND POLITICAL DONATIONS

Total charitable donations in the year were £836,348 (year ended 1 January 2005 – £447,881) of which the United Kingdom accounted for £165,483 (year ended 1 January 2005 – £68,424); in the United States they totalled £571,253 (year ended 1 January 2005 – £298,581), of which £394,477 (year ended 1 January 2005 – £151,093) came from a Tomkins funded charitable trust; and in the remaining overseas companies they totalled £99,612 (year ended 1 January 2005 – £80,876).

No political donations were made during the year (year ended 1 January 2005 – £nil).

SUBSTANTIAL SHAREHOLDINGS

Material interests notified to the Company representing 3 per cent or more of the issued ordinary share capital at 21 February 2006 are set out in the table below.

	No. of shares	%
Sprucegrove Investment Management Limited	40,120,250	5.19
Barclays PLC	24,787,105	3.21
Legal & General Group plc	24,309,383	3.15
Aviva plc (and its subsidiary Morley Fund Management Limited)	23,939,118	3.10
Morgan Stanley Securities Limited	23,285,496	3.01

Interests notified in the perpetual preference shares at 21 February 2006 were as below.

Perpetual preference shares	No. of shares	%*
L G Atherton ⁽¹⁾	8,669,956	82.88
C G Cannon ⁽²⁾	8,526,521	81.51
J S Gates ⁽³⁾	8,765,146	83.79
V Gates ⁽²⁾	7,597,989	72.63
B G Hopper ⁽¹⁾	8,932,650	85.39
R E Hopper ⁽³⁾	8,932,650	85.39
D G Wallach ⁽¹⁾	8,766,071	83.80
M F Wallach ⁽⁴⁾	8,766,071	83.80
J A Woodruff III ⁽¹⁾	8,621,831	82.42
H G Woodruff ⁽²⁾	8,645,658	82.65
T S Woodruff ⁽²⁾	8,645,658	82.65

* Includes interests held as joint trustees and interests in income from shares held under trust where there may be more than one beneficiary. It is for this reason that the interests sum to more than 100%.

(1) Joint trustees. These persons are also income beneficiaries of some of the trusts. In those cases where the person is both a joint trustee and an income beneficiary in a particular trust the holding is not counted twice.

(2) Income beneficiaries only.

(3) Includes interest by attribution from spouse B G Hopper.

(4) Includes interest by attribution from spouse D G Wallach.

INDEPENDENT AUDITORS

A resolution will be proposed at the Annual General Meeting to re-appoint Deloitte & Touche LLP as independent auditors.

Approved by the Board on 21 February 2006 and signed on its behalf by

N C PORTER
SECRETARY

Secretary's note – events which occurred subsequent to the signing of this Report affect the business of the Annual General Meeting on 22 May 2006 as follows:

- (1) On 1 March 2006, Mr David Richardson became a non-executive Director and will stand for re-appointment at the Annual General Meeting.
- (2) Following the substantial reduction in the interests of the Gates family in the Company on 9 March 2006, Mr Marshall Wallach will resign from the Board with effect from 1 May 2006.

REMUNERATION COMMITTEE REPORT

1. INTRODUCTION

This report to shareholders sets out the membership of the Remuneration Committee and the names of the advisers who provided services to the Committee during the year to 31 December 2005. The policies that have been followed by the Remuneration Committee during the year in determining the elements of executive remuneration are also set out, together with the policies and principles to be followed by the Committee over the next two years.

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 ("DRRR"), which set out statutory requirements for the disclosure of Directors' remuneration. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to Directors' remuneration. DRRR requires the independent auditors to report to the Company's members on the auditable parts of the Remuneration Committee report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Companies Act 1985.

The Board keeps under review the terms of reference for the Remuneration Committee, which are based on current best practice contained in the model terms of reference set out in the Guidance Note produced by the Institute of Chartered Secretaries and Administrators. The principal responsibility of the Committee is to determine the framework or broad policy for the Company's executive remuneration and the remuneration of the Chairman of the Board, for approval by the Board. The remuneration of non-executive Directors is a matter for the Board itself. The terms of reference of the Remuneration Committee can be found in the corporate governance area on the Company's website, www.tomkins.co.uk. In addition, the Company takes full account of the guidelines published by the Association of British Insurers and the National Association of Pension Funds.

Details of the emoluments, bonuses, benefits-in-kind, incentive arrangements (including share options and other long-term incentives), pensions and service contracts applicable to each Director who served during the year to 31 December 2005 are given in this report, which will be put to the vote of shareholders at the forthcoming Annual General Meeting.

2. MEMBERSHIP OF THE REMUNERATION COMMITTEE AND ADVISERS

The Remuneration Committee is made up exclusively of non-executive Directors whom the Board determined to be independent, as each was found to be free from any material business or other relationship with the Company (either directly or as a partner, shareholder or officer of an organisation that has a relationship with the Company). Accordingly, the Board believes that there are no such relationships that could materially interfere with the exercise of their independent judgement. Messrs. Minton, Broadhurst and Keenan served on the Committee throughout the year and Richard Gillingwater was appointed to the Committee on 20 December 2005. The members of the Remuneration Committee at 31 December 2005 were:

K J Minton (Chairman)
 N N Broadhurst
 R D Gillingwater
 J M J Keenan

There were no other changes to the membership of the Committee during the year.

The Committee consults with the Chairman of the Board and the Chief Executive Officer concerning matters of executive remuneration. The Committee also received advice from external advisers, PA Consulting Group, concerning a Company share plan. PA Consulting Group also provided consulting services during the year in respect of business process in Tomkins. Mercer Human Resource Consulting provided pension advice in respect of executive Directors and senior executives and provided professional services in the area of pension scheme advice. Other than those consulting services mentioned above, PA Consulting Group and Mercer Human Resources had no connections with the Company.

3. STATEMENT OF THE COMPANY'S POLICY ON DIRECTORS' REMUNERATION (UNAUDITED INFORMATION)

The policies operated by the Company during the year and those to be applied over the next two years, are set out below:

A. EXECUTIVE REMUNERATION

The Company's policy on executive remuneration is that the Remuneration Committee and the Board should each satisfy itself that executives, including executive Directors, are fairly rewarded for their individual contributions to the Group's performance. The Remuneration Committee has sought to ensure that executive Directors receive a level of remuneration that is appropriate to their scale of responsibility and performance and which will attract, motivate and retain individuals of the necessary calibre. The only pensionable element of executive Directors' remuneration is basic salary. This policy applies whether or not an executive Director is a member of the Tomkins Retirement Benefits Plan or has a personal pension arrangement.

B. ANNUAL REMUNERATION FOR EXECUTIVES

The Board recognises that one of its key objectives is to grow the value of the business for the benefit of shareholders and that such growth is strongly related, amongst other things, to the degree of entrepreneurial spirit in the Group. In order to create the necessary entrepreneurial impetus within an organisation, compensation arrangements are required which are similar to those that an owner of a business would seek. This has led to the adoption of a remuneration policy under which the levels of total remuneration are set in order to attract, retain and motivate executives. Remuneration is provided through a combination of base salaries at median level or below and annual bonuses that have a direct and proportionate link to total value created for shareholders. This provides the incentive for executives to act like owners of the business. The Remuneration Committee and the Board believe that this more closely aligns the interests of shareholders and management whereby executives only receive substantial rewards when they have created high value in the business.

Over time and subject to the achievement of value-creating performance targets, this policy is likely to lead to a realignment of the component parts of total executive remuneration, so that a greater part of the total package received by executives is made up of incentive pay with the remainder coming from base salaries at the median level or below. The performance targets for the Company's executive share option scheme and the Annual Bonus Incentive Plan ensure that a substantial proportion of total remuneration is directly related to actual measurable performance. Further details of the Annual Bonus Incentive Plan are set out in section 4B on page 52.

C. NON-EXECUTIVE DIRECTORS' FEES AND CHAIRMAN'S REMUNERATION

The executive members of the Board review the fees of non-executive Directors, who play no part in determining their own remuneration. The Chairman's remuneration is determined by the Remuneration Committee (in the absence of the Chairman) and is approved by the Board. The review of non-executive Directors' fees and the Chairman's remuneration takes place every two years.

D. SERVICE CONTRACTS

The Company's policy on Directors' service contracts is that service contracts and letters of appointment for executive Directors normally provide for notice periods of no longer than twelve months. On appointment, a longer notice period may apply, but this will reduce over time to the normal twelve months' notice period. Notwithstanding the provisions in an executive Director's service contract or letter of appointment concerning termination payments, the Company will seek to reduce any compensation that may be payable to reflect the departing Director's obligation to mitigate loss.

E. EXTERNAL APPOINTMENTS

The Company's policy on external appointments is that, with the approval of the Chairman of the Board, executive Directors are permitted to hold appointments outside the Company. Any fees payable in connection with such appointments are normally retained by Directors unless otherwise agreed. Further details are set out in section 10 on page 55.

4. ELEMENTS OF REMUNERATION (AUDITED INFORMATION)

Executive remuneration is comprised of base salary, a bonus (in three parts: cash, bonus shares and deferred shares) and benefits-in-kind. Non-executive Directors are paid a basic fee and fees for their work on Board Committees. The table below sets out the remuneration paid to each Director.

A. BASE SALARY, FEES, BONUSES AND BENEFITS-IN-KIND FOR THE YEAR ENDED 31 DECEMBER 2005:

Directors' emoluments	Basic salary/fees £000	Bonus cash ⁽¹⁾ £000	Bonus shares ⁽²⁾ £000	Bonus deferred shares ⁽²⁾ £000	Benefits-in-kind ⁽³⁾ £000	Long-term incentive plans £000	Pension contribution ⁽⁷⁾ £000	Total emoluments	
								Year ended 31 December 2005 £000	Year ended 1 January 2005 £000
Chairman									
D B Newlands ⁽⁴⁾	180	–	–	–	–	–	–	180	180
Executive Directors									
J Nicol	826	841	210	420	95	4,193 ⁽⁵⁾	310	6,895	2,924
K Lever	414	396	99	198	9	–	149	1,265	1,062
Non-executive Directors									
N N Broadhurst ⁽⁴⁾	65	–	–	–	–	–	–	65	65
R D Gillingwater ⁽⁶⁾	–	–	–	–	–	–	–	–	–
J M J Keenan ⁽⁴⁾	58	–	–	–	–	–	–	58	58
K J Minton ⁽⁴⁾	80	–	–	–	–	–	–	80	83
Sir Brian Pitman ⁽⁴⁾	45	–	–	–	–	–	–	45	45
D D S Robertson	2	–	–	–	–	–	–	2	–
M F Wallach ⁽⁴⁾	55	–	–	–	–	–	–	55	55
	1,725	1,237	309	618	104	4,193	459	8,645	4,472

(1) Details of bonus payments in accordance with the Annual Bonus Incentive Plan are given in B on page 52.

(2) Deferred shares are held under the Annual Bonus Incentive Plan.

(3) Benefits-in-kind include medical cover, life assurance and other benefits in accordance with their service contract or letter of appointment. (Benefits-in-kind for James Nicol for the year to 31 December 2005 additionally included a buy-out bonus payment, a relocation allowance of £23,333 per month for a period of three years which ended on 18 February 2005 and company car and related costs.)

(4) On 18 July 2005, 2,000 shares were purchased for each of the non-executive Directors at a market price of 272.81 pence per share. The cost of these shares formed part of their remuneration.

(5) 3,045,684 shares were awarded under the Deferred Matching Share Purchase Plan on 11 February 2002, being part of the incentive package to attract James Nicol to the Company. 1,469,980 shares vested on 18 February 2005 and the remainder were forfeited. Under the terms of his contract, Mr Nicol elected to receive a cash payment of £4,193,000 (subject to statutory deductions) in lieu of shares. (See "Deferred Matching Share Purchase Plan" below for more details.)

(6) Richard Gillingwater, in accordance with Cabinet Office guidelines, has waived his fees.

(7) See section 6 "Retirement benefits" below for more details.

During the year no Director exercised any options and accordingly no gains or losses were made on exercise (year to 1 January 2005 – £nil).

REMUNERATION COMMITTEE REPORT CONTINUED

CHAIRMAN'S REMUNERATION

Having taken into consideration comparative remuneration data, the contribution made by the Chairman to the Company's affairs, the time he devotes to the Company's business, and the extra responsibilities placed upon him arising from the changes in corporate governance requirements in the UK and the US, the Remuneration Committee recommended to the Board that his remuneration should be increased from £175,000 to £185,000 plus 2,000 Tomkins plc shares per annum, with effect from 1 January 2006. These recommendations were approved by the Board.

NON-EXECUTIVE DIRECTORS' FEES

The executive members of the Board reviewed the fees paid to non-executive Directors and noted that the basic fee paid to non-executive Directors of £40,000 plus 2,000 Tomkins plc shares per annum was last reviewed in November 2003. Having taken into consideration comparative remuneration data, the contribution made by individual non-executive Directors to the Company's affairs, the time they devote to the Company's business, and the extra responsibilities placed upon them arising from the changes in corporate governance requirements in the UK and the US, the executive Directors concluded that the basic annual fee should be increased to £42,000 plus 2,000 Tomkins plc shares per annum commencing 1 January 2006. No changes to the level of Committee fees were made.

B. CURRENT AND PROPOSED SCHEMES ANNUAL BONUS INCENTIVE PLAN

The executive Directors and senior executives participate in the Company's Annual Bonus Incentive Plan (the "Plan"). Each participant in the Plan receives a percentage of "bonusable profit" of the business for which he or she has responsibility. Bonusable profit is based on operating profit less a charge for tax, certain exceptional items, and a charge for invested capital, and is based upon IFRS. The objective of the Plan is to reward the senior executives for increasing the overall value created in the business, based on the margin of the after-tax return on invested capital in excess of the weighted average cost of capital. Accordingly, bonusable profit may increase at a faster rate than operating profit where the margin of the return over the cost of capital increases. This aligns the interests of management and shareholders. In arriving at bonusable profit, adjustments may be made for operating exceptional items relating to strategic manufacturing initiatives to match the costs of the strategic manufacturing initiatives to the benefits over a period of up to three years. With the approval of the Remuneration Committee, adjustments are also made for non-operating exceptional items. The charge for taxation reflects the ongoing charge for tax excluding any benefit from exceptional adjustments to tax provisions. The charge for invested capital is based on applying the estimated weighted average cost of capital to the average invested capital in the Group. The estimated weighted average cost of capital takes into account the capital structure of the Group and the costs associated with each element of capital. The method of calculation has been agreed by the Remuneration Committee and is subject to review each year. The invested capital is based on the book value of assets in the Group excluding goodwill relating to acquisitions made prior to 30 December 1999. The cost of capital used in the calculation of bonusable profit for the year under review was 7.7 per cent.

The Remuneration Committee carries out a detailed review of the computations involved and ensures that the rules are applied consistently. Furthermore, the independent auditor is asked to perform agreed-upon procedures on behalf of the Remuneration

Committee on the calculations which underlie the computation of the bonusable profit. The incentive bonus of the executive Directors is based on a percentage of the bonusable profit of the Group which, for the year ended 31 December 2005, was £123.7 million (1 January 2005 – £111.0 million). James Nicol received the sum of £1,471,000 (1 January 2005 – £1,321,000) and Ken Lever received the sum of £693,000 (1 January 2005 – £505,000). Ken Lever's percentage of bonusable profit increased during the year in accordance with the levels approved by the Remuneration Committee at the time the Plan was introduced. Although there is no limit to the bonusable profit on which bonuses are calculated, inordinate growth in bonusable profit in any one year is unlikely to arise due to the nature of the Group's business.

The bonus awards are payable to the senior participants, including executive Directors, as to four-sevenths in cash, one-seventh in bonus shares and two-sevenths in deferred shares. The bonus awards payable to the remaining participants are as to three-quarters in cash, one-twelfth in bonus shares and one sixth in deferred shares. The bonus is paid at the end of June, September and December based on 75 per cent of the bonus earned to the end of the previous quarter, with the balance of the full entitlement to the bonus for the calendar year paid at the end of March following the calendar year-end.

Bonus shares are restricted and vest only after a period of three years after the initial bonus award. Dividends are paid on the bonus shares. Deferred shares are awarded at the time of the initial bonus award but the vesting of the shares is conditional on continued employment with the Group for three years after the award. Dividends are not paid on the deferred shares until they have vested.

As a condition of continued participation in the Plan, senior participants, including executive Directors, are required to hold shares with a purchase cost equivalent to one year's total after-tax remuneration including bonus, based on an average of the previous three years. Remaining participants are required to hold shares with a purchase cost equivalent to one half of one year's total after-tax remuneration including bonus, based on an average of the previous three years. Increases in annual base salary of all participants, including executive Directors, are restricted to the equivalent rate of increase in the Retail Prices Index (in the UK) or equivalent index in the country in which a participant works. The restrictions on the increases in salary, together with the growth in bonus, assuming increases in bonusable profit, will result in the incentive pay element of remuneration increasing over time. The share awards will increase the investment each of the participants, including executive Directors, has in Tomkins plc shares.

THE TOMKINS 2006 SHARE PLAN

Subject to the approval of shareholders at the 2006 Annual General Meeting, it is proposed to introduce the Tomkins 2006 Performance Share Plan (the "2006 Plan"), a long-term incentive plan. The purpose of the 2006 Plan is two-fold. First, to provide a share-based long-term incentive arrangement for senior executives which more closely aligns the interests of executives with shareholders. Secondly, the 2006 Plan is in substitution of the Company's legal obligation to the Chief Executive to provide annual grants of options, which had previously been satisfied by the Tomkins Executive Share Option Scheme that lapsed in May 2005. The Remuneration Committee considered the alternatives and, with the agreement of the Chief Executive and the assistance of PA Consulting Group, over the past year devised a plan that achieves those aims. The 2006 Plan will only provide rewards if shareholders have seen value created over the preceding three years. The Remuneration Committee and Board believe that this creates a

better alignment between executive reward and the creation of shareholder value than a standard executive share option scheme.

The 2006 Plan has four key features: (i) the performance baseline is established which is equal to the cost of equity and if the Total Shareholder Return (comprising dividends and increase in the share price) over three years does not exceed the cost of equity over the same three year period, no award of shares will be made; (ii) the award of shares will be proportional to the degree of performance over the baseline; (iii) there is a "cap" on the quantum of share awards; and (iv) subject to performance, awards will be made at the end of each three-year performance period.

SHARE OPTIONS

THE TOMKINS 2005 SHARES AVE SCHEME

This is a standard HM Revenue & Customs-approved savings related share option scheme, which is open to employees who are resident for tax purposes in the United Kingdom.

C. CLOSED SCHEMES

The following schemes are now closed.

THE TOMKINS EXECUTIVE SHARE OPTION SCHEME NO. 3 ("ESOS 3") AND THE TOMKINS EXECUTIVE SHARE OPTION SCHEME NO. 4 ("ESOS 4")

ESOS 3 and ESOS 4 lapsed for grant purposes on 9 May 2005 and the Remuneration Committee and the Board decided not to continue with an executive share option scheme beyond that date.

ESOS 3 was an HM Revenue & Customs-approved scheme. ESOS 4 was not approved by HM Revenue & Customs. The options under both schemes mature after three years. All outstanding ESOS 4 options were granted to participants within the limit of four times their annual earnings. The performance condition for all outstanding options under ESOS 3 and ESOS 4 requires that the growth in Tomkins' earnings per share must exceed the growth in the Retail Prices Index by an average of 2 per cent per annum over a three-year period before an option can be exercised, which was in accordance with contemporary practice when the schemes were introduced in 1995.

THE TOMKINS SAVINGS RELATED SHARE OPTION SCHEME NO. 2 ("SAYE 2")

This was a standard HM Revenue & Customs-approved savings related share option scheme, which lapsed for grant purposes, on 9 May 2005.

THE TOMKINS SHARE MATCHING SCHEME ("SMS")

Awards which had been made under a now expired scheme known as the Tomkins Restricted Share Plan and which had vested, were eligible for matching awards for the same number of shares under the SMS. Such awards could be for up to two conditional share matching awards vesting a further two years and four years respectively after the end of the original restricted period. The final commitment to grant an SMS award was made during the year and the SMS is therefore now closed for grant purposes. With shareholder approval, this share scheme was introduced in 1996 with no performance conditions attached and accordingly it does not comply with Schedule A of the Combined Code.

TOMKINS PREMIUM PRICED OPTION

This was an option specifically and solely granted to James Nicol as part of the incentive package on his joining Tomkins. No performance conditions were attached to this option in order to attract him to the Company and retain his services and this therefore does not comply with Schedule A of the Combined Code. It consists of a non-transferable option to acquire 5,076,142 shares granted on 11 February 2002. The exercise price is 197 pence per share in respect of 2,538,072 shares (A option shares), 276 pence per share in respect of 1,522,842 shares (B option shares) and 345 pence per share in respect of 1,015,228 shares (C option shares). The options have all vested and will lapse on 11 February 2012 or earlier in certain circumstances.

ONGOING OPTION

This is an option specifically and solely granted to James Nicol on 11 February 2002 as part of the incentive package to attract him to the Company. It consists of a non-transferable option to acquire 1,522,842 shares at 197p per share, which can be exercised on or after 18 February 2005 provided the rate of increase of earnings per share over any three-year period is equal to or greater than the rate

MOVEMENTS IN DIRECTORS' SHARE OPTIONS DURING THE YEAR

	At 31 December 2005	Granted in the year		At 1 January 2005	Period of exercise	
	No.	No.	Exercise price (p)	No.	From	To
J Nicol	10,382,484	–	–	10,382,484	1 Jan 06	28 Nov 14
K Lever	1,336,014	–	–	1,336,014	1 Jan 06	28 Nov 14

The table below details the weighted average price each executive would have had to pay to exercise their options and how much they were worth in monetary terms at the year end and prior year end.

	Weighted average exercise price (p) 31 December 2005		Weighted average exercise price (p) 1 January 2005		Net value of unexercised options	
	Exercise price exceeds market price	Market price exceeds exercise price	Exercise price exceeds market price	Market price exceeds exercise price	31 December 2005 £000	1 January 2005 £000
J Nicol	345.00	226.53	291.95	208.72	6,859	3,058
K Lever	–	220.59	265.75	212.64	1,058	473

The mid-market price of a Tomkins share as at 31 December 2005 was 299.75 pence with a range during the year 2 January 2005 to 31 December 2005 of 242.00 pence to 302.50 pence.

Options included in the above table relate to the Tomkins Executive Share Option Schemes No. 3 and No. 4 (J Nicol 3,775,486 shares, K Lever 1,328,000 shares), the Tomkins Savings Related Share Option Scheme No. 2 (both 8,014 shares) and, in the case of James Nicol, the Premium Priced Option (5,076,142 shares) and the Ongoing Option (1,522,842 shares).

REMUNERATION COMMITTEE REPORT CONTINUED

of increase of the Retail Prices Index plus 9 per cent. This performance condition has been met and the option is exercisable. There are provisions for waiving or amending the performance condition in certain circumstances and, if there is a change of control of the Company, the option is exercisable immediately, regardless of whether the performance condition is satisfied. The option will lapse on 11 February 2012 or earlier in certain circumstances. If there is a variation in the share capital of the Company the Remuneration Committee may adjust the number of shares in either the Tomkins Premium Priced Option or the Ongoing Option as it reasonably deems appropriate to take account of the variation.

DEFERRED MATCHING SHARE PURCHASE PLAN

This was specifically and solely introduced for James Nicol as part of the incentive package to attract him to the Company. Under this Plan, 3,045,684 shares ("Matching Shares") were awarded on 11 February 2002 following the purchase by James Nicol of 1,015,228 Tomkins plc shares. On 18 February 2005, the award vested in respect of 1,015,228 Matching Shares and of the remaining 2,030,456 Matching Shares, 454,752 vested and the balance lapsed. The number of shares which vested was calculated on the basis of the highest price of a Tomkins share sustained over a five-day period during the six-month period ended 18 February 2005 (285.25 pence), to the extent that, for every 1 penny that the share price increased over 197 pence, being the market price on 18 February 2002, up to a maximum of 591 pence, James Nicol was entitled to receive 5,153 shares. Under the terms of his contract, Mr Nicol elected to receive a cash payment of £4,193,000 (subject to statutory deductions) in lieu of shares.

DIRECTORS' INTERESTS IN TOMKINS SHARES AT 31 DECEMBER 2005

The Directors' current interests in Tomkins shares are set out in the Directors' report on pages 48 and 49 and, in the case of the executive Directors, where appropriate these include shares held through their participation in the SMS.

The interests of the Directors in Tomkins ordinary shares held within the SMS that are yet to vest and yet to be included in Directors' remuneration were as follows:

Director	Scheme or Plan	31 December 2005 Number	Awarded Number	Vested Number	1 January 2005 Number	Vesting Period
K Lever	SMS	1,809	1,809	1,809	1,809	2007

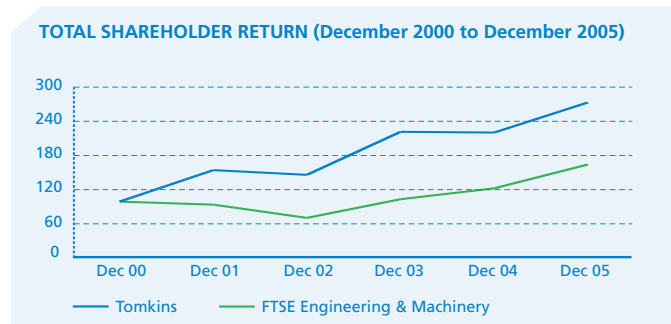
The value of entitlements held under the SMS for current Directors at 31 December 2005 was £5,000 (1 January 2005 – £5,000). 1,809 shares were awarded to Ken Lever on 29 December 2005 (in relation to the vesting of the SMS award made on 25 November 2003 in connection with the vesting of the RSP award made on 15 August 2000) with a market value of £5,000 when the market price per share was 290.00 pence per share. (No Director received an award in the year ended 1 January 2005.) No other Director received an award under the SMS during the year.

During the year 1,809 shares vested under the SMS at 289.02 pence per share, market value £5,000, in respect of Ken Lever. (No shares awarded to Directors vested under the SMS during the year ended 1 January 2005.) No other Director had shares vest under the SMS during the year.

At 31 December 2005, 3,618 shares were required to be retained by Ken Lever in order to allow the SMS award in the above table to vest in the relevant vesting period (1 January 2005 – 1,809 shares required to be retained by Ken Lever). No other current Director was required to retain shares in this respect at 31 December 2005.

5. PERFORMANCE GRAPH (UNAUDITED INFORMATION)

The graph set out below plots Total Shareholder Return on a holding in the Company's shares for each of the past five years ended 31 December, measured against the performance of the FTSE Engineering and Machinery Index. This index was chosen because its major constituents are, like Tomkins, moderately diversified engineering groups with a significant manufacturing presence outside the home UK market.



The index classifications changed on 3 January 2006 and with effect from that date Tomkins is included in General Industrials.

6. RETIREMENT BENEFITS (AUDITED INFORMATION)

James Nicol and Ken Lever are not entitled to any retirement benefits defined in terms of final or average salary but they receive a payment at an annual rate of 37.5 per cent of their basic salary to enable them to make contributions to retirement benefit schemes of their choice on behalf of themselves and their dependants. For the year ended 31 December 2005, this amounted to £309,709 (year to 1 January 2005 – £300,000) for James Nicol, and £148,899 (year to 1 January 2005 – £144,000) for Ken Lever. At the time he joined the Company, Ken Lever was given the option to elect at any time to become a member of the Tomkins Retirement Benefits Plan (the "RBP") or any other replacement pension scheme nominated by the Company, but did not do so during the year ended 31 December 2005. The normal retirement age of the executive Directors is 60.

7. SERVICE CONTRACTS (UNAUDITED INFORMATION)

A summary of the service contract or letter of appointment of each of the Directors is as follows:

James Nicol – Chief Executive Officer

The Company and James Nicol entered into a contract dated 11 February 2002 which set out the terms and conditions under which he joined the Company as Chief Executive Officer on 18 February 2002. The contract remains in force until terminated by either party giving notice of not less than twelve months.

Ken Lever – Finance Director

On 1 November 1999, Ken Lever and the Company entered into a Memorandum which set out the terms and conditions of employment under which Ken Lever joined the Company as Finance Director on that date. The terms of the Memorandum remain in force until terminated by either party giving notice of 51 weeks.

NON-EXECUTIVE DIRECTORS

None of the non-executive Directors has a service contract with the Company, their terms of engagement being set out in a letter of appointment. Ordinarily, non-executive Directors serve for a period of two years but, subject to agreement with the Board, a non-executive

Director can be re-appointed for a further term of three years. The appointment of non-executive Directors may be terminated before the conclusion of their two-year term by, and at the discretion of, either party upon two weeks' written notice. In the case of David Newlands, the appointment is for a term of three years and may be terminated at any time by either party serving written notice upon the other, such notice to take effect from the date of receipt thereof. None of the non-executive Directors is entitled to compensation for loss of office. The dates from which the respective letters of appointment are effective are as follows: Norman Broadhurst – 11 December 2004; Richard Gillingwater – 20 December 2005; Jack Keenan – 1 November 2005; Ken Minton – 11 December 2004; David Newlands – 18 February 2004; Sir Brian Pitman – 30 June 2004; Struan Robertson – 20 December 2005, and Marshall Wallach – 1 August 2005.

8. PAYMENTS MADE TO AND INTERESTS OF FORMER DIRECTORS (AUDITED INFORMATION)

No payments were made to former Directors during the year (year ended 1 January 2005: payments to former Director Tony Reading of £147,000 (bonus), £80,000 (reimbursement in accordance with his termination agreement) and £2,160,572 (exchange of unfunded pension benefits for a lump sum)).

9. SUMS PAID TO THIRD PARTIES IN RESPECT OF A DIRECTOR'S SERVICES (AUDITED INFORMATION)

No amounts are paid to third parties in respect of a Director's services to the Company or any company within the Group.

10. SUMS RECEIVED BY EXECUTIVE DIRECTORS FROM OTHER EXTERNAL DIRECTORSHIPS (AUDITED INFORMATION)

During the year, Ken Lever served as a non-executive Director on the Board of Vega Group plc from 1 January to 8 September 2005 (when he left the Board), for which he received non-executive directors' fees of £20,322. On 21 June 2005, Mr Lever was appointed a non-executive Director of iSoft plc for which he received fees to 31 December 2005 of £30,909. In both cases Mr Lever retained the fees. James Nicol holds no external directorships.

COMPLIANCE STATEMENT

The Company complies with the requirements of Schedule 7A of the Companies Act 1985 and the Listing Rules of the Financial Services Authority unless otherwise indicated. In preparing this report, the Remuneration Committee has given full consideration to the provisions set out in Schedule B to the Combined Code.

This Report has been approved by the Remuneration Committee and the Board.

KEN MINTON
CHAIRMAN OF THE REMUNERATION COMMITTEE

21 February 2006

AUDIT COMMITTEE REPORT

This report to shareholders has been prepared in accordance with the requirements of paragraph C.3.3 of the Combined Code and paragraphs 5.1 and 5.2 of the Guidance on Audit Committees produced by Sir Robert Smith. The report describes the role of the Audit Committee in meeting these requirements.

TERMS OF REFERENCE

The Committee's terms of reference, a copy of which can be found in the Corporate Governance area on the Company's website, are reviewed from time to time and approved by the Board of Tomkins. They are based on the model terms of reference set out in the Guidance Note produced by the Institute of Chartered Secretaries and Administrators and take account of the requirements of the Sarbanes-Oxley Act of 2002 and the Guidance Notes set out in Sir Robert Smith's Report published in January 2003.

The terms of reference cover membership and appointment, meetings (their frequency, quorum, attendees and minutes), duties and responsibilities covering external audit, internal audit, financial reporting, internal controls and risk management systems, whistleblowing, reporting responsibilities, authority (delegated by the Board) and a number of other matters.

MEMBERSHIP, APPOINTMENT AND EXPERIENCE

The Audit Committee comprises four independent non-executive Directors, three of whom have served on the Committee throughout the year and the fourth who was appointed in December. The members of the Committee are Norman Broadhurst, who was appointed to the Committee, as Chairman, in December 2000, Ken Minton, who was also appointed in December 2000, Jack Keenan, who was appointed in November 2001 and Richard Gillingwater who was appointed on 20 December 2005. No limitation on the term of office is specified for members of any of Tomkins' Board Committees.

The Board has determined that all four members of the Audit Committee are independent for the purposes of the Combined Code and rule 10A.3(b)(1) under the US Securities Exchange Act of 1934 and section 303A of the New York Stock Exchange's Listed Company Manual. The members have wide-ranging financial, commercial and management experience that they bring to the work of the Audit Committee and their biographical details are set out on pages 46 and 47.

The Chairman of the Committee, Norman Broadhurst, is a Chartered Accountant (FCA) and a Fellow of the Institute of Corporate Treasurers, having previously been group finance director of Railtrack PLC (1994 to 2000) and joint deputy chief executive and finance director of VSEL Consortium PLC (1990 to 1994). In accordance with section 407 of the Sarbanes-Oxley Act of 2002, the Board has determined that Norman Broadhurst is an "audit committee financial expert" as that term is defined under the rules of the US Securities and Exchange Commission, having significant, relevant and up-to-date UK and US financial and accounting knowledge and experience. Ken Minton has held a number of senior management positions having been Managing Director and then Chief Executive of Laporte PLC and Jack Keenan has held a number of senior management positions in international companies having been Chairman of Kraft International, Chief Executive of Guinness United Distillers and Vintners and an executive Director of Diageo plc. Richard Gillingwater is Head of Shareholder Executive (a body responsible for the Government's shareholdings in major publicly-owned businesses) and has wide-ranging experience in investment banking of more than 20 years. All three have extensive financial experience.

MEETINGS

The Audit Committee meets at least four times a year and on other occasions when circumstances require. The quorum for a meeting of the Committee is two members. The Finance Director and representatives from the independent auditor and the internal auditor attend meetings under a standing invitation. The Chairman of the Board, Chief Executive Officer and other Directors are able to attend meetings of the Committee under the practice that any Director may attend any meeting of a Board Committee provided that they have no conflict of interest in respect of business to be discussed. It is usual practice for the Chief Executive Officer to attend meetings of the Audit Committee. Other finance and business risk executives attend meetings and the Company Secretary is Secretary to the Committee. The Committee Chairman reports regularly to the Board on its activities. Five meetings were held during the year and attendance is set out in the table on page 59.

WORK OF THE COMMITTEE

The Committee has established an "agenda framework" which Tomkins believes is vital for maintaining an appropriate focus on the objectives of the Committee. The agenda sets out all of the operational duties and responsibilities outlined in the Committee's terms of reference and is based on four regular meetings, in February, May, August and November, which coincide with the announcement of the quarterly results. The areas covered by the "agenda framework" are as follows:

1. Corporate Governance, including the regular review of the Committee's terms of reference and annual evaluation, regulatory issues, review of delegated authorities and review of auditor independence;
2. Business Risk Assurance (i.e. internal audit), including the review of the internal audit charter, update on internal audit reviews and future plans, and progress against its internal audit business plan;
3. Confidential sessions with the Audit Committee, in the absence of Directors and Company executives;
4. Financial Reporting, including current accounting and financial reporting matters and review of quarterly, interim and annual statements including earnings releases; and
5. Independent Audit including audit plan and scope, review of audit fees, cost effectiveness, reports on interim and annual financial statements, status reports, management letters and the nature and extent of non-audit services.

The audit plan and scope sets out details of the areas to be covered and how the audit is to be conducted. The Chairman of the Audit Committee meets periodically with the independent auditor to discuss progress on the audit and the major points to arise, and has the opportunity to assess the effectiveness of the process. The Committee is also able to assess the effectiveness of the auditors and the process through reports made to the Committee by the independent auditor.

In addition to the items considered by the Committee under the "agenda framework", during 2005 other important issues considered included regular reviews of the internal control systems and the statement to be made in the Directors' Report and Accounts in respect of internal controls, Group risk profile, Group tax reports, updates on compliance with the Combined Code, review of tax services provided by the independent auditor, Form 20-F and update of IT systems. Confidential meetings with representatives of the

independent audit and internal audit functions took place during the year in the absence of executives. Considerable time and emphasis continues to be placed by the Committee on compliance with section 404 of the Sarbanes-Oxley Act of 2002 and detailed progress reports were received by the Committee at each of its meetings, including an update of the Sarbanes-Oxley Project Risk Profile. This has been the focus of attention of the Business Risk Assurance and internal audit function during the first half of the year. In the second half of the year, Business Risk Assurance resources were transitioned towards internal audit reviews, with an appropriate amount of resources applied to Sarbanes-Oxley and internal audit responsibilities. The Audit Committee met earlier in the year to consider Tomkins' transition to International GAAP reporting (adoption of International Financial Reporting Standards ("IFRS")) and following detailed consideration by the Committee, consultation with the independent auditor and approval by the Board, the Company announced on 22 April 2005, the intended basis of preparation of financial statements under IFRS. The Company has published comparative information for 2004 originally presented in accordance with UK GAAP but restated in accordance with IFRS. The first results to be prepared on an IFRS basis were the Group's results for the quarter ended 2 April 2005.

Business Risk Assurance's internal audit function is actively engaged in the business risk assessment processes in the Group's businesses and also provides guidance and assistance in the development of risk mitigation plans. Each quarter, the Committee receives a summary of reviews of the business's risk management processes; any significant related financial exposures are also highlighted. The risk assessment process and risk mitigation plans are an important part of the development of the business strategies. Business risks are considered at the quarterly reviews with the businesses, where all of the major strategic, operational, compliance and financial risks are discussed.

In determining its policy on the extent of non-audit services provided by the independent auditor, the Committee has taken account of the rules of the US Securities and Exchange Commission which regulate and, in certain circumstances, prohibit the provision of certain types of non-audit services by the independent auditor. Non-audit services are ordinarily put out to tender and require the approval of the Chairman of the Audit Committee. During the year, specific projects requiring tax services were the subject of a tender process and in a number of cases the work was not awarded to the firm of the independent auditor. In those cases where the work was awarded to the independent auditor it was concluded that the firm of the independent auditor was best placed to supply in a cost effective manner such tax services, due to the experience and qualifications of the individuals providing such services, the independent auditor's knowledge of the Company and its tax affairs and that the best interests of the Company were served by engaging the firm of the independent auditor. By way of example, during 2005, the American Jobs Creation Act in the US enabled Tomkins to take advantage of a number of tax benefits. After a detailed review and, in some cases, a tender process, it was decided that Deloitte and Touche were the preferred firm to engage on a number of projects to ensure that Tomkins maximised the benefits available. This was largely due to the efficiencies arising from the knowledge Deloitte and Touche has of the Tomkins Group. The adoption of certain other rules by the Committee, including those relating to audit partner rotation, relevant ethical guidance issued by the professional bodies in the

Consultative Committee of Accountancy Bodies (in particular that the external auditor should not audit its own firm's work, make management decisions for the Company, create a mutuality of interest nor be put in the position of advocate for the Company), when taken together provide adequate protection of auditor independence. All fees proposed by the external auditor must be reported to the Audit Committee and approved by the Chairman of the Audit Committee. Details of audit fees for the year can be found on page 82 of the financial statements.

The Company's practice, in accordance with the Companies Act 1985 and the Combined Code, in relation to the appointment and termination of the independent auditor, involves a recommendation from the Audit Committee to the Board, which will then make a recommendation to shareholders in general meeting. This differs from the procedure in the US, where the independent auditor is accountable to the Audit Committee, which has the authority to appoint or dismiss the independent auditor without reference to shareholders.

With the approval of the Board, the Committee has established guidelines for the recruitment of employees or former employees of the independent auditor. Tomkins will not engage, on a part-time or full-time basis, any person who is or was an employee of the Company's independent auditor, where that person has worked on the Group's audit either as a principal or partner at any time during a period of not less than three years prior to the proposed date of joining the Tomkins Group. In addition, though Tomkins may employ an employee of the Company's independent auditor where such person has never worked on the Group's audit either as a principal or partner, a period of not less than one year must elapse prior to the proposed date of that person joining the Company. Any former employee of the independent auditor who joined the Company before the independent auditor was appointed will remain unaffected.

A "whistleblowing" procedure has been established for the confidential and anonymous submission by employees of concerns regarding accounting, internal controls or auditing matters, in accordance with the requirements of section 301 of the Sarbanes-Oxley Act of 2002. Should a call be received on the dedicated telephone line, the Vice-President, Business Risk Assurance would immediately report to the Chairman of the Audit Committee all concerns raised. A course of action is agreed and a report is prepared for review at the next meeting of the Audit Committee, including details of actions taken to deal with the matters raised. The Chairman of the Committee will report all cases of "whistleblowing" to the Committee and the Board. The Company's Code of Conduct and Ethics includes the "whistleblowing" procedure. No reports were received by the Committee during the year.

Shareholders are given the opportunity at the Annual General Meeting to ask the Chairman of the Committee questions on this report and any other related matter.

N N BROADHURST
CHAIRMAN OF THE AUDIT COMMITTEE

21 February 2006

CORPORATE GOVERNANCE REPORT

The Board promotes the highest standards of corporate governance within the Company through its support and application of the Principles of Good Governance set out in Section 1 of the Combined Code. A summary of the Company's system of applying the principles and the manner in which the provisions in Section 1 have been complied with are set out in this report to shareholders. Section 1 of the Combined Code sets out the main and supporting Principles of Good Governance for companies, which are split into the following areas: directors, remuneration, accountability and audit, and relations with shareholders.

A. DIRECTORS

1. THE BOARD

The Company is controlled through its Board of Directors. The Board's main roles are to create value for shareholders, to provide leadership of the Company, to approve the Company's strategic objectives, to ensure that the necessary financial and other resources are made available to the management to enable them to meet those objectives and to operate within a framework of effective controls which enables the assessment and management of principal business risks. The Board, which has reserved certain specific matters to itself for decision, is responsible for approving overall Group strategy and financial policy, acquisition and divestment policy and major capital expenditure projects. It also appoints and removes members of the Board and Board Committees, and reviews recommendations of the Audit Committee, Remuneration Committee and Nomination Committee and the appointment of the independent auditor and the financial performance and operation of each of the Company's businesses.

The Board has delegated to the Chief Executive Officer responsibility for the day-to-day management of the Group subject to certain financial limits above which Board approval is required. The delegated authority includes such matters as operations, acquisitions and divestitures, investments, capital expenditure, borrowing facilities and foreign currency transactions.

The Board of Directors comprises a non-executive Chairman, eight additional non-executive Directors and two executive Directors who together, with their different ages, financial, commercial, technical and operational expertise and cultures, bring with them a wide range of experience to the Company.

The Board has determined that David Newlands, Norman Broadhurst, Richard Gillingwater, Jack Keenan, Ken Minton, Sir Brian Pitman, David Richardson and Struan Robertson are independent, as they are independent of the Company's executive management and free from any material business or other relationship with the Company (either directly or as a partner, shareholder or officer of an organisation that has a relationship with the Company). In December 2000, at the request of the Board, the non-executive Chairman, David Newlands, temporarily assumed certain executive responsibilities until the recruitment of James Nicol as Chief Executive in February 2002. It is the Board's view that this short-term arrangement did not affect Mr Newlands' independence. Accordingly, the Board believes that there are no such relationships that could materially interfere with the exercise of their independent judgement. Marshall Wallach is the only non-executive Director deemed not to be independent as a result of his advisory capacity to the Gates family who are substantial preference shareholders in the Company.

Non-executive directors are normally appointed for a minimum period of two years, which is renewable by agreement with the Board. The terms and conditions of appointment of non-executive Directors are available for inspection at the Company's registered office

during normal business hours on weekdays and will also be available for inspection at the place of the Annual General Meeting from 15 minutes before the meeting until it ends. The Combined Code recommends the appointment of a senior independent non-executive Director and Sir Brian Pitman has served in this capacity during the year under review. The roles of non-executive Directors are to scrutinise the performance of management in meeting agreed objectives, help develop proposals on strategy and monitor the reporting of performance, including satisfying themselves as to the integrity of financial information and that financial controls and systems of risk management put in place by the Company are robust and effective. They meet together from time to time in the absence of management and the Chairman normally presides over such meetings.

Directors receive a range of information about the Company upon appointment and, where appropriate, any training that is necessary for them to carry out their duties effectively. An induction programme is available which aims to provide an understanding of the Company as a whole, including its strategy, structure, geographical spread of operations, financial position, markets, products, technologies and people, as well as their legal responsibilities as a Director. The Directors have access to the advice and services of the Company Secretary whose removal may be effected only with the approval of the Board. There is an approved procedure by which all Directors can obtain independent professional advice at the Company's expense in furtherance of their duties, if required; this procedure is reviewed periodically.

The Board ordinarily meets not less than five times a year, and will hold additional meetings when circumstances require. During the year to 31 December 2005, the Board met on five occasions, including a meeting held solely to consider and approve Group strategy. Between meetings, the Chairman and Chief Executive Officer update the non-executive Directors on current matters and there is frequent contact to progress the affairs of the Company. With the encouragement of the Chief Executive Officer, the non-executive Directors have regular contact with senior management through their presentations at Board meetings, at strategic reviews and on other occasions.

Attendance by each individual Director at Board and Committee meetings held during 2005 is set out in the table on the next page.

The Board sets the standards and values of the Company and much of this has been embodied in the Company's Code of Conduct and Ethics and Human Rights Policy which can be found on the Company's website, www.tomkins.co.uk. The Code of Conduct and Ethics applies to all Directors, officers and employees, including the principal executive, financial and accounting officers, as required by section 406 of the US Sarbanes-Oxley Act of 2002, the related rules of the US Securities and Exchange Commission and the rules of the New York Stock Exchange. The Code contains provisions (in paragraph XVI) under which employees can report violations of company policy or any applicable law, rule or regulation, including those of the US Securities and Exchange Commission. US employees have the added protection of section 806 of the Sarbanes-Oxley Act of 2002, which prohibits the discrimination by a company or others against an employee where such violations are reported. The current procedure, which is set out in Tomkins' Code of Conduct and Ethics, provides for information to be given anonymously or by named employees under conditions of confidentiality. Those employees who come forward and give their name are assured that they will receive the full protection of section 806 and no retaliation will take place. This is of particular importance since 57 per cent of the Company's employees are based in the US. Furthermore, the Company ensures that the principles are applied in other jurisdictions, subject to compliance with local employment and other laws.

ATTENDANCE BY EACH INDIVIDUAL DIRECTOR AT BOARD AND COMMITTEE MEETINGS HELD DURING 2005

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Health, Safety and Environment Committee
Meetings held in 2005	5	5	2	3	3
Meetings attended:					
David Newlands	5	n/a	n/a	3	n/a
Norman Broadhurst	5	5	2	3	n/a
Richard Gillingwater	n/a	n/a	n/a	n/a	n/a
Jack Keenan	5	4	2	3	n/a
Ken Lever	5	n/a	n/a	n/a	n/a
Ken Minton	5	4	2	3	3
James Nicol	5	n/a	n/a	n/a	3
Sir Brian Pitman	5	n/a	n/a	3	n/a
Struan Robertson	n/a	n/a	n/a	n/a	n/a
Marshall Wallach	5	n/a	n/a	3	3

Notes:

n/a = not applicable (where a Director is not a member of a Committee).

Richard Gillingwater and Struan Robertson were both appointed to the Board and Committees on 20 December 2005 and no Board or Committee meetings were held between that date and the end of the year.

During the year, other Directors have attended meetings of the Audit Committee, Remuneration Committee, Nomination Committee and Health, Safety and Environment Committee by invitation. These details are not included in the above table.

On the rare occasion when a Director cannot attend a meeting, he will normally, prior to the meeting, make his views on the agenda items known to the Chairman or, in respect of Committee meetings, to the chairman of the respective Committee.

RE-APPOINTMENT OF DIRECTORS

At the forthcoming Annual General Meeting of the Company and in accordance with the Company's Articles of Association, Ken Minton and Ken Lever as the longest serving Directors, will retire from the Board and Ken Lever will seek re-appointment. Norman Broadhurst will retire from the Board at the conclusion of the Annual General Meeting and together with Ken Minton will not be seeking re-appointment. There are no circumstances relating to their retirement from the Board that they wish to draw to the attention of shareholders. Marshall Wallach will stand down from the Board with effect from 1 May 2006. Richard Gillingwater and Struan Robertson who were appointed by the Board on 20 December 2005 and David Richardson who was appointed by the Board on 1 March 2006 are required, in accordance with the Company's Articles of Association, to seek re-appointment at the first Annual General Meeting following their appointment. Details of their terms of appointment can be found in the Remuneration Committee Report. Richard Gillingwater has many years' broad business experience, including investment banking, and Struan Robertson has held a number of senior management positions in both the UK and overseas. David Richardson has substantial financial management and strategic planning experience over many years. The Board strongly supports the re-appointment of all Directors standing for re-appointment and recommends that shareholders vote in favour of their re-appointment.

2. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

There is a clear division of responsibility between the Chairman and the Chief Executive Officer, with neither having unfettered powers of decision with respect to substantial matters. The Chairman is responsible for running the Board and ensures that all Directors receive sufficient relevant information on financial, business and corporate matters to enable them to participate effectively in Board decisions. In advance of each meeting, the Board is provided with comprehensive briefing papers on items under consideration.

The Chairman, David Newlands, is also Chairman of Kesa Electrical plc and PayPoint plc. Whilst these are important appointments, the Board of Tomkins believes that the Chairman continues to be able to carry out his duties and responsibilities effectively for the Company.

The Chief Executive Officer's primary role is the running of the

Company's businesses and the development and implementation of strategy. The non-executive Directors have the opportunity to meet with the Chairman and with the Chief Executive Officer periodically, either together or separately, to consider and discuss a wide range of matters affecting the Company, its business, strategy and other matters.

3. BOARD COMMITTEES

The Board has established a number of Committees and receives reports of their proceedings. Each Committee has its own delegated authority as defined in its terms of reference, which are reviewed periodically by the Board. The Board is satisfied that its Committees have written terms of reference which conform to best corporate governance practice. The terms of reference for all Board Committees can be found on the Company's website, www.tomkins.co.uk, or a copy can be obtained by application to the Company Secretary at the Company's registered office.

The Board appoints the chairmen and members of all Board Committees upon the recommendation of the Nomination Committee. The Company Secretary is Secretary to all Board Committees.

The principal Committees, their membership, a brief description of their terms of reference and their duties are as follows:

AUDIT COMMITTEE

N N Broadhurst (Chairman), R D Gillingwater, K J Minton, J M J Keenan, D H Richardson (appointed 1 March 2006).

Details of the Audit Committee and its work can be found on pages 56 and 57.

REMUNERATION COMMITTEE

K J Minton (Chairman), N N Broadhurst, R D Gillingwater, J M J Keenan.

The Remuneration Committee, which meets at least twice a year and on other occasions when circumstances require, comprises independent non-executive Directors and has responsibility for determining Company policy on executive remuneration for approval by the Board. It also determines specific remuneration packages and compensation packages on employment or early termination of office for each of the executive Directors of the Company. The Committee takes independent advice from consultants as and when required. All decisions of the Remuneration Committee in respect of remuneration packages of executive Directors are referred to the Board. No executive Director takes part in any discussion or decision concerning his own remuneration. The Remuneration Committee also monitors the compensation packages of other senior executives in the Group below Board level.

The report of the Remuneration Committee can be found on pages 50 to 55.

NOMINATION COMMITTEE

D B Newlands (Chairman), N N Broadhurst, R D Gillingwater, J M J Keenan, K J Minton, Sir Brian Pitman, D D S Robertson, M F Wallach.

The Nomination Committee makes recommendations to the Board on all proposed appointments of Directors through a formal and transparent procedure. The Committee meets as and when required.

In accordance with the Company's Articles of Association, Directors are subject to re-appointment at the Annual General Meeting immediately following the date of their appointment, and thereafter they have to seek re-appointment no more than three years from the date they were last re-appointed. The Committee recommends to the Board the names of the Directors who are to seek re-appointment at the Annual General Meeting in accordance with the Company's Articles of Association.

During the year, two new Board appointments were made. The Nomination Committee was at the heart of the recruitment process, including the appointment of professional advisers and conducting interviews with potential candidates, and the Committee and Board are aware of, and support, the principles set out in section A.4 of the Combined Code relating to appointments to the Board.

HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

K J Minton (Chairman), J Nicol, D D S Robertson, M F Wallach.

The Health, Safety and Environment Committee meets at least three times a year. The Committee is chaired by an independent non-executive Director and its membership also includes the Chief Executive Officer. Its principal role is to determine, on behalf of the Board, the framework or broad policy and objectives in the areas of health, safety and the environment ("HSE") and propose any amendments to existing policies for approval by the Board. It also reviews management's performance in the achievement of HSE objectives and reviews HSE reports produced by business units for compliance with all local health, safety and environmental codes of practice, legislation and relevant industry practice.

More details of the work of the Health, Safety and Environment Committee can be found in the Corporate Social Responsibility report to shareholders on pages 20 to 27.

GENERAL PURPOSES COMMITTEE

J Nicol (Chairman), K Lever, E H Lewzey, J E Middleton, N C Porter, K A Sullivan, M T Swain, N P Wilkinson.

The General Purposes Committee meets as and when required. It comprises executive Directors and senior executives and the quorum requires the presence of at least one executive Director. The Committee deals principally with day-to-day matters of a routine nature and matters delegated to it by the Board.

DISCLOSURE COMMITTEE

D B Newlands (Chairman), J Nicol, K Lever.

During the year, the Board formed a Disclosure Committee for the purpose of, inter alia, reviewing and approving for release all price-sensitive information relating to the Company and compliance with the Disclosure Rules of the Financial Services Authority.

4. BOARD, COMMITTEE AND CHAIRMAN EVALUATIONS

Under the direction of the Senior Independent Director, Sir Brian Pitman, evaluations of the effectiveness of the Board, its Committees and Chairman were conducted during the year. The evaluation processes built on the experiences of the previous evaluations of the Board and its Committees and concentrated on six key elements: (i) the optimum mix of skills and knowledge amongst the Directors; (ii) clarity of goals and processes; (iii) tailoring the evaluation to the specific circumstances of Tomkins; (iv) the culture of candour that encourages constructive evaluation; (v) regular reviews of assessment criteria; and (vi) full disclosure of procedures and criteria to the Board.

BOARD AND COMMITTEE EVALUATION

The third Board performance evaluation took place during the year, building on the experiences of the first two years. The overall view of Directors was that the Board functions well, supported by high quality papers, presentations and reporting. Improvements in the communication processes between Board meetings were suggested to maintain the ongoing and high quality of debate within the Board. On Board structure, Directors were conscious that care was needed when replacing non-executive Directors, in order to maintain the balance of skills and experience of the Board and this has been taken into account in the recruitment of non-executive Directors during the year.

The second Board Committee performance evaluation reinforced the positive messages that were highlighted in the first evaluation. The Committees were led by strong and experienced members who were well informed. There were a small number of suggestions on improving particular aspects of the work of a Committee, including reporting by the Committee. Overall, there was satisfaction that the Committees function well.

CHAIRMAN

For the evaluation of the Chairman this year, a more formal approach was adopted which included completion of a questionnaire that sought views across a broad range of the Chairman's responsibilities. The Directors were very positive about the role performed by the Chairman and his leadership of the Board. A small number of suggestions were made and these were discussed with the Chairman by the Senior Independent Director, Sir Brian Pitman.

B. REMUNERATION

The Remuneration Committee report to shareholders can be found on pages 50 to 55 and sets out the Company's remuneration policy, procedures and the remuneration of individual Directors and related information.

C. ACCOUNTABILITY AND AUDIT

1. FINANCIAL REPORTING

The Board, through the Business, Operating and Financial reviews, seeks to provide a detailed understanding of each business of the Group. In conjunction with the Chairman's statement, the Chief Executive's statement, the Operating and Financial Review and the Directors' report, the Board seeks to present a balanced and understandable assessment of the Company's position and prospects.

2. INTERNAL CONTROL

Further information on the internal control environment within which Tomkins operates may be found in the Directors' statement on internal control on pages 62 and 63.

3. GOING CONCERN

The Directors are confident, on the basis of current financial projections and facilities available, that the Company and the Group have adequate financial resources to continue in operation for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

4. "WHISTLEBLOWER" REPORTING PROCEDURES

Under section 301 of the Sarbanes-Oxley Act of 2002, all public companies, including non-US public companies such as Tomkins, acting through the Audit Committee of the Board, must provide a procedure for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls or auditing matters. The Audit Committee and the Board have agreed a procedure for the confidential and anonymous submission by employees of concerns regarding these matters.

D. RELATIONS WITH SHAREHOLDERS

The Company places a high degree of importance on maintaining good relationships and communications with both institutional and private investors and ensures that shareholders are kept informed of significant Company developments.

In order to assist members of the Board to gain an understanding of the views of institutional shareholders, at each of its meetings the Board receives an Investor Relations Report, which covers a wide range of matters including a commentary on the perception of the Company and views expressed by the investment community. Analysts' reports are also made available to all Directors. The announcement of quarterly, half-year and full-year results provides opportunities for the Company to answer questions from institutional shareholders covering a wide range of topics. The Chairman, Chief Executive Officer, Finance Director and Senior Vice-President – Investor Relations hold a regular dialogue with institutional shareholders to ensure the mutual understanding of objectives. Regular reports are made to non-executive Directors by the Chairman, Chief Executive Officer and Finance Director of the key points to emerge from meetings they have had with substantial shareholders. The Chief Executive Officer participates in industry conferences organised by investment banks, which are attended by existing and potential shareholders, and he holds regular meetings with analysts and institutional shareholders. The Company exercises care to ensure that all price-sensitive information is released to all shareholders at the same time, as required by the Listing Rules of the Financial Services Authority and Regulation FD in the US.

The Company's website provides shareholders and potential investors with information about the Company, including annual and interim reports, recent announcements, investor presentations, share

price information, Group policies and the terms of reference of its Board Committees. Shareholders are also able to put questions to the Company via its website.

The Company aims to deal expeditiously with all enquiries from shareholders on a wide range of matters. Shareholders also have the opportunity to attend the Annual General Meeting to put questions to the Chairman and to the chairmen of Board Committees. The Chief Executive Officer gives a presentation to shareholders covering a wide range of matters affecting the Company and its business and shareholders have the opportunity to ask him questions. The Company indicates the level of proxy votes lodged in respect of each resolution proposed at its Annual General Meeting following each vote on a show of hands. In the event of a poll being called, the result will be published as soon as possible after the conclusion of the Annual General Meeting. Directors also meet informally with shareholders before and after the meeting. The Company keeps under review ways in which it can communicate more effectively with its shareholders throughout the year, as well as at the Annual General Meeting.

It has been the Company's practice to send the Notice of the Annual General Meeting and related papers to shareholders at least 20 working days before the meeting and to propose separate resolutions on each substantially separate issue.

INSTITUTIONAL SHAREHOLDERS

The Board notes that Section 2 of the Combined Code seeks to encourage more active participation by institutional shareholders including entering into a dialogue with companies and making considered use of their votes – principles which the Company supports.

COMPLIANCE STATEMENT

The Listing Rules of the Financial Services Authority require the Board to report on compliance with the provisions contained in Section 1 of the Combined Code. Tomkins considers that throughout the year to 31 December 2005 the Company has been in compliance with the Code provisions set out in Section 1 of the July 2003 FRC Combined Code on Corporate Governance, except for those matters indicated in the Remuneration Committee Report.

The certifications of the Chief Executive Officer and Finance Director required under section 302 of the US Sarbanes-Oxley Act of 2002, and the related rules of the US Securities and Exchange Commission, will be filed as exhibits to the Company's Form 20-F. Pursuant to Section 303A, the Foreign Private Issuer Annual Written Affirmation was sent to the New York Stock Exchange (NYSE) in August 2005, affirming without qualification that Tomkins has complied with the requirements laid down by the NYSE in respect of Foreign Private Issuers.

The Company has placed on its website a general summary of the significant ways in which the Company's corporate governance differs from that followed by domestic US companies under the NYSE's listing standards, as required by section 303A.11.

62 GOVERNANCE

INTERNAL CONTROL

The Directors have overall responsibility for the Group's system of internal control and for reviewing its effectiveness. To fulfil this responsibility the Directors have established a Performance Management framework within which each of the Group's businesses operates. Within this framework, the management of each of the businesses considers strategic, operational, commercial and financial risks and identifies risk mitigation actions. Whilst acknowledging the overall responsibility for the system of internal control, the Directors are aware that the system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable and not absolute assurance against material misstatement or loss.

During the period under review, the Directors were not aware of any control breakdowns which resulted in a material loss to the Group.

The Performance Management framework, which includes an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, has been in place throughout the financial year and up to the approval date of the Directors' Report and Accounts. Each business unit's management identifies and assesses the key business risks affecting the achievement of its objectives. Business unit management also identifies the risk management processes used to mitigate the key risks to an acceptable level and, where appropriate, additional actions required to further manage and mitigate them. The risk summaries developed out of this process are updated at least annually. In addition, Corporate Centre management considers those risks to the Group's strategic objectives that may not be identified and managed at the business unit level.

In connection with quarterly business reviews, relevant executives discuss risk management activities with Corporate Centre management. The key risks and mitigation strategies are also discussed at least annually with the Audit Committee as well as the full Board.

The risk management processes described above are applied to major decision-making processes such as acquisitions as well as operational risks within the business including environmental, health and safety.

The other key elements of the Performance Management framework, which constitutes the control environment, are:

Business strategy reviews – each business is required to prepare a strategic position assessment taking into account the current and likely future market environment and competitive position of the business with specific consideration given to strategic risk. The Corporate Centre management reviews the strategy with each business and the Board is presented with a summary of the plans.

Business reviews – on a quarterly basis, Corporate Centre management performs extensive reviews with each business. These reviews consider current and projected financial and operating results, and address the progress of key strategic and operating initiatives, the risks affecting their achievement and the actions being taken by business unit management to manage the risks and achieve their objectives.

Financial plans – each business prepares financial plans in accordance with a defined format, which includes consideration of risks. Management at the Corporate Centre reviews the financial plans with the business units and a summary is presented to the Board for approval.

Balance sheet reviews – business unit and Corporate Centre financial management conduct periodic, on-site reviews of underlying

rationale and support for the significant line item components comprising the balance sheets for each business in the Group.

Investment project authorisation – all significant investment project expenditures are subject to a formal investment project authorisation process, which takes into account, inter alia, operational, financial and technical risks. For significant investment projects, a post-investment analysis is completed to facilitate continuous improvement in the investment planning process, including risk identification and mitigation.

Reporting, analysis and forecasts – all businesses are required to report monthly to the Corporate Centre on financial performance. Comparisons are made with plan, forecast and prior year and significant variances and changes in the business environment are explained. Each business reassesses its forecast for the financial year on a monthly basis. Quarterly, each business prepares a forecast for the following eighteen months and reviews projections for the current and following year.

Financial strategy – the financial strategy includes assessment of the major financial risks related to interest rate exposure, foreign currency exposure, debt maturity and liquidity. There is a comprehensive global insurance programme using the external insurance market and some limited use of an internal captive insurance company. Group Treasury manages hedging activities, relating to financial risks, with external cover for net currency transaction exposures. The Group Tax function manages tax compliance and tax risks associated with the Group's activities. The Audit Committee, through the Finance Committee, oversees the financial strategy as well as the tax strategy and considers the associated risks and risk management techniques being used by the Group.

Reporting certifications – in connection with the preparation of the annual and quarterly financial statements, senior business general management and financial management sign a certificate which includes a declaration regarding the existence of internal controls, the proper recording of transactions and the identification and evaluation of significant business risks. These certifications were expanded to encompass Section 302 of the Sarbanes-Oxley Act of 2002 (the "Act") in support of statements required to be made by Tomkins' Chief Executive Officer and Finance Director. See further discussion of Sarbanes-Oxley below.

Sarbanes-Oxley – as a foreign private issuer (FPI) listed on the NYSE in the US, the Group is subject to the provisions of the Act. In particular, Section 404 of the Act requires certifications by management regarding the effectiveness of internal controls over financial reporting and requires the independent auditors to express an opinion on the Board's assertions regarding such internal controls. Accordingly, the Group has undertaken a project to ensure Tomkins is in compliance with the requirements of Section 404 of the Act by 31 December 2006 (the effective date for the Group as a FPI). While the certification and external audit opinion on internal controls over financial reporting will be reported in Tomkins' US SEC filings, the results of Tomkins' compliance with the Act will serve to further strengthen the internal control framework for the Group.

The Group has an established internal audit function; the Vice President – Business Risk Assurance directs the activities of the internal auditors on a day-to-day basis and reports directly to the Audit Committee of the Board at least four times a year. Due to the importance and significance of the effort required to achieve Sarbanes-Oxley compliance, during the first half of 2005, the Board directed substantially all internal audit resources towards supporting

the Sarbanes-Oxley project described above. Internal audit's support primarily assisted management in completing controls documentation, assessing design effectiveness and developing test plans. Internal audit's support is expected to continue in 2006 but will shift to testing the operating effectiveness of controls in higher risk areas and providing the Board with assurance over management's testing process in other risk areas. However, with the Sarbanes-Oxley compliance extension for FPIs to 31 December 2006, the majority of internal audit resources were re-deployed to perform internal audit reviews in areas other than financial reporting controls for the last half of 2005.

The Directors confirm that the effectiveness of the system of internal control for the year ended 31 December 2005 has been reviewed in line with the criteria set out in the guidance for directors in the Combined Code.

The Directors are required by law to prepare consolidated financial statements of Tomkins plc and its subsidiaries (together, "the Group") in accordance with the Companies Act 1985, International Financial Reporting Standards and Article 4 of the IAS Regulation.

The Directors are required to ensure that the Group's financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows which requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definition and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements".

In preparing the Group's financial statements, the Directors are required properly to select and apply accounting policies, present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and provide additional disclosures when compliance with the specific requirements of International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance.

The Directors are responsible for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and which enable them to ensure that the Group's financial statements comply with applicable law.

The Directors are responsible for safeguarding the assets of the Group and hence for taking such steps as are reasonably open to them to prevent and detect fraud and other irregularities and for the preparation of a Directors' report and Directors' remuneration report which comply with the requirements of the Companies Act 1985.

The Directors are also responsible for the maintenance and integrity of the financial information contained on the corporate website, www.tomkins.co.uk. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Group's financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

TO THE MEMBERS OF TOMKINS PLC

We have audited the consolidated financial statements of Tomkins plc and its subsidiaries (together, "the Group") for the year ended 31 December 2005 ("the Group's financial statements") which comprise the consolidated income statement, consolidated cash flow statement, consolidated balance sheet, consolidated statement of recognised income and expense, the reconciliation of changes in consolidated shareholders' equity, the related notes 1 to 45 and the information on pages 108 to 121. These financial statements have been prepared in accordance with the accounting policies set out therein. We have also audited the information in the Remuneration Committee's report that is described as having been audited.

We have reported separately on the individual financial statements of Tomkins plc for the year ended 31 December 2005.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report, the Remuneration Committee report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted in the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group's financial statements and the part of the Remuneration Committee report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group's financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the Group financial statements and the part of the Remuneration Committee report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the Directors' report is not consistent with the Group's financial statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions with the Company and other members of the Group is not disclosed.

We report to you if, in our opinion, the Company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element of the remuneration package and information on share options, details of long-term incentive schemes, and money purchase and defined benefit pension schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' report and the other information contained in the Annual Report for the above year as described in the contents section including the unaudited part of the Remuneration Committee report and we consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the Group's financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group's financial statements and the part of the Remuneration Committee report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group's financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group's financial statements and the part of the Remuneration Committee report described as having been audited are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the Remuneration Committee report described as having been audited.

OPINION

In our opinion, the Group financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended, and the Group financial statements and the part of the Remuneration Committee report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

DELOITTE & TOUCHE LLP

Chartered Accountants and Registered Auditors
London

21 February 2006

66 CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IFRS
CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Continuing operations			
Sales	2	3,182.4	2,974.1
Cost of sales		(2,288.9)	(2,120.2)
Gross profit		893.5	853.9
Distribution costs		(326.4)	(313.5)
Administrative expenses		(259.2)	(236.9)
Share of profit of associates		0.6	0.8
Profit from operations before restructuring initiatives		308.5	304.3
Restructuring costs	3	(20.3)	(20.5)
Gain on disposals and on the exit of businesses	3	8.5	2.5
Profit from operations		296.7	286.3
Interest payable	5	(83.5)	(64.8)
Investment income	6	40.3	38.8
Other finance income	7	4.2	–
Net finance costs		(39.0)	(26.0)
Profit before tax		257.7	260.3
Income tax expense	9	(59.0)	(51.1)
Profit for the period from continuing operations		198.7	209.2
Discontinued operations			
Profit for the period from discontinued operations	8	2.5	0.9
Profit for the period	10	201.2	210.1
Minority interests		(9.0)	(10.1)
Dividends payable on convertible cumulative preference shares		–	(15.6)
Profit for the period attributable to equity shareholders		192.2	184.4
Earnings per share			
Basic			
Continuing operations	11	24.59p	23.81p
Discontinued operations	11	0.33p	0.12p
Total operations	11	24.92p	23.93p
Diluted			
Continuing operations	11	23.50p	22.71p
Discontinued operations	11	0.29p	0.10p
Total operations	11	23.79p	22.81p
Dividends per ordinary share	12	13.23p	12.60p

	Note	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Operating activities			
Cash generated from operations	14	336.5	333.9
Income taxes paid		(79.5)	(56.0)
Income taxes received		9.0	16.2
Net cash inflow from operating activities		266.0	294.1
Investing activities			
Purchase of property, plant and equipment		(128.5)	(154.5)
Purchase of intangible assets		(14.8)	(3.2)
Capitalisation of development costs		(0.4)	–
Disposal of property, plant and equipment		23.8	5.5
Purchase of subsidiaries, net of cash acquired	40	(101.3)	(24.0)
Sale of subsidiaries, net of cash disposed	41	29.3	21.3
Dividends received from associates		0.3	0.4
Net cash outflow from investing activities		(191.6)	(154.5)
Financing activities			
Issue of ordinary shares		0.4	1.2
Draw-down of bank and other loans		185.4	1.8
Repayment of bank and other loans		(49.1)	(6.1)
Capital element of finance lease rental payments		(2.8)	(3.5)
Interest element of finance lease rental payments		(0.7)	(0.9)
Increase in collateralised cash		(0.5)	(1.1)
Purchase of own shares		(2.4)	(4.1)
Sale of own shares		2.9	–
Interest received		5.8	4.0
Interest paid		(26.1)	(18.6)
Equity dividend paid		(99.4)	(94.5)
Preference dividend paid		(16.1)	(15.9)
Investment by a minority shareholder in a subsidiary		–	3.9
Dividend paid to a minority shareholder in a subsidiary		(5.9)	(2.7)
Net cash outflow from financing activities		(8.5)	(136.5)
Net increase in cash and cash equivalents		65.9	3.1
Cash and cash equivalents at the beginning of the period		178.9	160.6
Foreign currency translation		(24.3)	15.2
Cash and cash equivalents at the end of the period		220.5	178.9

Cash and cash equivalents for the purposes of the cash flow statement comprise:

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Cash and cash equivalents	230.9	185.4
Bank overdrafts	(10.4)	(6.5)
	220.5	178.9

As at 31 December 2005, the Group's net debt was £641.3 million, including the convertible cumulative preference shares (1 January 2005 – £244.5 million). A reconciliation of the change in cash and cash equivalents to the movement in net debt is presented in note 14.

68 CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IFRS
CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Non-current assets			
Goodwill	15	319.5	226.3
Other intangible assets	16	22.0	4.6
Property, plant and equipment	17	831.7	742.2
Investments in associates	18	4.4	3.7
Trade and other receivables	20	19.8	4.0
Deferred tax assets	33	101.9	119.4
		1,299.3	1,100.2
Current assets			
Inventories	19	444.7	369.6
Trade and other receivables	20	583.7	508.7
Income tax recoverable		4.1	14.3
Available-for-sale investments	22	2.2	1.6
Cash and cash equivalents	23	230.9	185.4
		1,265.6	1,079.6
Assets held for sale	24	13.4	32.8
Total assets		2,578.3	2,212.6
Current liabilities			
Bank overdrafts	25	(10.4)	(6.5)
Bank and other loans	25	(31.1)	(9.9)
Obligations under finance leases	26	(2.4)	(3.4)
Trade and other payables	27	(442.3)	(382.4)
Income tax liabilities		(17.6)	(11.6)
Provisions	34	(41.3)	(40.2)
		(545.1)	(454.0)
Non-current liabilities			
Bank and other loans	25	(531.0)	(399.5)
Obligations under finance leases	26	(9.9)	(8.7)
Trade and other payables	27	(15.3)	(12.3)
Post-employment benefit obligations	31	(296.3)	(276.5)
Deferred tax liabilities	33	(50.0)	(42.7)
Income tax liabilities		(94.9)	(154.1)
Provisions	34	(18.2)	(19.2)
		(1,015.6)	(913.0)
Convertible cumulative preference shares	39	(304.7)	–
		(1,320.3)	(913.0)
Liabilities directly associated with assets held for sale	24	–	(0.3)
Total liabilities		(1,865.4)	(1,367.3)
Net assets		712.9	845.3
Capital and reserves			
Ordinary share capital	35	38.7	38.7
Share premium account	35	95.8	94.0
Own shares	36	(8.7)	(8.9)
Capital redemption reserve	37	461.9	461.9
Currency translation reserve	37	32.5	(27.6)
Retained profit/(losses)	37	44.3	(91.6)
Shareholders' equity		664.5	466.5
Minority interests	38	48.4	41.6
Total equity		712.9	508.1
Convertible cumulative preference shares	39	–	337.2
		712.9	845.3

Approved by the Board on 21 February 2006 and signed on its behalf by:

J NICOL }
K LEVER } Directors

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Profit for the period	201.2	210.1
Net income/(expense) recognised directly in equity		
Fair value gain on available for sale investments	0.7	–
Post employment benefits:		
– Actuarial (losses)/gains	(44.1)	11.6
– Effect of the asset ceiling	(0.3)	0.1
Currency translation differences on foreign operations:		
– Subsidiaries	136.2	(28.9)
– Associates	0.4	(0.2)
Fair value loss on net investment hedges	(72.6)	–
Tax on items taken directly to equity	16.2	(5.5)
	36.5	(22.9)
Transfers from equity to the income statement		
Fair value gain realised on the sale of available-for-sale investments	(0.4)	–
Cumulative currency translation differences on the disposal of foreign operations	–	0.9
	(0.4)	0.9
Total recognised income and expense for the period	237.3	188.1
Attributable to:		
– Equity shareholders	224.6	163.1
– Preference shareholders	–	15.6
– Minority interests	12.7	9.4
	237.3	188.1

RECONCILIATION OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Shareholders' equity at the beginning of the period	466.5	396.4
Adoption of IAS 32 and IAS 39 (note 1C)	63.1	–
	529.6	396.4
Total recognised income and expense attributable to equity shareholders	224.6	163.1
Dividends on ordinary shares	(99.4)	(94.5)
New shares issued (net of costs)	1.8	1.2
Purchase of own shares	(2.4)	(4.1)
Sale or transfer of own shares	2.9	–
Cost of equity-settled share-based incentives	7.4	4.4
Net addition to shareholders' equity during the period	134.9	70.1
Shareholders' equity at the end of the period	664.5	466.5

1. PRINCIPAL ACCOUNTING POLICIES

A. BASIS OF PREPARATION

The consolidated financial statements on pages 66 to 107 and the related information on pages 108 to 123 have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use in the European Union and, except as described under the heading "Financial instruments", under the historical cost convention.

B. FIRST-TIME ADOPTION OF IFRS

The Group adopted IFRS with a transition date of 4 January 2004. Accordingly, the Group's consolidated balance sheet as at 1 January 2005 and its consolidated income statement and consolidated cash flow statement for the year then ended that were previously reported in accordance with United Kingdom generally accepted accounting principles ("UK GAAP") have been restated in accordance with IFRS on the basis of the accounting policies described below.

An explanation of the transition to IFRS and an analysis of the significant differences between UK GAAP and IFRS that were relevant to the Group and of their effect on the Group's reported financial position as at 3 January 2004 and 1 January 2005 and its results and cash flows for the year ended 1 January 2005 is presented on pages 108 to 123.

C. ADOPTION OF IAS 32 & IAS 39

The Group adopted IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" prospectively from 2 January 2005. Accordingly, comparative information as at 1 January 2005 and for the year then ended has not been restated to reflect the adoption of these accounting standards.

On adoption of IAS 32 and IAS 39, the Group recognised an increase in net debt of £271.7 million and an increase in shareholders' equity of £63.1 million that may be analysed as follows:

	£ million
Convertible cumulative preference shares	273.6
Fair valuation of derivative financial instruments	(6.0)
Hedging accounting adjustment to borrowings	5.7
Net interest accrual reclassified from payables and receivables	(1.6)
Increase in net debt	271.7

Convertible cumulative preference shares	63.6
Fair valuation of available-for-sale investments	0.4
Fair valuation of derivative financial instruments	7.5
Hedge accounting adjustment to borrowings	(5.7)
Tax on the above	(2.6)
	63.2
Minority interest in the above	(0.1)
Increase in shareholders' equity	63.1

An explanation of the effect of adopting IAS 32 and IAS 39 is presented below under the heading "Financial instruments".

D. BASIS OF CONSOLIDATION

The consolidated financial statements include the results, cash flows and assets and liabilities of Tomkins plc ("the Company") and its subsidiaries (together, "the Group"), and the Group's share of the results and net assets of its associates.

A subsidiary is an entity controlled, either directly or indirectly, by the Company, where control is the power to govern the financial and operating policies of the entity so as to obtain benefit from its activities. The results of a subsidiary acquired during the period are included in the Group's results from the effective date of acquisition. The results of a subsidiary sold during the period are included in the Group's results up to the effective date of disposal.

Where accumulated losses applicable to a minority interest in a subsidiary exceed the minority's interest in the equity of the subsidiary, the excess is allocated to the Group's interest in the subsidiary, except to the extent that

the minority has a binding obligation and is able to make an additional investment to cover its share of the accumulated losses.

Intra-Group transactions and balances, and any unrealised gains and losses arising from intra-Group transactions, are eliminated on consolidation.

E. ASSOCIATES

An associate is an entity over which the Company, either directly or indirectly, is in a position to exercise significant influence by participating in, but not controlling or jointly controlling, the financial and operating policies of the entity. Associates are accounted for using the equity method. Losses of an associate in excess of the Group's interest in the associate are not recognised, except to the extent that the Group has incurred obligations on behalf of the associate. Profits and losses recognised by the Company or its subsidiaries on transactions with an associate are eliminated to the extent of the Group's interest in the associate concerned.

F. FOREIGN CURRENCY TRANSLATION

At entity level, transactions denominated in foreign currencies are translated into the entity's functional currency at the exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate ruling on the balance sheet date. Currency translation differences are recognised in the income statement.

On consolidation, the results of foreign operations are translated into Sterling at the average exchange rate for the period and their assets and liabilities are translated into Sterling at the exchange rate ruling on the balance sheet date. Currency translation differences are recognised directly in equity in the currency translation reserve.

In the event that a foreign operation is sold, the gain or loss on disposal recognised in the income statement is determined after taking into account the cumulative currency translation differences that are attributable to the operation. On adoption of IFRS, the Group elected to deem cumulative currency translation differences to be £nil as at 4 January 2004. Accordingly, the gain or loss recognised on disposal of a foreign operation does not include currency translation differences that arose before 4 January 2004.

In the cash flow statement, the cash flows of foreign operations are translated into Sterling at the average exchange rate for the period.

G. REVENUE

Revenue from the sale of goods is measured at the invoiced amount net of returns, early settlement discounts, rebates and sales taxes and is recognised only where there is persuasive evidence of a sales agreement, the delivery of goods has occurred, the sale price is fixed or determinable and the collectability of revenue is reasonably assured.

Revenue from long-term contracts is recognised by the percentage-of-completion method determined by comparing contract costs incurred for work performed to date to estimated total contract costs. Losses on contracts, if any, are recognised in the period when such losses become probable and can be reasonably estimated.

Interest income is accrued on a time basis using the effective interest method.

H. GOODWILL

Business combinations are accounted for using the purchase method.

Goodwill arises on the acquisition of subsidiaries and associates and represents any excess of the cost of the acquired entity over the Group's interest in the fair value of the entity's identifiable assets, liabilities and contingent liabilities determined at the date of acquisition. Goodwill in respect of an acquired subsidiary is recognised as an intangible asset. Goodwill in respect of an acquired associate is included within investments in associates. Goodwill is not amortised but is tested at least annually for impairment and carried at cost less any recognised impairment losses.

Where the fair value of the interest acquired in an entity's assets, liabilities and contingent liabilities exceeds the consideration paid, the excess is recognised immediately as a gain in the income statement.

1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

On adoption of IFRS, the Group elected not to apply IFRS 3 “Business Combinations” to business combinations that were recognised before 4 January 2004. As a result, the carrying amount of goodwill recognised as an asset under UK GAAP was brought forward unadjusted as the cost of goodwill recognised under IFRS as at 4 January 2004 and goodwill that was written-off directly to reserves under UK GAAP is not taken into account in determining the gain or loss on disposal of acquired businesses on or after 4 January 2004.

I. OTHER INTANGIBLE ASSETS

Other intangible assets are stated at cost less accumulated amortisation and any recognised impairment losses. All intangible assets recognised by the Group are considered to have finite useful lives.

(I) ASSETS ACQUIRED IN BUSINESS COMBINATIONS

An intangible resource acquired in a business combination is recognised as an intangible asset if it is separable from the acquired business or arises from contractual or legal rights. An acquired intangible asset is amortised on a straight-line basis so as to charge its cost, which represents its fair value at the date of acquisition, to the income statement over its expected useful life.

(II) PRODUCT DEVELOPMENT COSTS

All research expenditure is charged to the income statement in the period in which it is incurred.

Development expenditure is charged to the income statement in the period in which it is incurred unless it relates to the development of a new or significantly improved product and it is incurred after the technical feasibility of the product has been proven and customer orders have been received that are expected to provide income sufficient to cover the further development expenditure that will be incurred prior to the product going into full production. Capitalised development expenditure is amortised on a straight-line basis such that it is charged to the income statement over the expected life of the resulting product.

Development expenditure incurred before 4 January 2004 was not capitalised retrospectively because the conditions specified within IAS 38 “Intangible Assets” were not met.

(III) COMPUTER SOFTWARE

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset. Amortisation is provided on a straight-line basis so as to charge the cost of the software to the income statement over its expected useful life, which is in the range three to five years.

J. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment losses. Freehold land and assets under construction are not depreciated. Depreciation of property, plant and equipment, other than freehold land and assets under construction, is generally provided on a straight-line basis so as to charge the depreciable amount to the income statement over the expected useful life of the asset concerned, which is in the following ranges:

Freehold buildings and long leasehold land and buildings	10 to 50 years
Short leasehold land and buildings	Length of lease
Plant, equipment and vehicles	2 to 20 years

Borrowing costs attributable to assets under construction are charged to the income statement in the period in which they are incurred.

K. LEASES

Leases that confer rights and obligations similar to those that attach to owned assets are classified as finance leases. All other leases are classified as operating leases.

Assets held under finance leases are included within property, plant and equipment, initially measured at their fair value or, if lower, the present value of the minimum lease payments, and a corresponding liability is recognised within obligations under finance leases. Subsequently, the assets are depreciated on a basis consistent with similar owned assets or over the term of the lease, if shorter. At inception of the lease, the lease rentals are apportioned between an interest element and a capital element so as to produce a constant

periodic rate of interest on the outstanding liability. Thereafter, the interest element is recognised as an expense in the income statement while the capital element is applied to reduce the outstanding liability.

Operating lease rentals, and any incentives receivable, are recognised in the income statement on a straight-line basis over the term of the lease.

L. IMPAIRMENT OF NON-CURRENT ASSETS

Non-current assets are tested for impairment whenever events or circumstances indicate that their carrying amounts might be impaired. Additionally, goodwill and capitalised development expenditure relating to a product that is not yet in full production are subject to an annual impairment test.

An impairment loss is recognised to the extent that an asset’s carrying value exceeds its recoverable amount, which represents the higher of the asset’s fair value less costs to sell and its value in use. An asset’s value in use represents the present value of the future cash flows expected to be derived from the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is conducted for the cash-generating unit to which it belongs. Similarly, the recoverable amount of goodwill is determined by reference to the discounted future cash flows of the cash-generating units to which it is allocated.

Impairment losses are recognised in the income statement. Impairment losses recognised in previous periods for an asset other than goodwill are reversed if there has been a change in the estimates used to determine the asset’s recoverable amount, but only to the extent that the carrying amount of the asset does not exceed its carrying amount had no impairment loss been recognised in previous periods. Impairment losses recognised in respect of goodwill are not reversed.

M. INVENTORIES

Inventories are valued at the lower of cost and net realisable value, with due allowance for any excess, obsolete or slow moving items. Cost represents the expenditure incurred in bringing inventories to their existing location and condition, which may include the cost of raw materials, direct labour costs, other direct costs and related production overheads. Cost is generally determined on a first in, first out basis. Net realisable value is the estimated selling price less costs to complete and sell.

From time to time, the Group enters into forward purchase contracts to fix the price of commodities purchased for use in its manufacturing operations. As used by the Group, such derivative contracts do not fall within the scope of IAS39 and they are therefore not recognised as assets or liabilities on the balance sheet.

N. GRANTS

Grants received relating to property, plant and equipment are treated as deferred income and recognised as income in equal instalments over the expected useful lives of the assets concerned. Other grants received are recognised as income on a systematic basis so as to match them with the costs they are intended to compensate or, if those costs have already been recognised, the grants are recognised as income in the period in which they are received.

O. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, deposits available on demand and other short-term highly liquid investments with a maturity on acquisition of three months or less, and bank overdrafts. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

P. FINANCIAL INSTRUMENTS

(I) INVESTMENTS

Prior to 2 January 2005, listed investments were stated at the lower of cost and net realisable value. From 2 January 2005 onwards, these investments are classified as available-for-sale and are measured at fair value. Changes in their fair values are recognised in a separate component of equity except to the extent that they represent an other than temporary impairment in which case the impairment loss is recognised in the income statement. Realised gains and losses are transferred from equity to the income statement in the event of the disposal of the investments.

1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

(II) DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments, principally foreign currency swaps, forward foreign currency contracts and interest rate swaps, to reduce its exposure to exchange rate and interest rate movements. The Group does not hold or issue derivatives for speculative or trading purposes. Prior to 2 January 2005, such derivative contracts were not generally recognised as assets and liabilities on the balance sheet and gains and losses arising on them were not recognised until the hedged item was itself recognised in the financial statements.

From 2 January 2005 onwards, derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. Changes in their fair values are recognised in the income statement and this is likely to cause volatility in situations where the carrying value of the hedged item is either not adjusted to reflect fair value changes arising from the hedged risk or is so adjusted but that adjustment is not recognised in the income statement. Provided the conditions specified by IAS 39 are met, hedge accounting may be used to mitigate this volatility.

The Group does not generally apply hedge accounting to transactional foreign currency hedging relationships, such as hedges of forecast or committed transactions. It does, however, apply hedge accounting to translational foreign currency hedging relationships and to hedges of its interest rate exposures where it is permissible to do so under IAS 39. When hedge accounting is used, the relevant hedging relationships are classified as a fair value hedge, a cash flow hedge or, in the case of a hedge of the Group's net investment in a foreign operation, a net investment hedge.

Where the hedging relationship is classified as a fair value hedge, the carrying amount of the hedged asset or liability is adjusted by the increase or decrease in its fair value attributable to the hedged risk and the resulting gain or loss is recognised in the income statement where, to the extent that the hedge is effective, it offsets the change in the fair value of the hedging instrument.

Where the hedging relationship is classified as a cash flow hedge or as a net investment hedge, to the extent the hedge is effective, changes in the fair value of the hedging instrument are recognised directly in equity rather than in the income statement. When the hedged item in a cash flow hedge is recognised in the financial statements, the accumulated gains and losses recognised in equity are either recycled to the income statement or, if the hedged item results in a non-financial asset, are recognised as adjustments to its initial carrying amount. Accumulated gains and losses recognised in equity in relation to a net investment hedge are recycled to the income statement on disposal of the foreign operation.

Derivative financial instruments are classified as current assets or liabilities unless they qualify for hedge accounting under IAS39 and the hedged item is classified as a non-current asset or liability.

(III) EMBEDDED DERIVATIVES

Prior to 2 January 2005, embedded derivatives were not recognised in the financial statements. From 2 January 2005 onwards, derivatives embedded in non-derivative host contracts are recognised separately as derivative financial instruments when their risks and characteristics are not closely related to those of the host contract and the host contract is not stated at its fair value with changes in its fair value recognised in the income statement.

(IV) PREFERENCE SHARES

In July 1996, the Company issued US dollar denominated 5.56% Convertible cumulative preference shares ("the Preference shares"). Prior to 2 January 2005, the Preference shares were classified as non-equity shareholders' funds and were translated into Sterling at the exchange rate ruling at their date of issue. Dividends payable on the Preference shares were dealt with as an appropriation of profit.

From 2 January 2005 onwards, the Preference shares are classified as non-current liabilities and are retranslated into Sterling at the exchange rate ruling at the balance sheet date. Dividends payable on the Preference shares are included within interest payable.

(V) OWN SHARES

Own shares represent the Company's ordinary shares that are held by the Company, its subsidiaries and sponsored ESOP trusts in relation to the Group's employee share schemes. Own shares are deducted at cost in arriving at shareholders' equity and gains and losses on their sale or transfer are recognised directly in equity.

Q. POST-EMPLOYMENT BENEFITS

Post-employment benefits comprise pension benefits provided to employees throughout the world and other benefits, mainly healthcare, provided to certain employees in North America.

For defined contribution plans, the cost of providing the benefits represents the Group's contributions to the plans and is recognised in the income statement in the period in which the contributions fall due.

For defined benefit plans, the cost of providing the benefits is determined based on actuarial valuations of each of the plans that are carried out annually at the Group's balance sheet date by independent qualified actuaries. Plan assets (if any) are measured at their fair values at the balance sheet date. Benefit obligations are measured using the projected unit credit method.

The cost of defined benefit plans recognised in the income statement comprises the net total of the current service cost, the past service cost, the expected return on plan assets, the interest cost and the effect of curtailments and settlements. The current service cost represents the increase in the present value of the plan liabilities expected to arise from employee service in the current period. Past service costs resulting from enhanced benefits are recognised in the income statement on a straight-line basis over the vesting period, or immediately if the benefits have vested. The expected return on plan assets is based on market expectations, at the beginning of the period, for returns over the life of the benefit obligation. The interest cost represents the increase in the benefit obligation due to the passage of time. The discount rate used is determined by reference to market yields on high quality corporate bonds, where available, or government bonds at the balance sheet date. Gains and losses on curtailments or settlements are recognised in the income statement in the period in which the curtailment or settlement occurs.

Actuarial gains and losses, which represent differences between the expected and actual returns on the plan assets and the effect of changes in actuarial assumptions, are recognised in the statement of recognised income and expense in the period in which they occur.

The defined benefit liability or asset recognised in the balance sheet comprises the net total for each plan of the present value of the benefit obligation at the balance sheet date, minus any past service costs not yet recognised, minus the fair value of the plan assets, if any, at the balance sheet date. Where a plan is in surplus, the asset recognised is limited to the amount of any unrecognised past service costs and the present value of any amounts that the Group expects to recover by way of refunds or a reduction in future contributions.

R. SHARE-BASED INCENTIVES

Share-based incentives are provided to employees under the Group's share option, bonus and other share award schemes. The Group recognises a compensation expense in respect of these schemes that is based on the fair value of the awards, where appropriate measured using an option-pricing model. For equity-settled awards, the fair value is determined at the date of grant and is not subsequently re-measured unless the conditions on which the award was granted are modified. For cash-settled awards, the fair value is determined at the date of grant and is re-measured at each balance sheet date until the liability is settled. Generally, the compensation expense is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service conditions or non-market performance conditions.

In accordance with IFRS 1 "First-time Adoption of IFRS", the Group has not applied this policy to equity-settled awards that were granted on or before 7 November 2002.

1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

S. PROVISIONS

A provision is a liability of uncertain timing or amount and is recognised when the Group has a present obligation as a result of a past event, it is probable that payment will be made to settle the obligation and the payment can be estimated reliably.

Provisions for warranty claims are recognised when the relevant products are sold, based on historical experience of the nature, frequency and average cost of warranty claims.

Provisions for restructuring costs are recognised when a detailed formal plan for the restructuring has been determined and the plan has been communicated to the affected parties. Gains from the expected disposal of assets are not taken into account in measuring these provisions and provision is not made for future operating losses.

Provision is made for workers' compensation that represents the best estimate of the liability outstanding on claims for compensation for injuries sustained by employees while at work. It includes estimates of (a) the remaining payout due on claims already made and (b) the liability for incidents that have occurred, but as yet have not yet been reported to the Group. The Group's liability for claims already made, but not fully settled, is calculated on an actuarial basis by a third party administrator. Historical data trends are used to estimate the liability for unreported claims.

T. TAXATION

Current tax is the amount of tax payable or recoverable in respect of the taxable profit or loss for the period. Taxable profit differs from accounting profit because it excludes items of income or expense recognised for accounting purposes that are either not taxable or deductible for tax purposes or are taxable or deductible in other periods. Current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

The Group recognises provisions in respect of uncertain tax positions whereby additional current tax may become payable in future periods following the audit by the tax authorities of previously filed tax returns. Provisions for uncertain tax positions are based upon management's assessment of the likely outcome of issues associated with assumed permanent differences, interest that may be applied to temporary differences, the possible disallowance of tax credits and penalties, and are classified as non-current liabilities. Provisions for uncertain tax positions are reviewed regularly and are adjusted to reflect events such as the expiry of limitation periods for assessing tax, administrative guidance given by the tax authorities and court decisions.

Deferred tax is tax expected to be payable or recoverable on differences between the carrying amount of an asset or a liability and its tax base used in the computation of taxable profit. Deferred tax is accounted for using the liability method, whereby deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction other than a business combination that affects neither accounting profit nor taxable profit.

Deferred tax is provided on temporary differences arising on investments in foreign subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated using the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised in the income statement unless it relates to an item recognised directly in equity, in which case it is recognised directly in equity.

U. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The Group applied IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" to assets and related liabilities that met the criteria to be classified as held for sale, and operations that met the criteria to be classified as discontinued on or after 4 January 2004.

Assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business. For this to be the case, the asset must be available for immediate sale in its present condition, management must be committed to and have initiated a plan to sell the asset which, when initiated, was expected to result in a completed sale within twelve months. An extension of the period required to complete the sale does not preclude the asset from being classified as held for sale, provided the delay was for reasons beyond the Group's control and management remains committed to its plan to sell the asset. Assets that are classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

A discontinued operation is a component of an entity that has either been disposed of, or satisfies the criteria to be classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to disposal.

V. DIVIDENDS ON ORDINARY SHARES

Dividends payable on ordinary shares are recognised in the financial statements when they have been appropriately authorised and are no longer at the Company's discretion. Accordingly, interim dividends are recognised when they are paid and final dividends are recognised when they are declared following approval by shareholders at the Company's Annual General Meeting. Dividends on ordinary shares are recognised as an appropriation of shareholders' equity.

W. CRITICAL ACCOUNTING ESTIMATES

When applying the Group's accounting policies, management must make assumptions and estimates concerning the future that affect the carrying amounts of assets and liabilities at the balance sheet date, the disclosure of contingencies that existed at the balance sheet date and the amounts of revenue and expenses recognised during the accounting period. Such assumptions and estimates are based on factors such as historical experience, the observance of trends in the industries in which the Group operates and information available from the Group's customers and other outside sources.

Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes could differ from those assumptions and estimates. An analysis of the key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year is provided in the Operating and Financial Review.

X. ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In August 2005, the International Accounting Standards Board ("IASB") issued IFRS 7 "Financial Instruments: Disclosures" that consolidates and augments the disclosure requirements concerning financial instruments that are at present contained in several international accounting standards. At the same time, the IASB issued "Amendment to IAS 1 – Capital Disclosures" that introduces a requirement for entities to provide disclosures concerning what they regard as their capital.

Until recently, neither pronouncement had been endorsed for use within the EU and neither is mandatory until accounting periods beginning on or after 1 January 2007. The Group will consider the early adoption of these pronouncements during 2006. As they deal only with disclosures, the adoption of these pronouncements will have no effect on the Group's results or financial position.

2. SEGMENT INFORMATION

A. BACKGROUND

The Group determines its reportable segments based on the structure of the internal financial reports that are used by senior management for decision-making purposes and its primary segment reporting format is by business segment.

With effect from 2 January 2005, the Group was reorganised for management reporting purposes into two business groups: Industrial & Automotive and Building Products.

Industrial & Automotive manufactures a wide range of systems and components for car, truck and industrial equipment manufacturing markets, and industrial and automotive aftermarkets throughout the world through five business segments: Power Transmission, Fluid Power, Wiper Systems, Fluid Systems and Other Industrial & Automotive.

Building Products comprises two business segments: Air Systems Components and Other Building Products. Air Systems Components supplies the industrial and residential heating, ventilation and air conditioning market mainly in North America. Other Building Products manufactures a variety of products for the building and construction industries mainly in North America.

Segment information about the Group's continuing operations is presented below. Segment information about the Group's discontinued operations is presented in note 8.

Segment information about the Group's associates is presented in note 18.

B. SEGMENT REVENUE AND RESULTS – CONTINUING OPERATIONS

	Segment revenue		Segment result	
	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
By business segment				
Industrial & Automotive:				
– Power Transmission	969.9	913.7	127.9	132.3
– Fluid Power	358.0	323.7	38.4	32.9
– Wipers	234.0	253.6	(5.3)	7.2
– Fluid Systems	230.3	228.0	16.8	21.5
– Other Industrial & Automotive	506.4	463.3	56.7	54.8
	2,298.6	2,182.3	234.5	248.7
Building Products:				
– Air Systems Components	485.4	423.0	57.3	46.6
– Other Building Products	398.4	368.8	29.2	13.8
	883.8	791.8	86.5	60.4
	3,182.4	2,974.1	321.0	309.1
By geographical origin				
United States of America	2,122.7	1,924.2	245.2	197.9
United Kingdom	163.3	177.1	(9.2)	2.3
Rest of Europe	312.6	320.6	28.1	41.9
Rest of the World	583.8	552.2	56.9	67.0
	3,182.4	2,974.1	321.0	309.1
By geographical market				
United States of America	2,191.7	2,008.3		
United Kingdom	76.6	84.4		
Rest of Europe	353.7	362.7		
Rest of the World	560.4	518.7		
	3,182.4	2,974.1		

Inter-segment sales were not significant.

The aggregate segment result of continuing operations includes a net loss of £11.8 million arising from restructuring initiatives (2004 – net loss of £18.0 million) that is analysed by segment in note 3.

2. SEGMENT INFORMATION CONTINUED

The aggregate segment result of continuing operations may be reconciled to the profit for the period as follows:

	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Segment result	321.0	309.1
Gain on sale of available-for-sale investments	0.4	–
Share of profit or loss of associates	0.6	0.8
Unallocated corporate activities	(25.3)	(23.6)
Profit from operations	296.7	286.3
Interest payable	(83.5)	(64.8)
Investment income	40.3	38.8
Other finance income	4.2	–
Profit before tax	257.7	260.3
Tax	(59.0)	(51.1)
Profit for the period from continuing operations	198.7	209.2
Profit for the period from discontinued operations	2.5	0.9
Profit for the period	201.2	210.1

C. SEGMENT ASSETS AND LIABILITIES

	Segment assets		Segment liabilities	
	As at 31 December 2005 £ million	As at 1 January 2005 £ million	As at 31 December 2005 £ million	As at 1 January 2005 £ million
By business segment				
Industrial & Automotive:				
– Power Transmission	856.6	766.7	(285.3)	(261.6)
– Fluid Power	291.8	209.9	(126.5)	(120.9)
– Wipers	167.7	170.6	(10.4)	(13.3)
– Fluid Systems	160.0	141.2	(42.6)	(44.5)
– Other Industrial & Automotive	243.0	187.3	(162.6)	(128.7)
	1,719.1	1,475.7	(627.4)	(569.0)
Building Products:				
– Air Systems Components	342.8	264.1	(83.2)	(72.2)
– Other Building Products	126.7	103.6	(54.7)	(42.3)
	2,188.6	1,843.4	(765.3)	(683.5)
By geographical location of assets				
United States of America	1,267.9	1,030.7		
United Kingdom	136.1	154.1		
Rest of Europe	231.0	202.6		
Rest of the World	572.3	491.9		
	2,207.3	1,879.3		

Aggregate segment assets may be reconciled to consolidated total assets as follows:

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Segment assets allocated to business segments	2,188.6	1,843.4
Unallocated corporate assets	18.7	35.9
Segment assets allocated to geographical segments	2,207.3	1,879.3
Investments in associates	4.4	3.7
Available-for-sale investments	2.2	1.6
Cash and cash equivalents	230.9	185.4
Collateralised cash	5.3	4.9
Derivative financial instruments hedging translational exposures	22.2	4.0
Income tax assets	106.0	133.7
Consolidated total assets	2,578.3	2,212.6

2. SEGMENT INFORMATION CONTINUED

Aggregate segment liabilities may be reconciled to consolidated total liabilities as follows:

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Segment liabilities allocated to business segments	(765.3)	(683.5)
Unallocated corporate liabilities	(37.9)	(40.6)
Segment liabilities allocated to geographical segments	(803.2)	(724.1)
Bank overdrafts	(10.4)	(6.5)
Bank and other loans	(562.1)	(409.4)
Obligations under finance leases	(12.3)	(12.1)
Derivative financial instruments hedging translational exposures	(8.1)	(6.8)
Income tax liabilities	(162.5)	(208.4)
Convertible cumulative preference shares	(306.8)	–
Consolidated total liabilities	(1,865.4)	(1,367.3)

D. ADDITIONAL SEGMENT INFORMATION

An analysis is provided below of certain changes in the carrying value of property, plant and equipment and intangible assets by reportable segment:

	Year ended 31 December 2005			Year ended 1 January 2005		
	Additions £ million	Depreciation and amortisation £ million	Impairment recognised in profit or loss £ million	Additions £ million	Depreciation and amortisation £ million	Impairment recognised in profit or loss £ million
By business segment						
Industrial & Automotive:						
– Power Transmission	67.9	47.9	–	85.4	41.6	–
– Fluid Power	20.5	13.1	–	23.0	12.7	–
– Wipers	6.6	9.8	5.3	5.1	11.7	–
– Fluid Systems	15.7	14.7	–	15.4	14.2	–
– Other Industrial & Automotive	8.8	9.6	–	11.8	10.3	–
	119.5	95.1	5.3	140.7	90.5	–
Building Products:						
– Air Systems Components	12.9	14.0	–	7.9	14.6	–
– Other Building Products	10.9	9.5	–	8.4	10.2	–
	23.8	23.5	–	16.3	24.8	–
Unallocated corporate assets	–	0.5	–	0.4	0.4	–
Discontinued operations	–	–	–	0.3	0.2	–
	143.3	119.1	5.3	157.7	115.9	–
By geographical location of assets						
United States of America	62.8	62.9	–	63.9	66.6	–
United Kingdom	10.2	11.4	5.3	11.8	11.5	–
Rest of Europe	15.1	11.7	–	9.6	11.4	–
Rest of the World	55.2	33.1	–	72.1	26.2	–
	143.3	119.1	5.3	157.4	115.7	–
Discontinued operations	–	–	–	0.3	0.2	–
	143.3	119.1	5.3	157.7	115.9	–

3. RESTRUCTURING INITIATIVES

	Year ended 31 December 2005			Year ended 1 January 2005		
	Restructuring costs £ million	Disposals and exit of businesses £ million	Total £ million	Restructuring costs £ million	Disposals and exit of businesses £ million	Total £ million
By business segment						
Industrial & Automotive:						
– Power Transmission	(1.1)	–	(1.1)	(4.6)	–	(4.6)
– Fluid Power	0.9	0.8	1.7	(1.2)	–	(1.2)
– Wipers	(16.1)	–	(16.1)	(7.9)	–	(7.9)
– Fluid Systems	–	–	–	(2.4)	–	(2.4)
– Other Industrial & Automotive	(2.4)	(1.8)	(4.2)	(1.7)	9.4	7.7
	(18.7)	(1.0)	(19.7)	(17.8)	9.4	(8.4)
Building Products:						
– Air Systems Components	(1.7)	9.0	7.3	(1.0)	–	(1.0)
– Other Building Products	0.1	0.5	0.6	(1.7)	(6.9)	(8.6)
	(1.6)	9.5	7.9	(2.7)	(6.9)	(9.6)
	(20.3)	8.5	(11.8)	(20.5)	2.5	(18.0)
By geographical origin						
United States of America	(2.8)	11.3	8.5	(14.7)	(7.9)	(22.6)
United Kingdom	(13.5)	0.5	(13.0)	(5.1)	(0.6)	(5.7)
Rest of Europe	(0.6)	(0.9)	(1.5)	(0.2)	11.0	10.8
Rest of the World	(3.4)	(2.4)	(5.8)	(0.5)	–	(0.5)
	(20.3)	8.5	(11.8)	(20.5)	2.5	(18.0)

Restructuring costs recognised during 2005 primarily related to the closure of Stackpole's PCD facility, the transfer of the manufacturing of the Wiper Systems facility in Pontypool to more cost competitive locations and the rationalisation of production facilities at Air Systems Components. Restructuring costs recognised during 2004 primarily related to the rationalisation of manufacturing capacity within North America and the relocation of wiper blade production.

Gains and losses on the disposal and exit of businesses are analysed in note 41.

4. STAFF COSTS

The monthly average number of persons employed by the Group, excluding the Company's non-executive Directors, was as follows:

	Year ended 31 December 2005 Number	Year ended 1 January 2005 Number
By function		
Production	29,166	28,629
Selling and distribution	4,448	4,336
Administration	3,710	3,755
	37,324	36,720

Staff costs recognised in respect of those employees were as follows:

	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Recognised in the income statement:		
– Wages and salaries	680.4	680.4
– Social security costs	75.0	70.4
– Pensions (note 31)	30.6	34.6
– Other post-employment benefits (note 31)	0.6	2.1
– Share-based incentives (note 32)	7.7	5.2
– Termination benefits	4.8	0.8
	799.1	793.5
Recognised directly in equity:		
– Pensions (note 31)	44.1	(11.6)
– Other post-employment benefits (note 31)	0.3	(0.1)
	44.4	(11.7)
	843.5	781.8

In 2005, the pension cost recognised in the income statement is stated net of a credit of £7.9 million arising from curtailments and settlements of certain pension plans, which is included in profit from operations before restructuring initiatives. In 2004, there was a similar credit of £7.0 million, of which £7.8 million was credited to profit from operations before restructuring initiatives, £3.0 million was charged to restructuring costs and £2.2 million was credited to discontinued operations.

5. INTEREST PAYABLE

	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Interest on bank overdrafts and loans	26.0	20.6
Interest element of finance lease rentals	0.7	0.9
	26.7	21.5
Dividends payable on convertible cumulative preference shares	16.3	–
	43.0	21.5
Post-employment benefits:		
– Interest cost on benefit obligation (note 31)	40.5	43.3
	83.5	64.8

The Group adopted IAS 32 prospectively with effect from 2 January 2005. Accordingly, the basis of accounting for dividends payable on the convertible cumulative preference shares in 2004 has not been restated and dividends for that period of £15.6 million are presented as an appropriation of profit.

Interest payable was wholly attributable to continuing operations.

6. INVESTMENT INCOME

	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Interest on bank deposits	4.1	3.2
Other interest receivable	1.6	3.2
	5.7	6.4
Post-employment benefits:		
– Expected return on plan assets (note 31)	34.6	32.4
	40.3	38.8

Investment income was wholly attributable to continuing operations.

7. OTHER FINANCE INCOME

	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Net gains on hedging instruments not qualifying for hedge accounting:		
– Foreign currency hedges	0.9	–
– Interest rate hedges	3.3	–
	4.2	–

Other finance income represents fair value gains and losses arising on instruments held by the Group to hedge its translational exposures where either the economic hedging relationship does not qualify for hedge accounting or to the extent that there is deemed to be ineffectiveness in a qualifying hedging relationship.

The Group adopted IAS 39 prospectively with effect from 2 January 2005. Accordingly, the basis of accounting for translational hedging relationships in 2004 has not been restated.

Other finance income was wholly attributable to continuing operations.

8. DISCONTINUED OPERATIONS

The profit for the period from discontinued operations may be analysed as follows:

	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Loss for the period of discontinued operations		
Sales	–	6.2
Cost of sales	–	(5.8)
Gross profit	–	0.4
Distribution costs	–	(0.4)
Administrative expenses	–	(1.7)
Loss before tax	–	(1.7)
Tax	–	(0.5)
Loss after tax	–	(2.2)
Profit on disposal of discontinued operations		
Profit before tax	3.4	3.8
Tax	(0.9)	(0.7)
Profit after tax	2.5	3.1
Profit for the period from discontinued operations	2.5	0.9

In 2005, discontinued operations comprised additional losses arising on the disposal of part of the Group's former Professional, Garden and Leisure businesses in October 2000 and additional profits arising on the disposal of the Group's former Valves, Taps & Mixers businesses. In 2004, discontinued operations comprised the Group's former Valves, Taps and Mixers businesses. All of these operations were included in the Other Building Products business segment.

The segment revenue and result of discontinued operations may be analysed as follows:

	Segment revenue		Segment result	
	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
By business segment				
Building Products:				
– Other Building Products	–	6.2	3.4	2.1
By geographical origin				
United Kingdom	–	6.2	4.5	2.1
United States	–	–	(1.1)	–
	–	6.2	3.4	2.1
By geographical market				
United Kingdom	–	6.2		

Discontinued operations held no assets or liabilities as at 31 December 2005 and 1 January 2005.

Cash flows arising from discontinued operations during the period were as follows:

	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Cash inflow from operating activities	–	13.2
Cash inflow/(outflow) from investing activities	4.5	(0.2)
Net decrease in cash and cash equivalents from discontinued operations	4.5	13.0

9. INCOME TAX EXPENSE

	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Current tax		
UK corporation tax on profits for the period	1.3	0.2
Release of provision for uncertain tax positions	(6.0)	(15.0)
Adjustments in respect of prior periods	(0.3)	(1.6)
Total UK tax	(5.0)	(16.4)
Overseas tax on profits for the period	76.7	53.8
Release of provision for uncertain tax positions	(52.7)	–
Adjustments in respect of prior periods	–	(2.3)
Total overseas tax	24.0	51.5
Total current tax	19.0	35.1
Deferred tax		
Origination or reversal of temporary differences	44.2	22.3
Utilisation of previously unrecognised tax losses	(40.3)	(3.8)
Other changes in unrecognised deferred tax assets	29.3	(0.5)
Adjustments in respect of prior periods	7.7	(0.8)
Total deferred tax	40.9	17.2
Income tax expense for the period	59.9	52.3
Continuing operations	59.0	51.1
Discontinued operations (note 8)	0.9	1.2
	59.9	52.3

During 2005, there was a release of provisions for uncertain tax positions of £58.7 million following the successful resolution of an outstanding tax issue in the United States, the expiry of time during which tax audits could be performed in certain tax jurisdictions and the change of views on the likely outcome of challenges by various tax authorities. During 2004, there was a similar release of £15.0 million.

Under the American Jobs Creation Act of 2004 ("AJCA") in the United States, the Group had the opportunity to benefit from a one-time repatriation of cash to the United States at a reduced tax rate. During 2005, the Group repatriated £41.8 million to the United States under the AJCA on which it incurred a tax charge of £2.1 million.

The income tax expense for the period recognised in the income statement differs from the product of the profit before tax for the period from continuing and discontinued operations and the rate of UK corporation tax as follows:

	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Profit before tax:		
– Continuing operations	257.7	260.3
– Discontinued operations	3.4	2.1
	261.1	262.4
UK corporation tax at 30% (2004 – 30%) on profit before tax	78.3	78.7
Permanent differences	45.6	(1.2)
Utilisation of previously unrecognised tax losses	(40.3)	(3.8)
Adjustment in respect of prior periods	7.4	(4.7)
Release of provisions for uncertain tax positions	(58.7)	(15.0)
Effect of different tax rates on overseas profits	12.4	0.5
Change in unrecognised deferred tax assets	29.3	(0.5)
Foreign tax credits	(14.1)	(1.7)
Income tax expense for the period	59.9	52.3

In addition to the income tax expense recognised in the income statement, an income tax credit of £16.2 million (2004 – income tax charge of £5.5 million) was recognised directly in equity.

10. PROFIT FOR THE PERIOD

Profit for the period of £201.2 million (2004 – £210.1 million) is stated after charging/(crediting):

	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Inventories		
– Cost of inventories	2,271.0	2,099.7
– Write-down of inventories	1.2	0.8
Staff costs (note 4)	799.1	793.5
Property, plant and equipment (note 17)		
– Depreciation	116.7	110.9
– Impairment (recognised in profit from operations)	5.3	–
Intangible assets (note 16)		
– Amortisation	2.4	5.0
Research and development costs	46.7	51.3
Government grants		
– Revenue	(1.3)	(1.1)
– Capital	(0.3)	(0.1)
Net foreign exchange losses	1.6	2.7

Amounts disclosed above were wholly attributable to continuing operations.

11. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the period attributable to equity shareholders by the weighted average number of the Company's ordinary shares in issue during the period. The weighted average number of the Company's ordinary shares in issue during the period excludes 2,888,908 shares (2004 – 2,949,225 shares), being the weighted average number of own shares held during the period.

Diluted earnings per share takes into account the dilutive effect of options and awards outstanding under the Group's employee share schemes and the dilutive effect of the potential conversion of the Company's convertible cumulative preference shares into the Company's ordinary shares. The weighted average number of the Company's ordinary shares used in the calculation of diluted earnings per share excludes the effect of options and awards over 2,549,390 shares (2004 – 2,538,070 shares) that were anti-dilutive for the periods presented but could potentially dilute earnings per share in the future.

	Year ended 31 December 2005			Year ended 1 January 2005		
	Profit attributable to equity shareholders £ million	Weighted average number of ordinary shares	Earnings per share pence	Profit attributable to equity shareholders £ million	Weighted average number of ordinary shares	Earnings per share pence
Continuing operations						
Basic	189.7	771,416,964	24.59 p	183.5	770,716,582	23.81 p
Dilutive effect of share options and awards	–	2,593,300	(0.08)p	–	3,449,582	(0.11)p
	189.7	774,010,264	24.51 p	183.5	774,166,164	23.70 p
Dilutive effect of conversion of preference shares	16.3	102,375,159	(1.01)p	15.6	102,650,664	(0.99)p
Diluted	206.0	876,385,423	23.50 p	199.1	876,816,828	22.71 p
Discontinued operations						
Basic	2.5	771,416,964	0.33 p	0.9	770,716,582	0.12 p
Dilutive effect of share options and awards	–	2,593,300	(0.01)p	–	3,449,582	–
	2.5	774,010,264	0.32 p	0.9	774,166,164	0.12 p
Dilutive effect of conversion of preference shares	–	102,375,159	(0.03)p	–	102,650,664	(0.02)p
Diluted	2.5	876,385,423	0.29 p	0.9	876,816,828	0.10 p
Continuing and discontinued operations						
Basic	192.2	771,416,964	24.92 p	184.4	770,716,582	23.93 p
Dilutive effect of share options and awards	–	2,593,300	(0.09)p	–	3,449,582	(0.11)p
	192.2	774,010,264	24.83 p	184.4	774,166,164	23.82 p
Dilutive effect of conversion of preference shares	16.3	102,375,159	(1.04)p	15.6	102,650,664	(1.01)p
Diluted	208.5	876,385,423	23.79 p	200.0	876,816,828	22.81 p

12. DIVIDENDS ON ORDINARY SHARES

	Year ended 31 December 2005 per share	Year ended 1 January 2005 per share	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Paid or proposed in respect of the period				
Interim dividend	5.07p	4.83p	39.3	37.3
Proposed final dividend	8.16p	7.77p	63.2	60.0
	13.23p	12.60p	102.5	97.3
Recognised in the period				
Final 2004 – 7.77p per share, paid 26 May 2005			60.0	–
Interim 2005 – 5.07p per share, paid 14 November 2005			39.4	–
Final 2003 – 7.40p per share, paid 1 June 2004			–	57.2
Interim 2004 – 4.83p per share, paid 12 November 2004			–	37.3
			99.4	94.5

The Directors propose a final dividend for 2005 of 8.16p per share that, subject to approval by shareholders, will be paid on 31 May 2006 to shareholders on the register on 21 April 2006.

13. AUDITORS' REMUNERATION

Fees payable to the Company's auditors, Deloitte & Touche LLP, in respect of services provided during the period were as follows:

	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Audit services:		
– Statutory audit	2.3	2.1
– Audit-related regulatory services	0.6	0.1
	2.9	2.2
Further assurance services	0.3	0.6
	3.2	2.8
Tax services:		
– Compliance services	0.3	0.6
– Advisory services	1.8	0.8
	2.1	1.4
Total fees	5.3	4.2

During 2005, the American Jobs Creations Act of 2004 in the United States enabled the Group to take advantage of a number of tax benefits. After a detailed review and, in some cases, a tender process, it was decided that Deloitte & Touche LLP ("Deloitte") was the preferred firm to engage on a number of projects to ensure that the Group maximised the benefits available, largely because of the efficiencies that were expected to arise from the detailed knowledge Deloitte has of the Group.

Audit related regulatory services include the review of the interim financial statements and the audit of the US GAAP financial statements included in the Form 20-F filing with the Securities and Exchange Commission in the US. Further assurance services include advice on accounting matters and non-regulatory reporting and include £0.3 million (2004 – £0.1 million) in relation to the transition to IFRS.

Fees relating to further assurance services or to tax advisory services must be reported to the Audit Committee and approved by the Chairman of the Audit Committee.

14. CASH FLOW

A. RECONCILIATION OF PROFIT FOR THE PERIOD TO CASH GENERATED FROM OPERATIONS

	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Profit for the period	201.2	210.1
Interest payable	83.5	64.8
Investment income	(40.3)	(38.8)
Other finance income	(4.2)	–
Income tax expense	59.9	52.3
Profit from continuing and discontinued operations	300.1	288.4
Share of profit of associates	(0.6)	(0.8)
Amortisation of intangible assets	2.4	5.0
Depreciation of property, plant and equipment	116.7	110.9
Impairment of property, plant and equipment	5.3	–
Cost of equity-settled employee share schemes	7.4	4.4
(Gain)/loss on sale of property, plant and equipment	(0.1)	1.1
Gain on disposal of businesses:		
– Continuing operations	(8.5)	(18.0)
– Discontinued operations	(3.4)	(3.8)
Decrease in post-employment benefit obligations	(55.4)	(26.3)
Decrease in provisions	(2.6)	(7.3)
Operating cash flows before movements in working capital	361.3	353.6
Increase in inventories	(22.3)	(34.3)
Increase in receivables	(22.3)	(20.9)
Increase in payables	19.8	35.5
Cash generated from operations	336.5	333.9

B. RECONCILIATION OF NET INCREASE IN CASH AND CASH EQUIVALENTS TO MOVEMENTS IN NET DEBT

	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Net debt at the beginning of the period	(244.5)	(264.7)
Adoption of IAS 32 and IAS 39 (note 1C)	(271.7)	–
	(516.2)	(264.7)
(Increase)/decrease in net debt resulting from cash flows:		
– Increase in cash and cash equivalents	65.9	3.1
– (Increase)/decrease in debt and lease financing	(133.5)	7.8
– Increase in collateralised cash	0.5	1.1
	(67.1)	12.0
Other non-cash movements	4.6	–
Leases obtained on acquisition	(2.0)	–
Foreign currency translation	(60.6)	8.2
(Increase)/decrease in net debt during the period	(125.1)	20.2
Net debt at the end of the period	(641.3)	(244.5)

C. ANALYSIS OF NET DEBT

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Cash and cash equivalents	230.9	185.4
Collateralised cash	5.3	4.9
Bank overdrafts	(10.4)	(6.5)
Bank and other loans	(562.1)	(409.4)
Obligations under finance leases	(12.3)	(12.1)
Derivative financial instruments hedging translational exposures	14.1	(6.8)
	(334.5)	(244.5)
Convertible cumulative preference shares	(306.8)	–
	(641.3)	(244.5)

15. GOODWILL

	£ million
Cost	
As at 3 January 2004	216.7
Acquisition of subsidiaries	18.5
Foreign currency translation	(8.9)
As at 1 January 2005	226.3
Acquisition of subsidiaries	59.7
Foreign currency translation	33.5
As at 31 December 2005	319.5

The carrying amount of goodwill was allocated to the following groups of cash generating units:

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Industrial & Automotive		
Power transmission:		
– Stackpole	85.8	74.6
– Mectrol	21.6	18.5
	107.4	93.1
Fluid Power	12.1	0.6
Wipers	18.6	16.7
Other Industrial & Automotive:		
– LE Technologies	29.5	–
	167.6	110.4
Building Products		
Air Systems Components:		
– Air Systems Components	37.6	33.6
– Hart & Cooley	85.1	62.3
– Ruskin	19.0	10.4
– Ruskin Air Management	4.9	4.9
	146.6	111.2
Other Building Products:		
– Bathware	5.3	4.7
	151.9	115.9
	319.5	226.3

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the cash generating units to which goodwill has been allocated are determined from value in use calculations in which the principal assumptions are those regarding discount rates, growth rates and expected changes to selling prices and direct costs. Management uses discount rates that reflect current market assessments of the time value of money and the risks specific to the relevant cash generating units. Growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market in which the cash generating units operate.

The Group prepares cash flow forecasts derived from the most recent financial plans approved by management for the next three years and extrapolates cash flows for the following seven years based on estimated growth rates that do not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows resulting from these projections was 8.5% (2004 – 9.0%).

16. OTHER INTANGIBLE ASSETS

	Development costs £ million	Assets acquired in business combinations £ million	Computer software £ million	Total £ million
Cost				
As at 3 January 2004	–	–	31.7	31.7
Additions	–	0.1	3.1	3.2
Disposals	–	–	(1.1)	(1.1)
Foreign currency translation	–	–	(1.8)	(1.8)
As at 1 January 2005	–	0.1	31.9	32.0
Additions	0.4	–	14.8	15.2
Acquisition of subsidiaries	–	3.6	–	3.6
Disposals	–	–	(0.1)	(0.1)
Foreign currency translation	–	0.2	7.1	7.3
As at 31 December 2005	0.4	3.9	53.7	58.0
Accumulated amortisation				
As at 3 January 2004	–	–	25.2	25.2
Amortisation charge for the period	–	–	5.0	5.0
Disposals	–	–	(1.0)	(1.0)
Foreign currency translation	–	–	(1.8)	(1.8)
As at 1 January 2005	–	–	27.4	27.4
Amortisation charge for the period	–	0.2	2.2	2.4
Disposals	–	–	(0.1)	(0.1)
Foreign currency translation	–	–	6.3	6.3
As at 31 December 2005	–	0.2	35.8	36.0
Carrying amount				
As at 1 January 2005	–	0.1	4.5	4.6
As at 31 December 2005	0.4	3.7	17.9	22.0

All intangible assets included above have finite useful lives.

17. PROPERTY, PLANT & EQUIPMENT

	Land and buildings £ million	Plant, equipment and vehicles £ million	Assets under construction £ million	Total £ million
Cost				
As at 3 January 2004	382.2	1,273.0	82.7	1,737.9
Additions	13.9	57.0	83.6	154.5
Acquisition of subsidiaries	0.1	1.9	–	2.0
Transfers	17.4	63.7	(81.1)	–
Disposals	(2.1)	(87.2)	–	(89.3)
Disposal of subsidiaries	(3.2)	(84.5)	–	(87.7)
Transfer (to)/from assets held for sale	(36.9)	66.2	–	29.3
Foreign currency translation	(15.8)	(48.4)	(2.0)	(66.2)
As at 1 January 2005	355.6	1,241.7	83.2	1,680.5
Additions	29.5	92.5	6.1	128.1
Acquisition of subsidiaries	7.7	10.3	–	18.0
Transfer from assets under construction	3.7	13.0	(16.7)	–
Disposals	(8.9)	(42.4)	(0.1)	(51.4)
Disposal of subsidiaries	(1.5)	(6.6)	–	(8.1)
Transfer (to)/from assets held for sale	(0.5)	1.3	0.2	1.0
Foreign currency translation	41.2	118.5	7.9	167.6
As at 31 December 2005	426.8	1,428.3	80.6	1,935.7
Accumulated depreciation and impairment losses				
As at 3 January 2004	147.2	842.8	–	990.0
Depreciation charge for the period	12.3	98.6	–	110.9
Transfers	(5.7)	5.7	–	–
Disposals	(2.7)	(81.3)	–	(84.0)
Disposal of subsidiaries	(1.5)	(70.6)	–	(72.1)
Transfer (to)/from assets held for sale	(25.1)	58.4	–	33.3
Foreign currency translation	(5.9)	(33.9)	–	(39.8)
As at 1 January 2005	118.6	819.7	–	938.3
Depreciation charge for the period	12.2	104.5	–	116.7
Transfers	6.1	(6.1)	–	–
Disposals	(5.1)	(40.0)	–	(45.1)
Disposal of subsidiaries	(0.3)	(3.1)	–	(3.4)
Transfer from assets held for sale	1.3	0.6	–	1.9
Impairment loss recognised in the period	1.9	3.4	–	5.3
Foreign currency translation	12.0	78.3	–	90.3
As at 31 December 2005	146.7	957.3	–	1,104.0
Carrying amount				
As at 1 January 2005	237.0	422.0	83.2	742.2
As at 31 December 2005	280.1	471.0	80.6	831.7

Land and buildings include freehold land with a carrying value of £40.4 million (1 January 2005 – £39.3 million) that is not depreciated.

As at 31 December 2005, the carrying amount of plant, equipment and vehicles included £11.4 million (1 January 2005 – £12.7 million) in respect of assets held under finance leases. The Group's obligations under these finance leases, which are analysed in note 26, are secured by a lessor's charge over the leased assets.

Property, plant and equipment with a carrying value of £0.5 million (1 January 2005 – £1.8 million) has been pledged as security for amounts outstanding under secured bank loans.

18. INVESTMENTS IN ASSOCIATES

	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Carrying amount		
At the beginning of the period	3.7	5.7
Group's share of its associates' results for the period:		
– Recognised in the income statement	0.6	0.8
– Recognised directly in equity	(0.3)	(0.4)
	4.0	6.1
Disposals	–	(2.3)
Foreign currency translation	0.4	(0.1)
At the end of the period	4.4	3.7

Details of the Group's principal associates are set out on page 182.

Summarised financial information in respect of the Group's associates is set out below:

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Total assets	15.1	12.5
Total liabilities	(6.2)	(5.2)
Net assets	8.9	7.3
Group's share of associates' net assets	4.4	3.7

The segment analysis of the Group's share of associates' profit or loss for the period and of its investments in associates is as follows:

	Investments in associates		Share of profit or loss of associates	
	As at 31 December 2005 £ million	As at 1 January 2005 £ million	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
By business segment				
Industrial & Automotive:				
– Power Transmission	1.9	1.6	0.3	0.2
– Fluid Systems	2.1	1.8	0.3	0.1
– Other Industrial & Automotive	0.4	0.3	–	0.2
	4.4	3.7	0.6	0.5
Building Products:				
– Other Building Products	–	–	–	0.3
	4.4	3.7	0.6	0.8
By geographical location				
Rest of the World	4.4	3.7		

19. INVENTORIES

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Raw materials and supplies	147.5	123.9
Work in progress	62.0	45.3
Finished goods and goods held for resale	235.2	200.4
	444.7	369.6

During the period, an expense of £1.2 million (2004 – £0.8 million) was recognised on the write-down of certain inventories to net realisable value.

Certain suppliers reserve title over the goods that they supply until they receive payment.

TO THE MEMBERS OF TOMKINS PLC

We have audited the consolidated financial statements of Tomkins plc and its subsidiaries (together, "the Group") for the year ended 31 December 2005 ("the Group's financial statements") which comprise the consolidated income statement, consolidated cash flow statement, consolidated balance sheet, consolidated statement of recognised income and expense, the reconciliation of changes in consolidated shareholders' equity, the related notes 1 to 45 and the information on pages 108 to 121. These financial statements have been prepared in accordance with the accounting policies set out therein. We have also audited the information in the Remuneration Committee's report that is described as having been audited.

We have reported separately on the individual financial statements of Tomkins plc for the year ended 31 December 2005.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report, the Remuneration Committee report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted in the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group's financial statements and the part of the Remuneration Committee report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group's financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the Group financial statements and the part of the Remuneration Committee report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the Directors' report is not consistent with the Group's financial statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions with the Company and other members of the Group is not disclosed.

We report to you if, in our opinion, the Company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element of the remuneration package and information on share options, details of long-term incentive schemes, and money purchase and defined benefit pension schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' report and the other information contained in the Annual Report for the above year as described in the contents section including the unaudited part of the Remuneration Committee report and we consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the Group's financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group's financial statements and the part of the Remuneration Committee report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group's financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group's financial statements and the part of the Remuneration Committee report described as having been audited are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the Remuneration Committee report described as having been audited.

OPINION

In our opinion, the Group financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended, and the Group financial statements and the part of the Remuneration Committee report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

DELOITTE & TOUCHE LLP

Chartered Accountants and Registered Auditors
London

21 February 2006

20. TRADE AND OTHER RECEIVABLES

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Current assets		
Trade receivables	507.0	426.7
Amounts due from customers on long-term contracts (note 21)	4.5	3.2
Prepayments	26.8	21.0
Derivative financial instruments (note 28)	5.2	0.1
Other receivables	34.9	52.8
Collateralised cash	5.3	4.9
	583.7	508.7
Non-current assets		
Derivative financial instruments (note 28)	19.8	4.0

The Group has a significant concentration of customers in the United States of America, who accounted for 68.9 % (2004 – 67.5%) of the Group's sales during the period, and in the industrial and automotive industry, which accounted for 72.2% (2004 – 73.4%) of the Group's sales during the period. However, no single customer accounted for more than 10% of the Group's sales and there were no significant amounts due from any one customer. Trade receivables are stated net of an allowance of £7.9 million (1 January 2005 – £6.1 million) for doubtful accounts, estimated based on factors surrounding the credit risk of specific customers, historical trends, the influence of the current economic environment, and other information.

Trade and other receivables are not generally interest bearing although interest may be charged to customers on overdue accounts.

The Group is the beneficiary of a number of corporate-owned life assurance policies against which it borrows from the relevant life assurance company. As at 31 December 2005, the surrender value of the policies was £218.9 million (1 January 2005 – £175.7 million) and the amount outstanding on the related loans was £217.7 million (1 January 2005 – £174.8 million). For accounting purposes, these amounts are offset and the net receivable of £1.2 million (1 January 2005 – £0.9 million) is included in other receivables.

Trade receivables with a carrying value of £2.6 million (1 January 2005 – £1.0 million) have been pledged as security for amounts outstanding under secured bank loans.

21. LONG-TERM CONTRACTS

Long-term contracts are entered into by a subsidiary that is engaged in the construction of automotive assembly lines and materials handling equipment.

Revenue recognised on long-term contracts during the period was £129.6 million (2004 – £81.9 million). Amounts recognised in respect of long-term contracts in progress at the balance sheet date were as follows:

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Costs incurred to date	126.5	84.9
Recognised profits less recognised losses to date	10.6	7.7
	137.1	92.6
Progress billings to date	(136.1)	(92.0)
Net amount due from customers	1.0	0.6
Gross amount due from customers included in trade and other receivables	4.5	3.2
Gross amount due to customers included in trade and other payables	(3.5)	(2.6)
Net amount due from customers	1.0	0.6
Retentions held by customers	3.3	0.6

As at 31 December 2005, unpaid progress billings (including retentions held by customers) included in trade receivables amounted to £21.6 million (1 January 2005 – £14.5 million).

As at 31 December 2005, there were no advances received from customers (1 January 2005 – £nil).

22. AVAILABLE-FOR-SALE INVESTMENTS

	£ million
Carrying amount	
As at 3 January 2004	1.7
Foreign currency translation	(0.1)
As at 1 January 2005	1.6
Adoption of IAS 32 & IAS 39 (note 1C)	0.4
	2.0
Additions	0.1
Fair value gain recognised directly in equity	0.7
Disposals	(0.5)
Foreign currency translation	(0.1)
As at 31 December 2005	2.2

Available-for-sale investments comprise listed equities.

23. CASH AND CASH EQUIVALENTS

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Cash on hand and demand deposits	102.4	64.6
Term deposits	128.5	120.8
	230.9	185.4

The currency and interest rate profile of cash and cash equivalents was as follows:

	Floating interest rate		Non-interest bearing £ million	Total £ million
	£ million	Weighted average interest rate %		
As at 31 December 2005				
Currency:				
– Sterling	2.2	1.8	2.8	5.0
– US dollar	136.9	3.8	7.7	144.6
– Euro	17.1	2.5	1.6	18.7
– Canadian dollar	10.3	3.1	–	10.3
– Other	47.3	3.5	5.0	52.3
	213.8		17.1	230.9
As at 1 January 2005				
Currency:				
– Sterling	16.4	4.7	2.5	18.9
– US dollar	69.3	2.1	10.6	79.9
– Euro	16.3	2.7	0.4	16.7
– Canadian dollar	24.7	2.3	2.0	26.7
– Other	38.9	3.0	4.3	43.2
	165.6		19.8	185.4

The Group ensures that cash and cash equivalents are managed such that there is no significant concentration of credit risk in any one bank or other financial institution.

24. ASSETS HELD FOR SALE

Assets classified as held for sale and directly associated liabilities were as follows:

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Assets held for sale:		
– Property, plant and equipment	13.4	29.8
– Deferred tax assets	–	0.1
– Inventories	–	2.0
– Trade and other receivables	–	0.9
	13.4	32.8
Liabilities directly associated with assets held for sale:		
– Trade and other payables	–	(0.3)
	13.4	32.5

Assets held for sale comprise vacant properties no longer required by the Group for manufacturing operations.

25. BORROWINGS

	As at 31 December 2005			As at 1 January 2005		
	Current liabilities £ million	Non-current liabilities £ million	Total £ million	Current liabilities £ million	Non-current liabilities £ million	Total £ million
Bank overdrafts	10.4	–	10.4	6.5	–	6.5
Bank and other loans:						
– Bank loans – secured	3.1	–	3.1	2.8	–	2.8
– Bank loans – unsecured	22.3	119.4	141.7	4.4	1.8	6.2
– Other loans – unsecured	5.4	411.6	417.0	2.4	397.7	400.1
– Unsecured loan notes	0.3	–	0.3	0.3	–	0.3
	31.1	531.0	562.1	9.9	399.5	409.4
	41.5	531.0	572.5	16.4	399.5	415.9

Borrowings are repayable as follows:

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Current liabilities:		
– On demand or within one year	41.5	16.4
Non-current liabilities:		
– In the second year	0.8	0.9
– In the third year	0.5	0.9
– In the fourth year	0.5	–
– In the fifth year	120.6	–
– After more than five years	408.6	397.7
	531.0	399.5
	572.5	415.9

BANK LOANS

Bank loans are principally amounts drawn down under the Group's £400 million multi-currency revolving credit facility. As at 31 December 2005, £119.9 million (1 January 2005 – £ nil) had been drawn down, including tranches denominated in US dollars totalling \$175.0 million. Borrowings under the facility attract interest at floating rates determined by reference to LIBOR.

OTHER LOANS

The Group has a Euro Medium Term Note Programme under which it may borrow up to a total maximum principal amount of £750 million. So far, two bonds have been issued under this programme: £150 million repayable at par on 20 December 2011 that bears interest at a fixed rate of 8%; and £250 million repayable at par on 16 September 2015 that bears interest at a fixed rate of 6.125%.

25. BORROWINGS CONTINUED

The carrying amount of other loans may be analysed as follows:

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Principal amount	400.0	400.0
Accrued interest payable	4.9	2.6
Unamortised transaction costs	(2.2)	(2.5)
Carrying amount before hedge accounting	402.7	400.1
Fair value hedge adjustment (note 28)	14.3	–
Carrying amount	417.0	400.1

UNSECURED LOAN NOTES

The unsecured loan notes must be repaid, at par, on 30 June 2012. Until that time, in certain circumstances the noteholders have the right to require full or part repayment, at par, half yearly on 30 June and 31 December and for this reason they are classified as current liabilities. The unsecured loan notes bear interest at a fixed rate of 2.6%.

CURRENCY AND INTEREST RATE PROFILE

The currency and interest rate profile of outstanding borrowings, after taking into account the effect of the Group's currency and interest rate hedging activities was as follows:

	Floating interest rate		Fixed interest rate			Total £ million
	£ million	Weighted average interest rate %	£ million	Weighted average interest rate %	Weighted average period for which rate is fixed Years	
As at 31 December 2005						
Currency:						
– Sterling	17.9	6.2	–	–	–	17.9
– US dollar	266.4	4.6	122.3	3.1	3.4	388.7
– Euro	56.3	2.5	–	–	–	56.3
– Canadian dollar	76.4	3.5	–	–	–	76.4
– Other	31.4	5.6	1.8	4.1	1.8	33.2
	448.4		124.1			572.5
As at 1 January 2005						
Currency:						
– Sterling	36.4	6.5	–	–	–	36.4
– US dollar	124.1	2.4	109.3	3.1	3.4	233.4
– Euro	39.5	2.1	–	–	–	39.5
– Canadian dollar	81.9	2.6	–	–	–	81.9
– Other	22.9	3.8	1.8	6.8	2.0	24.7
	304.8		111.1			415.9

BORROWING FACILITIES

As at 31 December 2005, the Group had undrawn committed borrowing facilities of £280.1 million (1 January 2005 – £400 million) available under the multi-currency revolving credit facility that expires on 8 August 2010.

BORROWING COVENANTS

The Group is subject to covenants, representations and warranties commonly associated with investment grade borrowings in respect of its committed borrowing facilities and borrowings under the Euro Medium Term Note Programme.

The Group is subject to two financial covenants in respect of its committed borrowing facilities. The ratio of net debt to consolidated earnings before interest, tax, depreciation and amortisation must not exceed 2.5 times, and the ratio of consolidated operating profit to the consolidated net interest charge must not be less than 3.0 times. The financial covenants are calculated by applying "frozen" UK GAAP as at 31 December 2002 and are therefore unaffected by accounting changes associated with the transition to IFRS.

26. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Carrying amount	
	As at 31 December 2005 £ million	As at 1 January 2005 £ million	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Amounts payable under finance leases:				
– Within one year	2.7	4.1	2.4	3.4
– In the second to fifth years, inclusive	7.6	6.6	5.5	4.8
– After more than five years	6.3	4.9	4.4	3.9
	16.6	15.6	12.3	12.1
Less: Future finance charges	(4.3)	(3.5)	–	–
	12.3	12.1	12.3	12.1
Obligations included within current liabilities			2.4	3.4
Obligations included within non-current liabilities			9.9	8.7
			12.3	12.1

The Group leases certain of its plant, equipment and vehicles under finance leases. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. As at 31 December 2005, the average effective interest rate was 7.3% (1 January 2005 – 7.2%).

The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

27. TRADE AND OTHER PAYABLES

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Current liabilities		
Trade payables	268.9	231.0
Amounts due to customers on long-term contracts (note 21)	3.5	2.6
Other taxes and social security	17.0	14.9
Accruals and deferred income	127.7	103.2
Accrued dividend on preference shares (note 39)	2.1	1.9
Derivative financial instruments (note 28)	0.9	–
Other payables	22.2	28.8
	442.3	382.4
Non-current liabilities		
Accruals and deferred income	1.8	3.2
Derivative financial instruments (note 28)	8.1	6.8
Other payables	5.4	2.3
	15.3	12.3

Trade and other payables are not generally interest bearing, but interest may be charged by suppliers on overdue accounts.

28. DERIVATIVE FINANCIAL INSTRUMENTS

A. RISK MANAGEMENT POLICIES

The Group's policy in relation to financial risk management is set out in detail in the Operating and Financial Review.

The Group's central treasury function is responsible for the procurement of the Group's capital resources and for the maintenance of an efficient capital structure, together with the management of the Group's liquidity, foreign exchange and interest rate exposures. All treasury operations are conducted within strict policies and guidelines that are approved by the Board. Compliance with those policies and guidelines is monitored by the regular reporting of treasury activities to the Board. A key element of the Group's treasury philosophy is that funding, interest rate and currency decisions and the location of cash and debt balances are determined independently of each other. The Group's borrowing requirements are met by raising funds in the most favourable markets, and the desired currency profile of net debt is achieved by entering into currency derivative contracts (typically forward currency contracts and currency swaps). The desired interest rate profile of net debt is achieved by entering into interest rate derivative contracts after taking into account any foreign currency derivatives that have been entered into to manage the currency profile of net debt. From time to time, the Group also enters into currency derivative contracts to manage currency transaction exposures.

The Group does not hold or issue derivatives for speculative or trading purposes.

The Group ensures that its portfolio of derivative financial instruments is managed such that there is no significant concentration of credit risk in any one bank or other financial institution.

28. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

The carrying amount of derivative financial instruments held by the Group was as follows:

	As at 31 December 2005			As at 1 January 2005		
	Assets £ million	Liabilities £ million	Net £ million	Assets £ million	Liabilities £ million	Net £ million
Translational hedges:						
– Currency forwards	0.1	(8.1)	(8.0)	–	(6.8)	(6.8)
– Interest rate swaps	22.1	–	22.1	4.0	–	4.0
	22.2	(8.1)	14.1	4.0	(6.8)	(2.8)
Transactional hedges:						
– Currency forwards and swaps	2.8	(0.9)	1.9	0.1	–	0.1
	25.0	(9.0)	16.0	4.1	(6.8)	(2.7)
Classified as:						
– Current	5.2	(0.9)	4.3	0.1	–	0.1
– Non-current	19.8	(8.1)	11.7	4.0	(6.8)	(2.8)
	25.0	(9.0)	16.0	4.1	(6.8)	(2.7)

The Group adopted IAS 32 and IAS 39 prospectively from 2 January 2005. Accordingly, comparative information as at 1 January 2005 has not been restated.

B. CURRENCY DERIVATIVES

As at 31 December 2005, the notional principal amount of outstanding foreign exchange contracts that are used to manage the currency profile of the Group's net assets was £411.2 million (1 January 2005 – £368.9 million). During 2005, the Group designated all such contracts as net investment hedges and a net fair value loss of £35.6 million in relation to these contracts was recognised directly in reserves.

Also during 2005, the Group designated the US dollar denominated convertible cumulative preference shares and US dollar denominated borrowings under the multi-currency revolving credit facility as net investment hedges and a net currency translation loss of £37.0 million arising on these instruments was recognised directly in reserves.

During 2005, a net gain of £0.9 million was recognised within other finance income in respect of currency translation hedges that did not qualify for hedge accounting under IAS 39. Also during 2005, a net fair value gain of £0.4 million was recognised within profit from operations in respect of currency derivatives that were held to provide an economic hedge of transactional currency exposures but were not designated as hedges for accounting purposes.

C. INTEREST RATE SWAPS

Interest rate swaps are used to swap borrowings under the Group's Euro Medium Term Note Programme from fixed interest rates to floating interest rates. As at 31 December 2005, the nominal value of the contracts outstanding was £400 million (1 January 2005 – £400 million). These contracts have been designated and are effective as fair value hedges in relation to the borrowings. As at 31 December 2005, an adjustment of £14.3 million was made to the carrying amount of the hedged borrowings to reflect the extent to which the swaps provided an effective hedge against fair value interest rate risk.

Interest rate swaps are also used to restrict the amount of floating rate US dollar debt. As at 31 December 2005, the nominal value of these contracts held was US\$420 million (1 January 2005 – US\$ 210 million), including contracts with a nominal value of US\$210 million that commence on the maturity of equivalent contracts that are currently in force in June 2006 and June 2008.

During 2005, a net gain of £3.3 million was recognised within other finance income that represented changes in the fair value of interest rate swaps that did not qualify for hedge accounting under IAS 39.

The profile of interest rate swaps held by the Group was as follows:

	Notional principal amount million	Payable		Interest rate Receivable		Variable Rate index
		Variable	Fixed	Variable	Fixed	
As at 31 December 2005						
Maturity date:						
– December 2011	£150.0	7.2%	–	–	8.0%	6 month LIBOR
– September 2015	£250.0	5.7%	–	–	6.1%	3 month LIBOR
– June 2006	US\$145.0	–	2.8%	4.5%	–	3 month LIBOR
– June 2008	US\$65.0	–	3.8%	4.5%	–	3 month LIBOR
– December 2007 (commences June 2006)	US\$145.0	–	4.2%	–	–	3 month LIBOR
– December 2009 (commences June 2008)	US\$65.0	–	4.6%	–	–	3 month LIBOR
As at 1 January 2005						
Maturity date:						
– December 2011	£150.0	7.5%	–	–	8.0%	6 month LIBOR
– September 2015	£250.0	6.0%	–	–	6.1%	3 month LIBOR
– June 2006	US\$145.0	–	2.8%	2.5%	–	3 month LIBOR
– June 2008	US\$65.0	–	3.8%	2.5%	–	3 month LIBOR

29. CURRENCY RISK

A. TRANSACTION EXPOSURES

Gains and losses arising on the translation of monetary assets and liabilities denominated in currencies other than the functional currency of the entity concerned are recognised in the entity's income statement and flow through to the consolidated income statement. Currency transaction exposures were as follows:

	Net foreign currency monetary assets/(liabilities)					Total £ million
	Sterling £ million	US dollar £ million	Euro £ million	Canadian dollar £ million	Other £ million	
As at 31 December 2005						
Functional currency of entity:						
– Sterling	–	0.5	5.7	–	(0.7)	5.5
– US dollar	–	–	(0.3)	–	(1.3)	(1.6)
– Euro	(0.3)	(2.6)	–	(0.2)	(0.1)	(3.2)
– Canadian dollar	(0.5)	(3.4)	(0.1)	–	(0.2)	(4.2)
– Other	(1.9)	(5.7)	(0.2)	(0.7)	–	(8.5)
	(2.7)	(11.2)	5.1	(0.9)	(2.3)	(12.0)
As at 1 January 2005						
Functional currency of entity:						
– Sterling	–	0.7	6.3	–	0.6	7.6
– US dollar	–	–	–	–	0.1	0.1
– Euro	(0.1)	(0.2)	–	(0.1)	(0.2)	(0.6)
– Canadian dollar	(0.8)	(0.8)	2.2	–	6.4	7.0
– Other	(1.1)	(0.5)	(0.8)	(0.1)	–	(2.5)
	(2.0)	(0.8)	7.7	(0.2)	6.9	11.6

Currency exposures shown above take into account the effect of the Group's transaction hedging activities and exclude net long-term borrowings from other members of the Group on which currency translation gains and losses are transferred to equity on consolidation.

B. TRANSLATION EXPOSURES

Gains and losses arising from the translation of the net assets of foreign operations into Sterling on consolidation are recognised in equity. Currency translation exposures were as follows:

	Net assets/ (liabilities) excluding net (debt)/funds £ million	Net (debt)/funds £ million	Net assets £ million
As at 31 December 2005			
Currency:			
– Sterling	59.1	(7.7)	51.4
– US dollar	724.6	(542.4)	182.2
– Euro	132.5	(42.5)	90.0
– Canadian dollar	232.6	(67.5)	165.1
– Other	205.4	18.8	224.2
	1,354.2	(641.3)	712.9
As at 1 January 2005			
Currency:			
– Sterling	35.9	(14.0)	21.9
– US dollar	566.1	(164.2)	401.9
– Euro	118.4	(25.9)	92.5
– Canadian dollar	190.0	(58.5)	131.5
– Other	179.4	18.1	197.5
	1,089.8	(244.5)	845.3

Currency exposures shown above take into account the effect of the Group's translation hedging activities.

30. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value information is provided below in respect of financial assets and liabilities that comprise the Group's reported net debt and other financial assets and liabilities whose carrying amount is not considered to approximate to fair value.

	As at 31 December 2005		As at 1 January 2005	
	Carrying amount £ million	Fair value £ million	Carrying amount £ million	Fair value £ million
Available-for-sale investments	2.2	2.2	1.6	2.0
Cash and cash equivalents	230.9	230.9	185.4	185.4
Collateralised cash	5.3	5.3	4.9	4.9
Borrowings classified as current liabilities	(41.5)	(41.5)	(16.4)	(16.4)
Borrowings classified as non-current liabilities	(531.0)	(543.5)	(399.5)	(430.3)
Finance lease obligations	(12.3)	(12.3)	(12.1)	(12.1)
Derivative financial instruments				
– Interest rate derivatives	22.1	22.1	4.0	10.0
– Foreign currency derivatives	(6.1)	(6.1)	(6.7)	(5.2)
Convertible cumulative preference shares	(306.8)	(313.5)	(337.2)	(250.6)

Available-for-sale investments held by the Group are listed investments and their fair value represents their quoted market value.

Cash and cash equivalents and collateralised cash largely attract floating interest rates. Accordingly, their carrying amounts are considered to approximate to fair value.

Borrowings classified as current liabilities mainly comprise overdrafts and loans that attract floating interest rates. Accordingly their carrying amount is considered to approximate to fair value.

Borrowings classified as non-current liabilities principally comprise borrowings under the Group's multi-currency revolving credit facility that attract floating interest rates, whose carrying amount is considered to approximate to fair value, and the listed bonds issued under the Group's Euro Medium Term Note Programme, whose fair values represent their quoted market prices.

Finance lease obligations attract fixed interest rates that are implicit in the lease rentals and their fair value has been assessed by reference to prevailing market interest rates.

Interest rate derivatives are valued by discounting the applicable cash flows at prevailing market interest rates.

Foreign currency derivatives are valued on a mark to market basis by reference to prevailing currency exchange rates.

The Convertible cumulative preference shares are not traded in an organised market and their fair value has been assessed using a valuation model that takes into account prevailing market interest rates and the existence of the holders' conversion option.

31. POST-EMPLOYMENT BENEFIT OBLIGATIONS

A. BACKGROUND

The Group operates pension plans throughout the world, covering the majority of its employees. The plans are structured to accord with local conditions and practices in each country and include defined contribution plans and defined benefit plans.

The Group provides defined contribution pension benefits in most of the countries in which it operates; in particular, the majority of Group's employees in the United States of America are entitled to such benefits. The expense recognised in the income statement in respect of these plans represents the contributions payable by the Group for the period at rates that are specified in the rules of the plans. As at 31 December 2005, the Group had not paid over to the plans contributions due amounting to £7.4 million (1 January 2005 – £ 5.6 million). All amounts due for the period were paid over subsequent to the balance sheet date.

The Group operates defined benefit pension plans in several countries; in particular, in the United Kingdom and the United States of America. Generally, the pension benefits provided under these plans are based upon pensionable salary and the period of service of the individual employees. The assets of the plans are held separately from those of the Group in funds that are under the control of trustees. The defined benefit pension plans operated by the Group are closed to new entrants. In addition to the funded defined benefit pension plans, the Group has unfunded defined benefit obligations to certain employees.

The Group also provides other post-employment benefits, principally health and life insurance cover, to certain of its employees in North America. These plans, which are unfunded, are defined benefit plans.

B. SUMMARY OF FINANCIAL EFFECT

An analysis of the effect of post-employment benefits on the Group's results and financial position is set out below. The Group has adopted the amendments to IAS 19 "Employee Benefits" published in December 2004.

	Year ended 31 December 2005			Year ended 1 January 2005			
	Profit from operations £ million	Finance charges £ million	Total £ million	Profit from operations £ million	Finance charges £ million	Profit from discontinued operations £ million	Total £ million
Defined contribution plans	26.7	–	26.7	26.3	–	–	26.3
Defined benefit plans							
Recognised in the income statement:							
– Current service cost	6.5	–	6.5	6.5	–	–	6.5
– Past service cost	(0.4)	–	(0.4)	(1.6)	–	–	(1.6)
– Settlement and curtailments	(7.5)	–	(7.5)	(3.2)	–	(2.2)	(5.4)
– Interest cost	–	40.5	40.5	–	43.3	–	43.3
– Expected return on plan assets	–	(34.6)	(34.6)	–	(32.4)	–	(32.4)
	(1.4)	5.9	4.5	1.7	10.9	(2.2)	10.4
Recognised in equity:							
– Actuarial gains and losses			44.1				(11.6)
– Effect of the asset ceiling			0.3				(0.1)
			48.9				(1.3)

As at 31 December 2005, the cumulative amount of actuarial losses recognised in equity since 3 January 2004 was £32.5 million (1 January 2005 – gain of £11.6 million).

The net liability recognised in the Group's balance sheet in respect of defined benefit plans was as follows:

	As at 31 December 2005			As at 1 January 2005		
	Pensions £ million	Other benefits £ million	Total £ million	Pensions £ million	Other benefits £ million	Total £ million
Present value of the benefit obligation:						
– Funded	682.0	–	682.0	579.9	–	579.9
– Unfunded	26.8	112.7	139.5	25.5	111.2	136.7
	708.8	112.7	821.5	605.4	111.2	716.6
Fair value of plan assets	(527.1)	–	(527.1)	(441.7)	–	(441.7)
	181.7	112.7	294.4	163.7	111.2	274.9
Effect of the asset ceiling	1.9	–	1.9	1.6	–	1.6
Net liability	183.6	112.7	296.3	165.3	111.2	276.5

31. POST-EMPLOYMENT BENEFIT OBLIGATIONS CONTINUED

C. PENSIONS

The principal assumptions used in the actuarial valuations of the defined benefit pension plans operated by the Group were as follows:

	United Kingdom	United States of America	Other countries
Valuation as at 31 December 2005:			
– Salary increases	4.00%	3.00% – 5.92%	2.00% – 4.00%
– Increase to pensions in payment	2.50% – 2.80%	n/a	n/a
– Increase to deferred pensions	2.50% – 2.80%	n/a	n/a
– Long-term rate of return on plan assets	4.50% – 6.75%	8.00%	4.90% – 7.50%
– Discount rate	4.75%	5.50%	2.00% – 6.25%
– Inflation rate	2.50% – 2.80%	0.00%	0.00% – 2.00%
Valuation as at 1 January 2005:			
– Salary increases	4.00%	3.00% – 5.92%	2.00% – 4.00%
– Increase to pensions in payment	2.50% – 2.80%	n/a	n/a
– Increase to deferred pensions	2.50% – 2.80%	n/a	n/a
– Long-term rate of return on plan assets	5.30% – 7.25%	8.00%	0.27% – 7.50%
– Discount rate	5.25%	5.875%	2.00% – 6.50%
– Inflation rate	2.50% – 2.80%	0.00%	0.00% – 4.50%

The current life expectancies underlying the value of the accrued liabilities for the main plans operated by the Group were as follows:

	United Kingdom	United States of America	Other countries
As at 31 December 2005:			
– Current pensioners (at age 65) – male	19.1 years	16.8 years	18.4 years
– Current pensioners (at age 65) – female	22.0 years	21.3 years	21.4 years
– Future pensioners (at age 65) – male	20.4 years	16.8 years	16.8 years
– Future pensioners (at age 65) – female	23.3 years	21.3 years	21.4 years
As at 1 January 2005:			
– Current pensioners (at age 65) – male	17.0 years	16.7 years	18.4 years
– Current pensioners (at age 65) – female	20.6 years	21.3 years	21.4 years
– Future pensioners (at age 65) – male	17.9 years	16.7 years	18.4 years
– Future pensioners (at age 65) – female	21.4 years	21.3 years	21.4 years

The net liability recognised in the Group's balance sheet in respect of defined benefit pension plans was as follows:

	As at 31 December 2005				As at 1 January 2005			
	United Kingdom £ million	United States of America £ million	Other countries £ million	Total £ million	United Kingdom £ million	United States of America £ million	Other countries £ million	Total £ million
Present value of benefit obligation:								
– Funded	240.0	366.6	75.4	682.0	204.6	315.5	59.8	579.9
– Unfunded	3.4	22.0	1.4	26.8	2.7	21.7	1.1	25.5
	243.4	388.6	76.8	708.8	207.3	337.2	60.9	605.4
Fair value of plan assets	(212.7)	(266.5)	(47.9)	(527.1)	(187.1)	(217.5)	(37.1)	(441.7)
	30.7	122.1	28.9	181.7	20.2	119.7	23.8	163.7
Effect of the asset ceiling	1.9	–	–	1.9	1.4	0.2	–	1.6
Net liability	32.6	122.1	28.9	183.6	21.6	119.9	23.8	165.3

Changes in the present value of the defined benefit obligation were as follows:

	Year ended 31 December 2005				Year ended 1 January 2005			
	United Kingdom £ million	United States of America £ million	Other countries £ million	Total £ million	United Kingdom £ million	United States of America £ million	Other countries £ million	Total £ million
At the beginning of the period	207.3	337.2	60.9	605.4	202.9	352.6	67.9	623.4
Current service cost	1.2	2.5	2.4	6.1	1.4	2.5	2.1	6.0
Past service cost	–	0.2	0.1	0.3	–	4.9	(0.9)	4.0
Curtailments	–	(0.1)	–	(0.1)	(2.2)	–	–	(2.2)
Settlements	(0.5)	(1.8)	–	(2.3)	(3.3)	–	(4.8)	(8.1)
Interest cost	10.6	20.1	3.3	34.0	10.6	20.7	3.4	34.7
Actuarial gains and losses	34.1	19.4	7.5	61.0	8.9	7.2	0.8	16.9
	252.7	377.5	74.2	704.4	218.3	387.9	68.5	674.7
Disposal of subsidiaries	–	–	–	–	–	–	(1.4)	(1.4)
Employees' contributions	0.1	–	0.3	0.4	0.1	–	0.4	0.5
Benefits paid	(9.4)	(28.3)	(3.0)	(40.7)	(11.1)	(26.9)	(5.9)	(43.9)
Foreign currency translation	–	39.4	5.3	44.7	–	(23.8)	(0.7)	(24.5)
At the end of the period	243.4	388.6	76.8	708.8	207.3	337.2	60.9	605.4

31. POST-EMPLOYMENT BENEFIT OBLIGATIONS CONTINUED

Changes in the fair value of plan assets were as follows:

	Year ended 31 December 2005				Year ended 1 January 2005			
	United Kingdom £ million	United States of America £ million	Other countries £ million	Total £ million	United Kingdom £ million	United States of America £ million	Other countries £ million	Total £ million
At the beginning of the period	187.1	217.5	37.1	441.7	186.0	223.0	36.7	445.7
Expected return on plan assets	13.0	19.0	2.6	34.6	13.2	17.0	2.2	32.4
Settlements	(0.5)	–	–	(0.5)	(6.3)	–	–	(6.3)
Actuarial gains and losses	17.6	(3.7)	1.2	15.1	(1.4)	7.2	(1.1)	4.7
	217.2	232.8	40.9	490.9	191.5	247.2	37.8	476.5
Employer's contributions	4.8	34.7	5.0	44.5	6.6	12.4	5.0	24.0
Employees' contributions	0.1	–	0.3	0.4	0.1	–	0.4	0.5
Benefits paid	(9.4)	(28.3)	(3.0)	(40.7)	(11.1)	(26.9)	(5.9)	(43.9)
Foreign currency translation	–	27.3	4.7	32.0	–	(15.2)	(0.2)	(15.4)
At the end of the period	212.7	266.5	47.9	527.1	187.1	217.5	37.1	441.7

The fair value of plan assets by asset category was as follows:

	As at 31 December 2005				As at 1 January 2005			
	United Kingdom £ million	United States of America £ million	Other countries £ million	Total £ million	United Kingdom £ million	United States of America £ million	Other countries £ million	Total £ million
Equity instruments	121.7	161.5	22.5	305.7	103.9	144.9	19.8	268.6
Debt instruments	91.0	88.0	18.1	197.1	82.0	59.5	11.3	152.8
Other assets	–	17.0	7.3	24.3	1.2	13.1	6.0	20.3
	212.7	266.5	47.9	527.1	187.1	217.5	37.1	441.7

Plan assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group.

The return and risk expectations for each asset class incorporate assumptions about historical return relationships, current financial market conditions and the degree of global capital market integration. The assumptions used have been derived from rigorous historical performance analysis combined with forward looking views of the financial markets as revealed through (a) the yield on long-term bonds and (b) the price earnings ratios of the major stock market indices. The actuaries review analyses of historical risk and the correlation of the return on asset classes and apply subjective judgment based on their knowledge of the Groups plans. The result of this analysis is incorporated into a risk matrix from which expected long-term risk premiums for each asset class are developed. The nominal return expectations are determined by combining the asset class risk premiums with expected inflation and real risk-free rate assumptions. As a final consideration, the nominal return assumptions are blended with current market conditions to develop long-term equilibrium expectations.

The actual return on plan assets was as follows:

	Year ended 31 December 2005	Year ended 1 January 2005
United Kingdom	16.58%	8.04%
United States of America	6.66%	11.61%
Other countries	10.60%	12.24%

The Group expects to contribute approximately £40 million to defined benefit pension plans in 2006.

The effect of providing pension benefits on the Group's results was as follows:

	Year ended 31 December 2005			Year ended 1 January 2005			
	Profit from operations £ million	Finance charges £ million	Total £ million	Profit from operations £ million	Finance charges £ million	Profit from discontinued operations £ million	Total £ million
Defined contribution plans	26.7	–	26.7	26.3	–	–	26.3
Defined benefit plans							
Recognised in the income statement:							
– Current service cost	6.1	–	6.1	6.0	–	–	6.0
– Past service cost	0.3	–	0.3	4.0	–	–	4.0
– Settlement and curtailments	(1.9)	–	(1.9)	(1.8)	–	(2.2)	(4.0)
– Interest cost	–	34.0	34.0	–	34.7	–	34.7
– Expected return on plan assets	–	(34.6)	(34.6)	–	(32.4)	–	(32.4)
	4.5	(0.6)	3.9	8.2	2.3	(2.2)	8.3
Recognised in equity:							
– Actuarial gains and losses			45.9				12.2
– Effect of the asset ceiling			0.3				(0.1)
			50.1				20.4

As at 31 December 2005, the cumulative amount of actuarial losses recognised in equity since 3 January 2004 was £58.1 million (1 January 2005 – £12.2 million).

31. POST-EMPLOYMENT BENEFIT OBLIGATIONS CONTINUED

D. OTHER POST-EMPLOYMENT BENEFITS

The principal assumptions used in the actuarial valuations of the other post-employment benefit plans operated by the Group were as follows:

Valuation as at 31 December 2005:

– Discount rate	5.44%
– Medical cost inflation rate	8.68%

Valuation as at 1 January 2005:

– Discount rate	6.00%
– Medical cost inflation rate	9.74%

The Group's other post-retirement benefit plans are unfunded. Accordingly, the liability recognised in the Group's balance sheet in respect of these plans represents the present value of the benefit obligation.

Changes in the present value of the benefit obligation were as follows:

	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
At the beginning of the period	111.2	152.6
Current service cost	0.4	0.5
Past service cost	(0.7)	(5.6)
Curtailements	–	(1.4)
Settlements	(5.6)	–
Interest cost	6.5	8.6
Actuarial gains and losses	(1.8)	(23.8)
	110.0	130.9
Benefits paid	(10.3)	(10.5)
Foreign currency translation	13.0	(9.2)
At the end of the period	112.7	111.2

The effect of providing other post-employment benefits on the Group's results was as follows:

	Year ended 31 December 2005			Year ended 1 January 2005		
	Profit from operations £ million	Finance charges £ million	Total £ million	Profit from operations £ million	Finance charges £ million	Total £ million
Recognised in the income statement:						
– Current service cost	0.4	–	0.4	0.5	–	0.5
– Past service cost	(0.7)	–	(0.7)	(5.6)	–	(5.6)
– Settlement and curtailments	(5.6)	–	(5.6)	(1.4)	–	(1.4)
– Interest cost	–	6.5	6.5	–	8.6	8.6
	(5.9)	6.5	0.6	(6.5)	8.6	2.1
Recognised in equity:						
– Actuarial gains and losses			(1.8)			(23.8)
			(1.2)			(21.7)

As at 31 December 2005, the cumulative amount of actuarial gains recognised in equity since 3 January 2004 was £25.6 million (1 January 2005 – £23.8 million).

Sensitivity to change in the assumed medical cost inflation rate used in the actuarial valuations as at 31 December 2005 is as follows:

	Increase of one percentage point £ million	Decrease of one percentage point £ million
Effect on the aggregate of the current service cost and the interest cost	0.6	(0.6)
Effect on the accumulated benefit obligation	9.4	(9.1)

32. SHARE-BASED INCENTIVES

A. BACKGROUND

The Company operates a number of share-based compensation arrangements to provide incentives to the Group's senior management and other eligible employees. Details of the schemes in respect of which options and awards are outstanding are set out in the Remuneration Committee report on pages 50 to 55.

B. SHARE OPTIONS

Following a review by the Board in 2004, it was decided that the Company's executive share option schemes would not be renewed when they lapsed for the purposes of new grants in May 2005. Accordingly, no new options were granted under these schemes during 2005. Options will continue to be granted from time to time under the Company's savings-related share option scheme, which is restricted to employees who are resident for tax purposes in the United Kingdom.

Options granted under the Company's share option schemes are classified as equity-settled awards. The compensation expense recognised during the period in respect of share options was £3.9 million (2004 – £1.9 million).

Changes in the total number of share options outstanding during the period were as follows:

	Year ended 31 December 2005		Year ended 1 January 2005	
	Options Number	Weighted average exercise price Pence	Options Number	Weighted average exercise price Pence
Outstanding at the beginning of the period	30,333,766	236.49	25,273,442	234.30
Granted during the period	419,297	218.40	6,853,762	238.86
Forfeited during the period	(1,197,190)	214.80	(1,143,977)	219.60
Exercised during the period	(175,884)	239.96	(627,524)	191.33
Expired during the period	(950,857)	328.80	(21,937)	192.24
Outstanding at the end of the period	28,429,132	234.03	30,333,766	236.49
Exercisable at the end of the period	5,079,142	250.35	4,374,594	265.15

On the dates on which options were exercised during 2005, the weighted average market price of the Company's ordinary shares was 276.04p per share (2004 – 268.69p per share).

The compensation expense recognised in respect of share options is based on their fair value at the grant date calculated using the Black-Scholes option pricing model.

Assumptions made in calculating the fair values of options granted during the period were as follows:

	Year ended 31 December 2005	Year ended 1 January 2005
Options granted	419,297	6,853,762
Weighted average fair value	87.24p	70.18p
Weighted average assumptions:		
– Share price	273.00p	250.33p
– Exercise price	218.40p	239.05p
– Expected volatility	30.46%	31.50%
– Expected life	5.25 years	5.83 years
– Risk free interest rate	3.84%	4.51%
– Expected dividends	12.60p	12.00p

Expected volatility was determined based on the historical volatility of the market price of the Company's ordinary shares over the period since May 2001 when, following a period of significant de-merger activity, the Group was re-focused on its remaining core businesses. Adjustments have been made to the expected life used in the model to reflect the effects of non-transferability, exercise restrictions and behavioural considerations.

The weighted average contractual life of share options outstanding at the end of the period was as follows:

	As at 31 December 2005		As at 1 January 2005	
	Outstanding Number	Weighted average remaining contractual life Years	Outstanding Number	Weighted average remaining contractual life Years
Range of exercise prices:				
– 150p to 200p	6,165,914	5.78	6,264,914	6.74
– 201p to 250p	15,073,768	7.06	15,547,875	7.95
– 251p to 300p	6,171,222	7.49	6,171,222	8.49
– 301p and higher	1,018,228	6.10	1,970,728	3.73
	28,429,132		29,954,739	

32. SHARE-BASED INCENTIVES CONTINUED

C. OTHER EQUITY-SETTLED AWARDS

The Group's principal share-based compensation arrangement is the Annual Bonus Incentive Plan ("ABIP") which is restricted to the Group's senior management and provides an award of bonus shares and deferred shares based on the profit of the business for which the participants have responsibility.

During the period, awards were made over 1,415,047 ordinary shares (2004 – 1,310,424 ordinary shares) under the ABIP. Also during the period, matching awards were made over 11,320 ordinary shares (2004 – 11,369 ordinary shares) under the Share Matching Scheme ("SMS") which is a legacy scheme that is closed to new entrants.

The fair value of awards made under these schemes is measured based on the market price of the Company's ordinary shares on the date of the award. Where the awards do not attract dividends during the vesting period, the market price is reduced by the present value of the dividends expected to be paid during the expected life of the awards. The weighted average fair value of awards made during the period was 257.08p (2004 – 252.14p).

Awards made under these schemes are classified as equity-settled awards. The compensation expense recognised during the period was £3.5 million (2004 – £2.5 million).

D. CASH-SETTLED AWARDS

The Deferred Matching Share Purchase Plan was introduced for James Nicol as part of the incentive package to attract him to the Company. Under this plan 3,045,684 ordinary shares ("Matching Shares") were awarded on 11 February 2002 following the purchase by Mr Nicol of 1,015,228 ordinary shares. After three years from 18 February 2002 (or earlier in certain circumstances), the award was to vest in respect of 1,015,228 Matching Shares and the remaining 2,030,456 Matching Shares were to vest to the extent that, for every 1 penny the highest market price of the Company's ordinary shares sustained over a five-day period during the six-month period ended 18 February 2005 exceeded 197 pence, being the market price on 18 February 2002, Mr Nicol was entitled to receive 5,153 shares. In the event, the market price achieved under the terms of the plan was 285.25 pence and of the 2,030,456 Matching Shares, 454,752 vested and the balance lapsed.

Under the terms of his contract, Mr Nicol was entitled to elect to receive a cash payment in lieu of shares and for this reason this plan was classified as a cash-settled transaction. In the event, Mr Nicol elected to receive cash and was paid £4,193,000 (subject to statutory deductions) in settlement on 28 February 2005.

As at 1 January 2005, the Group recognised a liability of £3.6 million. During the period, the Group recognised a compensation expense of £0.6 million (2004 – £1.3 million).

33. DEFERRED TAX

Movements in the net deferred tax assets and (liabilities) recognised by the Group were as follows:

	Post-employment benefit obligations £ million	Tax losses £ million	Accrued expenses £ million	Long-lived assets £ million	Inventories £ million	Other items £ million	Total £ million
As at 3 January 2004	117.4	11.0	21.7	(55.1)	(10.0)	22.7	107.7
(Charge)/credit to the income statement	(16.3)	3.1	4.4	(5.3)	(14.8)	11.7	(17.2)
Credit directly to equity	(5.3)	–	–	–	–	(0.2)	(5.5)
Disposal of subsidiaries	(0.8)	–	(0.3)	0.1	(0.3)	(0.3)	(1.6)
Currency translation differences	(8.5)	(0.1)	(1.4)	3.7	1.1	(1.5)	(6.7)
As at 1 January 2005	86.5	14.0	24.4	(56.6)	(24.0)	32.4	76.7
Adoption of IAS 32 & IAS 39 (note 1C)	–	–	–	–	–	(2.6)	(2.6)
	86.5	14.0	24.4	(56.6)	(24.0)	29.8	74.1
Acquisition of subsidiaries	–	–	–	(1.3)	–	–	(1.3)
(Charge)/credit to the income statement	(12.6)	1.6	(0.4)	(3.7)	(1.0)	(24.8)	(40.9)
Credit directly to equity	14.5	–	–	–	–	0.3	14.8
Currency translation differences	9.6	0.7	2.8	(7.7)	(3.2)	3.0	5.2
As at 31 December 2005	98.0	16.3	26.8	(69.3)	(28.2)	8.3	51.9

Deferred tax assets and liabilities presented in the Group's balance sheet are as follows:

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Deferred tax assets	101.9	119.4
Deferred tax liabilities	(50.0)	(42.7)
	51.9	76.7

As at 31 December 2005, the Group had operating tax losses amounting to £1,202.1 million of which £1,158.1 million can be carried forward indefinitely and £44.0 million have expiry dates between 2006 and 2019. As at 31 December 2005, the Group recognised a deferred tax asset of £15.3 million in respect of these losses.

As at 31 December 2005, the Group had capital tax losses amounting to £286.3 million of which £285.7 million can be carried forward indefinitely and £0.6 million expire in 2009. As at 31 December 2005, the Group recognised a deferred tax asset of £1.0 million in respect of these losses.

As at 31 December 2005, the undistributed earnings of foreign subsidiaries amounted to £1,948.9 million (1 January 2005 – £1,483.8 million). No income taxes have been provided on the Company's share of these undistributed earnings due to management's ability and intent to reinvest such amounts indefinitely. A determination of the amount of the unrecognised deferred tax liability has not been made because it is not practical to do so.

34. PROVISIONS

	Restructuring costs £ million	Disposal and exit of businesses £ million	Environmental remediation £ million	Workers compensation £ million	Other £ million	Total £ million
As at 1 January 2005	10.8	3.9	5.6	18.4	20.7	59.4
Charge for the period	5.1	–	1.1	7.6	6.0	19.8
Reversal of provision for disposal of business	–	(4.0)	–	–	–	(4.0)
Acquisition of subsidiaries	–	–	–	–	0.3	0.3
Utilised during the period	(5.9)	–	(1.0)	(6.3)	(7.7)	(20.9)
Foreign currency translation	0.7	0.1	0.5	2.2	1.4	4.9
As at 31 December 2005	10.7	–	6.2	21.9	20.7	59.5

Provisions are presented in the Group's balance sheet as follows:

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Current liabilities	41.3	40.2
Non-current liabilities	18.2	19.2
	59.5	59.4

Other provisions comprise warranty provisions of £6.2 million (1 January 2005 – £5.6 million), product liability provisions of £7.2 million (1 January 2005 – £7.3 million) and insurance provisions of £7.3 million (1 January 2005 – £7.8 million).

35. ORDINARY SHARES

	Year ended 31 December 2005		Year ended 1 January 2005	
	Number of shares	£ million	Number of shares	£ million
Ordinary shares of 5p each				
Authorised				
At the beginning and end of the period	1,585,164,220	79.2	1,585,164,220	79.2

	Number of shares	Share capital £ million	Share premium account £ million	Total £ million
Allotted and fully paid				
As at 3 January 2004	773,262,360	38.7	92.8	131.5
Shares issued	627,524	–	1.2	1.2
As at 1 January 2005	773,889,884	38.7	94.0	132.7
Shares issued	605,240	–	1.8	1.8
As at 31 December 2005	774,495,124	38.7	95.8	134.5

During the period, 175,884 ordinary shares (2004 – 627,524 ordinary shares) were allotted pursuant to options exercised under employee share option schemes for total consideration of £0.4 million (2004 – £1.2 million). In addition, 429,356 ordinary shares were issued on conversion of 43,947 convertible cumulative preference shares at a total value of £1.4 million. No convertible cumulative preference shares were converted during 2004.

36. OWN SHARES

	Year ended 31 December 2005		Year ended 1 January 2005	
	Number of shares	£ million	Number of shares	£ million
At the beginning of the period	3,500,040	8.9	2,628,859	6.4
Own shares purchased	860,338	2.4	1,583,482	4.1
Sale or transfer of own shares	(1,129,976)	(2.6)	(712,301)	(1.6)
At the end of the period	3,230,402	8.7	3,500,040	8.9

Own shares represent the cost of the Company's ordinary shares acquired to meet the Group's expected obligations under the employee share schemes described in the Remuneration Committee report on pages 50 to 55. Dividends relating to own shares held have been waived with the exception of those that are payable to participants in the relevant schemes.

As at 31 December 2005, 1,571,599 ordinary shares (1 January 2005 – 2,264,407 ordinary shares) were held in trust and 1,658,803 ordinary shares (1 January 2005 – 1,235,638 ordinary shares) were held as treasury shares.

37. OTHER RESERVES

	Capital redemption reserve £ million	Currency translation reserve £ million	Available-for-sale reserve £ million	Retained profit/(losses) £ million	Total £ million
As at 3 January 2004	461.9	–	–	(190.6)	271.3
Profit for the period attributable to equity shareholders	–	–	–	184.4	184.4
Net income/(expense) recognised directly in equity:					
– Post-employment benefits					
Actuarial gains	–	–	–	11.8	11.8
Effect of the asset ceiling	–	–	–	0.1	0.1
– Currency translation differences on foreign operations	–	(28.5)	–	–	(28.5)
– Tax on items recognised directly in equity	–	–	–	(5.6)	(5.6)
Transfers from equity to the income statement:					
– Cumulative currency translation differences on the disposal of foreign operations	–	0.9	–	–	0.9
Total recognised income and expense attributable to equity shareholders	–	(27.6)	–	190.7	163.1
Loss on sale or transfer of own shares	–	–	–	(1.6)	(1.6)
Cost of equity-settled share-based incentives	–	–	–	4.4	4.4
Dividends paid on ordinary shares	–	–	–	(94.5)	(94.5)
As at 1 January 2005	461.9	(27.6)	–	(91.6)	342.7
Adoption of IAS 32 & IAS 39 (note 1C)	–	–	0.1	63.0	63.1
	461.9	(27.6)	0.1	(28.6)	405.8
Profit for the period attributable to equity shareholders	–	–	–	192.2	192.2
Net income/(expense) recognised directly in equity:					
– Fair value gain on available-for-sale investments	–	–	0.4	–	0.4
– Post-employment benefits	–	–	–	–	–
Actuarial losses	–	–	–	(44.1)	(44.1)
Effect of the asset ceiling	–	–	–	(0.3)	(0.3)
– Currency translation differences on foreign operations	–	132.7	–	–	132.7
– Fair value loss on net investment hedges	–	(72.6)	–	–	(72.6)
– Tax on items recognised directly in equity	–	–	(0.3)	16.8	16.5
Transfers from equity to the income statement:					
– Fair value gains realised on the sale of available-for-sale investments	–	–	(0.2)	–	(0.2)
Total recognised income and expense attributable to equity shareholders	–	60.1	(0.1)	164.6	224.6
Profit on sale or transfer of own shares	–	–	–	0.3	0.3
Cost of equity-settled share-based incentives	–	–	–	7.4	7.4
Dividends paid on ordinary shares	–	–	–	(99.4)	(99.4)
As at 31 December 2005	461.9	32.5	–	44.3	538.7

38. MINORITY INTERESTS

	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
At the beginning of the period	41.6	31.0
Total recognised income and expense attributable to minority interests	12.7	9.4
Shares issued by a subsidiary to minority shareholders	–	3.9
Dividends paid to minority equity shareholders	(5.9)	(2.7)
At the end of the period	48.4	41.6

39. CONVERTIBLE CUMULATIVE PREFERENCE SHARES

	Year ended 31 December 2005		Year ended 1 January 2005	
	Number of shares	Nominal value US\$ million	Number of shares	Nominal value US\$ million
Convertible cumulative preference shares of US\$50 each				
Authorised				
At the beginning and end of the period	13,920,000	696.0	13,920,000	696.0
Carrying amount				
	Number of shares	Nominal value £ million	Accrued dividend payable £ million	Total £ million
Allotted and fully paid				
As at 3 January 2004	10,506,721	337.2	–	337.2
As at 1 January 2005	10,506,721	337.2	–	337.2
Adoption of IAS 32 & IAS 39 (note 1C)	–	(63.6)	1.9	(61.7)
	10,506,721	273.6	1.9	275.5
Shares converted	(43,947)	(1.4)	–	(1.4)
Foreign currency translation	–	32.5	0.2	32.7
As at 31 December 2005	10,462,774	304.7	2.1	306.8

The Convertible cumulative preference shares (“the Preference shares”) were issued on terms that they could be converted at any time, at the shareholder’s option, into fully paid ordinary shares of 5p each in the Company on the basis of 9.77 ordinary shares for every one preference share so converted. At the date of issue, the conversion terms of the Preference shares were equivalent to a price of 334p per ordinary share.

The Company has the option, at any time when the total amount of the Preference shares issued and outstanding is less than 10% of the amount originally issued and in any event on or after 29 July 2006, to redeem, in the first case, all but not some only and, in the second case, all or any of the Preference shares which remain issued and outstanding at that time.

Until such time as the Preference shares are converted or redeemed, the holders of the Preference shares have a right to receive dividends at an annual rate of 5.560 per cent in preference to the holders of the Company’s ordinary shares. As at 31 December 2005, the carrying value of the Preference shares included an accrued dividend payable of £2.1 million (1 January 2005 – £nil).

The holders of the Preference shares are entitled to vote at a general meeting of the Company where, on a show of hands, each holder will have one vote and, on a poll, each holder will have one vote in respect of every seven fully paid ordinary shares to which the holder would be entitled on the full exercise of his conversion rights, except if two or more consecutive quarterly dividends are in arrears whereupon, on a poll, each holder shall have one vote in respect of every fully paid ordinary share to which the holder would be entitled on the full exercise of his conversion rights and such voting rights would continue until such time as any arrears of dividends have been paid in full.

On a return of assets on liquidation or otherwise, other than on redemption or repurchase of the Preference shares, the assets of the Company available to shareholders will be applied first in repaying the capital paid up or credited as paid up in respect of the Preference shares together with all arrears and accruals of dividends to the holders of the Preference shares and any other classes of shares ranking pari passu as to capital with the Preference shares.

40. ACQUISITIONS

INDUSTRIAL & AUTOMOTIVE

On 18 March 2005, the Group acquired L.E. Technologies, a recreational vehicle frame manufacturer, for cash consideration, including costs, of \$80.0 million (£41.8 million). Goodwill of £26.4 million arising on the acquisition was capitalised which reflects that the acquisition provides the Group with an extended product range, enables Dexter Axle Company Inc. to pre-integrate its axles to vehicle frames and gives the opportunity for a number of synergies. In addition to goodwill, an intangible asset of £2.4 million has been recognised for customer relationships.

On 1 July 2005, the Group acquired Eifeler Maschinenbau GmbH (“EMB”), a manufacturer of high-performance hydraulic tube fittings, adapters and accessories, for cash consideration, including costs, of €36.5 million (£24.6 million). Provisional Goodwill of £11.1 million arising on the acquisition was capitalised which is attributable to the value of EMB’s assembled workforce and its well established distribution network within Europe and Asia. In addition, there is opportunity for significant synergies from the sale of the Group’s existing products through EMB’s distribution network and from the ability to offer a broader range of product to the Group’s existing customer base.

During 2005, additional goodwill of £0.8 million was recognised on the acquisition of certain businesses of Mectrol Corporation in December 2004.

BUILDING PRODUCTS

On 27 January 2005, the Group acquired Milcor Inc, a multi-brand manufacturer of building products, for cash consideration, including costs, of \$42.9 million (£22.8 million). Goodwill of £14.1 million arising on the acquisition was capitalised which reflects the value of the enhancement of the Group’s position in the residential grilles, registers and diffusers market as a result of the acquisition, the strengthening of the Group’s ability to secure sales representation in several key markets and the provision of growth opportunities in the commercial products portion of the market. In addition, the acquisition provides immediate access to a Chinese manufacturing source and an opportunity for significant synergies.

40. ACQUISITIONS CONTINUED

On 23 September 2005, the Group acquired NRG Industries Inc, a multi brand manufacturer of commercial building accessories, for cash consideration, including costs, of \$25.1 million (£14.1 million). Provisional goodwill of £7.1 million arising on the acquisition was capitalised which reflects that the acquisition gave the Group access to fully developed products that could be marketed more broadly through Ruskin Company and Air Systems Components channels. In addition, the acquisition increased our presence in significant markets as well as providing opportunity for a number of manufacturing synergies.

The businesses acquired during the period contributed £90.0 million to the Group's revenue and £10.4 million to the Group's profit for the period during the period between their respective dates of acquisition and the balance sheet date.

In the event that these companies had been acquired on 2 January 2005, it is estimated that they would have contributed £129.3 million to the Group's revenue for the period, but it is not practicable to estimate what their contribution to the Group's profit for the period would have been on this assumption because balance sheets of these companies as at 2 January 2005 prepared in accordance with IFRS are not available.

The net assets acquired in acquisitions recognised during the period, and the goodwill arising, were as follows:

	As at the date of acquisition		
	Acquiree's carrying amount in accordance with IFRS £ million	Fair value adjustments £ million	Fair value £ million
Net assets acquired:			
– Intangible assets	4.2	(0.6)	3.6
– Property, plant and equipment	19.3	(1.3)	18.0
– Deferred tax assets	(0.8)	(0.5)	(1.3)
– Inventories	17.3	(0.2)	17.1
– Trade and other receivables	15.9	(1.6)	14.3
– Cash and cash equivalents	1.5	0.2	1.7
– Trade and other payables	(16.4)	6.3	(10.1)
	<u>41.0</u>	<u>2.3</u>	<u>43.3</u>
Goodwill			59.7
Consideration (including transaction costs)			<u>103.0</u>

The net cash outflow on acquisitions during the period was as follows:

Consideration paid on current period acquisitions	£ million
	103.3
Adjustment to cash consideration paid on prior period acquisition	(0.3)
Cash and cash equivalents acquired	(1.7)
	<u>101.3</u>

41. DISPOSALS

INDUSTRIAL & AUTOMOTIVE

On 2 January 2005, Unified Industries, Inc., was sold for \$1.0 million (£0.5 million) resulting in a loss of £1.1 million, which was fully provided for in 2004.

On 9 February 2005, the business and assets of the AirSprings division were sold for a net consideration of \$7.9 million (£4.2 million), of which \$5.0 million (£2.6 million) is deferred. This resulted in a loss of £3.9 million, of which £2.9 million was provided for in 2004.

On 4 July 2005, the business and assets of the North American Curved Hose business was sold for a net cash consideration of \$10.6 million (£6.1 million) resulting in a gain on disposal of £0.8 million.

BUILDING PRODUCTS

On 16 September 2005, the business and assets of Gutter Helmet, part of the Hart & Cooley residential construction business, was sold for \$20.4 million (£11.3 million) resulting in a gain of £9.0 million.

Also during 2005, the Group recognised a net gain of £3.1 million on the receipt of additional consideration in relation to businesses sold in previous years.

The net assets of businesses sold during the period, and the gain arising, were as follows:

	£ million
Consideration:	
– Cash	29.3
– Deferred consideration	2.4
	<u>31.7</u>
Net assets disposed of:	
– Property, plant and equipment	(11.2)
– Inventories	(4.0)
– Trade and other receivables	(9.2)
– Trade and other payables	0.6
	<u>(23.8)</u>
Utilisation of provision	4.0
Gain on disposal	<u>11.9</u>
Attributable to:	
– Continuing operations	8.5
– Discontinued operations	3.4
Gain on disposal	<u>11.9</u>

The net cash inflow on disposals during the period was as follows:

	£ million
Consideration received on current period disposals	18.9
Adjustment to cash consideration received on prior period disposal	(0.3)
Deferred consideration received on prior period disposal	10.7
	<u>29.3</u>

42. CONTINGENCIES

The Group is, from time to time, party to legal proceedings and claims, which arise in the ordinary course of business. The Directors do not anticipate that the outcome of any current proceedings or known claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

43. OPERATING LEASES

The Group rents certain office premises and plant, equipment and vehicles under operating lease arrangements. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. During the period, the Group recognised as an expense operating lease rentals amounting to £20.7 million (2004 – £21.5 million).

As at 31 December 2005, the Group had outstanding commitments under non-cancellable operating leases amounting to £124.5 million (1 January 2005 – £98.5 million), falling due as follows:

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Payments to be made:		
– Within one year	20.8	16.3
– In the second to fifth years, inclusive	56.4	43.3
– After more than five years	47.3	38.9
	<u>124.5</u>	<u>98.5</u>

44. CAPITAL COMMITMENTS

As at 31 December 2005, the Group had entered into contractual commitments for the purchase of property plant and equipment amounting to £37.1 million (1 January 2005 – £ 36.9 million).

45. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and therefore are not required to be disclosed in these financial statements. Details of transactions between the Group and other related parties are disclosed below.

POST-EMPLOYMENT BENEFIT PLANS

During the period, the Group paid employer's contributions amounting to £69.9 million (2004 – £50.1 million) in total to defined benefit and defined contribution pension plans established for the benefit of its employees. As at 31 December 2005, an amount of £7.4 million (1 January 2005 – £5.6 million) in respect of employer's contributions due was included in trade payables. In addition, during the period, the Group paid benefits of £10.3 million (2004 – £10.5 million) to other post employment benefit plans.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

For the purposes of these disclosures, the Group regards its key management personnel as the Directors of the Company together with those persons who, in accordance with the Listing Rules of the London Stock Exchange, are regarded as discharging management responsibility. Compensation paid or payable to key management personnel in respect of their services to the Group was as follows:

	Year ended 31 December 2005 £'000	Year ended 1 January 2005 £'000
Short-term employee benefits:		
– Salaries and fees	3,549	3,374
– Bonus cash	2,686	2,549
– Benefits-in-kind	161	634
– Social security contributions	1,030	495
	7,426	7,052
Share-based incentives:		
– Bonus shares	665	593
– Deferred shares	1,330	1,186
– Long-term incentive plans	4,193	–
– Notional gains on the exercise of share options	17	3
	6,205	1,782
Pension contributions	978	942
	14,609	9,776

Details of Directors' remuneration are presented in the Remuneration Committee report on pages 50 to 55.

OTHER RELATED PARTY TRANSACTIONS

During the period, the Group purchased aviation services under an agreement with IGC, LLC and GForce Aviation, LLC. IGC, LLC was wholly owned by Mr C C Gates until his death on 28 August 2005, when ownership passed to the Gates family. As disclosed in the Directors' Report, Mr Gates had and Gates family members have an interest in the Company's Convertible cumulative preference shares. The agreement was entered into on an arm's length basis and the services provided are used strictly for corporate travel to the Group's diverse locations within North America and only if there is no lower cost alternative available to the Group's employees. The agreement permits the Group to purchase an unlimited number of aircraft flying hours at the rate of US\$1,950 per flying hour, plus US\$1,300 per day crew, plus US\$1,800 per month to cover insurance costs. During the period, the Group recognised an expense of US\$147,870 (2004 – US\$145,705) in respect of these services. As at 31 December 2005, an amount of US\$ 2,100 (1 January 2005 – US\$1,700) due to IGC, LLC was included in trade payables.

There are no further transactions or proposed transactions with related parties that are material to the Group or to a related party.

108 FIRST-TIME ADOPTION OF IFRS

EXPLANATION OF TRANSITION TO IFRS

A. ADOPTION OF IFRS

The Group adopted International Financial Reporting Standards ("IFRS") with a transition date of 4 January 2004.

Accordingly, the Group's consolidated balance sheets as at 3 January 2004 and 1 January 2005 and its consolidated income statement and consolidated cash flow statement for the year ended 1 January 2005 that were previously reported in accordance with United Kingdom generally accepted accounting principles ("UK GAAP") have been restated in accordance with IFRS on the basis of Group's accounting policies determined in accordance with IFRS that are described on pages 70 to 73.

As a general rule, the Group applied those accounting policies fully retrospectively to determine its restated financial position as at 3 January 2004 and 1 January 2005 and its results and cash flows for the year ended 1 January 2005. However, as described below, the Group used certain exemptions from the principle of full retrospective application permitted by IFRS 1 "First-time Adoption of IFRS".

B. EXEMPTIONS FROM RETROSPECTIVE APPLICATION OF IFRS

(I) GOODWILL

The Group elected not to apply IFRS 3 "Business Combinations" to business combinations that were recognised on or before 3 January 2004. As a result, the carrying amount of goodwill recognised as an asset under UK GAAP was brought forward unadjusted as the cost of goodwill recognised under IFRS as at 3 January 2004 and goodwill that was written-off directly to reserves under UK GAAP is not taken into account in determining the gain or loss on the disposal of acquired businesses on or after 4 January 2004.

(II) SHARE-BASED INCENTIVES

The Group applied IFRS 2 "Share-based Payment" retrospectively to all awards that were outstanding but had not vested as at 1 January 2005, except those equity-settled awards that were granted on or before 7 November 2002.

(III) CUMULATIVE TRANSLATION DIFFERENCES

The Group elected to deem the cumulative currency translation differences on its net investment in foreign operations to be £nil as at 3 January 2004. Accordingly, the gain or loss recognised on the disposal of a foreign operation does not include currency translation differences that arose before 4 January 2004.

(IV) FINANCIAL INSTRUMENTS

The Group elected to apply IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" prospectively from 2 January 2005. Accordingly, previously reported amounts as at 3 January 2004 and 1 January 2005 and for the year ended 1 January 2005 have not been restated to reflect the adoption of these accounting standards.

C. SUMMARY OF ADJUSTMENTS BETWEEN UK GAAP AND IFRS

A detailed analysis of the adjustments that were made to the comparative financial information is presented on pages 110 to 121 which shows the effect of differences between the Group's accounting policies determined under UK GAAP and those determined under IFRS separately from the effect of presentational differences between UK GAAP and IFRS.

In summary, the effect of adopting IFRS on the Group's reported results and financial position was as follows:

	Note D	Year ended 1 January 2005 £ million
Profit after tax under UK GAAP		180.9
Adjustments:		
– Goodwill	(I)	25.6
– Share-based incentives	(III)	(0.8)
– Post-employment benefits	(IV)	16.3
– Future operating losses	(V)	(1.0)
– Cumulative translation differences	(VI)	(0.9)
– Deferred tax	(VIII)	(1.5)
Deferred tax on IFRS adjustments		(8.5)
Profit for the period under IFRS		210.1

Note D	As at 1 January 2005 £ million	As at 3 January 2004 £ million
Equity shareholders' funds under UK GAAP	448.4	406.8
Adjustments:		
– Goodwill	(I) 12.2	–
– Share-based incentives	(III) (1.5)	(1.2)
– Post-employment benefits	(IV) (101.5)	(137.0)
– Future operating losses	(V) –	1.1
– Proposed dividend	(VII) 60.0	57.2
– Deferred tax	(VIII) 11.5	13.6
Deferred tax on IFRS adjustments		36.9 53.6
Minority interest in IFRS adjustments		0.5 2.3
Shareholders' equity under IFRS	466.5	396.4

Reported cash flows were unaffected by the adoption of IFRS, but the cash flow statement for the year ended 1 January 2005 contained in the Group's consolidated financial statements prepared in accordance with IFRS has been re-presented in the format specified by IAS 7 "Cash Flow Statements".

D. SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES

(I) GOODWILL

Under UK GAAP, capitalised goodwill was amortised over its useful economic life. Under IFRS, this goodwill is no longer amortised but is tested at least annually for impairment. The impairment tests carried out by the Group in accordance with IFRS as at 3 January 2004 and as at 1 January 2005 identified no impairment loss.

Goodwill amortisation charged under UK GAAP during 2004 was £12.5 million and this amount is credited back to the income statement under IFRS.

Under UK GAAP, the Group recognised goodwill of £18.6 million on the acquisition of certain businesses of the Mectrol Corporation in 2004. Under IFRS, the Group recognised goodwill of £18.5 million and allocated £0.1 million to identifiable intangible assets.

In summary, the adjustments to the carrying amount of goodwill as at 1 January 2005 were as follows:

	£ million
Carrying amount under UK GAAP	214.2
Adjustments:	
– Reversal of amortisation	12.5
– Allocation to acquired intangible assets	(0.1)
– Currency translation differences	(0.3)
Carrying amount under IFRS	226.3

Under UK GAAP, goodwill written-off directly to reserves was recycled to the income statement on the disposal or impairment of a previously acquired business. Under IFRS, this goodwill is not recycled. Accordingly, goodwill of £13.1 million recycled to the income statement under UK GAAP on the disposal of Mayfran Corporation during 2004 has been reversed under IFRS.

(II) COMPUTER SOFTWARE

Under UK GAAP, all capitalised computer software was included within tangible fixed assets. Under IFRS, capitalised computer software must be presented as an intangible asset if it is not integral to an item of property, plant and equipment. As at 1 January 2005, non-integral computer software with a carrying amount of £4.5 million (3 January 2004 – £6.5 million) was transferred from property, plant and equipment to intangible assets.

(III) SHARE-BASED INCENTIVES

Under UK GAAP, the cost of awards made under the Group's employee share schemes was based on the intrinsic value of the awards, with the exception of SAYE schemes for which no cost was recognised. Under IFRS, the cost of all employee share schemes is based on the fair value of the awards.

As a result, the cost of employee share schemes recognised during 2004 increased by £0.8 million under IFRS. As at 1 January 2005, an additional

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liability of £1.5 million (3 January 2004 – £1.2 million) was recognised in respect of cash-settled awards.

(IV) POST-EMPLOYMENT BENEFITS

Under UK GAAP, the cost of providing defined benefit pensions and post-retirement healthcare benefits was recognised on a systematic basis and surpluses and deficits arising were spread over the expected average remaining service lives of participating employees.

Under IFRS, the cost of benefits accruing under defined benefit plans is recognised over the expected average remaining service lives of the participating employees, but the total cost recognised in each period is dependent on the change during the period in the recognised defined benefit liability or asset.

Under UK GAAP, the cost of defined benefit plans was charged in arriving at operating profit. Under IFRS, the service cost, the past service cost and the effect of settlements and curtailments are included in profit from operations, the expected return on plan assets and the interest cost on the defined benefit obligation are included within net finance costs and actuarial gains and losses and the effect of the asset ceiling are recognised in the statement of recognised income and expense.

As shown below, the total cost of defined benefit plans recognised under IFRS during 2004 was £28.0 million lower than that recognised under UK GAAP:

	Year ended 1 January 2005		
	UK GAAP presented in IFRS format £ million	Adjustment £million	Restated under IFRS £ million
Recognised in the income statement:			
– Continuing operations			
Charge to profit from operations	28.2	(25.0)	3.2
Charge to net finance costs	–	10.9	10.9
	28.2	(14.1)	14.1
– Discontinued operations	–	(2.2)	(2.2)
	28.2	(16.3)	11.9
Recognised directly in equity:			
– Actuarial gains and losses	–	(11.6)	(11.6)
– Effect of the asset ceiling	–	(0.1)	(0.1)
Total cost of defined benefit plans	28.2	(28.0)	0.2

During 2004, the charge to profit from operations under IFRS included a net credit of £4.8 million arising from settlements and curtailments and adjustments to past service costs.

Shareholders' equity as at 1 January 2005 was reduced by £101.5 million (3 January 2004 – £137.0 million) due to the recognition of the net defined benefit liability under IFRS.

Accounting for defined contribution plans is unchanged under IFRS.

(V) FUTURE OPERATING LOSSES

Under UK GAAP, the Group provided for the expected future operating losses of operations that are to be sold or terminated. Under IFRS it is not permissible to provide for future operating losses. Accordingly, the provision for operating losses recognised under UK GAAP as at 3 January 2004 was reversed under IFRS and operating losses of £1.0 million incurred during 2004, that were set against the provision established under UK GAAP, were charged to the income statement under IFRS.

(VI) CUMULATIVE TRANSLATION DIFFERENCES

Under UK GAAP, currency translation differences arising on the Group's net investment in foreign operations were recognised in reserves and were not recycled to the income statement in the event of the disposal of a foreign operation. Under IFRS, cumulative currency translation differences arising on or after 4 January 2004 are recognised as a separate component of equity and are taken into account in calculating the gain or loss on the disposal of a foreign operation. During 2004, cumulative currency translation losses

of £0.9 million were taken into account in calculating the net gain on disposal of businesses recognised under IFRS.

(VII) PROPOSED DIVIDENDS

Under UK GAAP, proposed dividends on ordinary shares were recognised as a liability in the period to which they related. Under IFRS, interim dividends are not recognised until they are paid and final dividends are not recognised until they are declared following approval by shareholders at the Company's Annual General Meeting. Shareholders' equity as at 1 January 2005 was increased by £60.0 million (3 January 2004 – £57.2 million) due to the reversal under IFRS of the liability for the proposed final dividend for the relevant period that was recognised under UK GAAP.

(VIII) DEFERRED TAX

Under UK GAAP, deferred tax was provided on timing differences between the accounting and taxable profit (an income statement approach). Under IFRS, deferred tax is provided on temporary differences between the book carrying value and tax base of assets and liabilities (a balance sheet approach).

While the difference in the approach to determining taxable differences did not give rise to a significant adjustment, an adjustment was necessary in relation to the differing bases for recognising deferred tax assets. Under UK GAAP, a deferred tax asset was recognised where it was more likely than not that there were suitable taxable profits from which the future reversal of the underlying timing difference could be deducted, and for this purpose the Group considered only the future periods for which forecasts are prepared. Under IFRS, the look forward period is not limited to the period for which forecasts are prepared. As a result, additional deferred tax assets amounting to £11.5 million were recognised as at 1 January 2005 (3 January 2004 – £13.6 million).

As at 1 January 2005, additional deferred tax assets of £63.3 million (3 January 2004 – £54.0 million) and deferred tax liabilities of £26.4 million (3 January 2004 – £0.4 million) were recognised on the adjustments between UK GAAP and IFRS.

E. PRESENTATIONAL CHANGES

The restated financial information on pages 110 to 121 is presented in accordance with IAS 1 "Presentation of Financial Statements" and IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations".

A number of presentational changes have been made compared with UK GAAP, including the following that affect the Group's reported profit from operations:

- the results of discontinued operations are shown as a single line item below profit after tax;
- items that were treated as non-operating exceptional items under UK GAAP and relate to continuing operations are included in arriving at profit from operations; and
- the results (after interest and tax) of associates are shown as a single line item in arriving at profit from operations.

The Group applied IFRS 5 to assets and related liabilities that met the criteria to be classified as held for sale, and operations that met the criteria to be classified as discontinued on or after 4 January 2004.

Discontinued operations identified under IFRS as at 1 January 2005 corresponded with those identified under UK GAAP and comprised the Group's former Valves, Taps & Mixers businesses.

F. USE OF ESTIMATES

On transition to IFRS, estimates that had been made under UK GAAP as at 3 January 2004 and 1 January 2005 and were also required under IFRS were not revised. Where estimates were required under IFRS that were not required under UK GAAP, they were based on information known at the relevant balance sheet date and did not take into account subsequent events.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 1 JANUARY 2005 RECONCILIATION OF UK GAAP TO IFRS

	UK GAAP presented in IFRS format £ million	Goodwill £ million	Share-based incentives £ million
Continuing operations			
Sales	2,974.1	–	–
Cost of sales	(2,120.2)	–	–
Gross profit	853.9	–	–
Distribution costs	(333.5)	–	–
Administrative expenses	(255.9)	12.5	(0.8)
Share of results of associates	0.8	–	–
	265.3	12.5	(0.8)
Restructuring costs	(17.5)	–	–
Loss on disposal of business	(16.6)	13.1	–
Provision for loss on disposal of businesses	(4.1)	–	–
Costs on exit of business	(18.3)	–	–
Reversal of provision for loss on exit of business	29.6	–	–
Profit from operations	238.4	25.6	(0.8)
Interest payable	(21.5)	–	–
Investment income	6.4	–	–
Profit before tax	223.3	25.6	(0.8)
Tax on profit on ordinary activities	(41.8)	(2.8)	0.2
Profit for the year from continuing operations	181.5	22.8	(0.6)
Discontinued operations			
(Loss)/profit for the year from discontinued operations	(0.6)	–	–
Profit for the year	180.9	22.8	(0.6)
Minority interests	(8.3)	–	–
Dividends payable on convertible cumulative preference shares	(15.6)	–	–
Profit for the year attributable to equity shareholders	157.0	22.8	(0.6)
Earnings per share			
Basic			
Continuing operations	20.45 p		
Discontinued operations	(0.08)p		
Total operations	20.37 p		
Diluted			
Continuing operations	19.74 p		
Discontinued operations	(0.07)p		
Total operations	19.67 p		

Post-employment benefits £ million	Future operating losses £ million	Cumulative Translation differences £ million	Deferred tax £ million	Restated under IFRS £ million
–	–	–	–	2,974.1
–	–	–	–	(2,120.2)
–	–	–	–	853.9
–	–	–	–	(333.5)
28.0	(0.7)	–	–	(216.9)
–	–	–	–	0.8
28.0	(0.7)	–	–	304.3
(3.0)	–	–	–	(20.5)
–	–	(0.9)	–	(4.4)
–	–	–	–	(4.1)
–	–	–	–	(18.3)
–	(0.3)	–	–	29.3
25.0	(1.0)	(0.9)	–	286.3
(43.3)	–	–	–	(64.8)
32.4	–	–	–	38.8
14.1	(1.0)	(0.9)	–	260.3
(5.5)	0.3	–	(1.5)	(51.1)
8.6	(0.7)	(0.9)	(1.5)	209.2
1.5	–	–	–	0.9
10.1	(0.7)	(0.9)	(1.5)	210.1
(1.8)	–	–	–	(10.1)
–	–	–	–	(15.6)
8.3	(0.7)	(0.9)	(1.5)	184.4
				23.81p
				0.12p
				23.93p
				22.71p
				0.10p
				22.81p

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 1 JANUARY 2005 PRESENTATION OF UK GAAP AMOUNTS IN IFRS FORMAT

UK GAAP amounts in UK GAAP format	Previously reported under UK GAAP £ million	Discontinued operations £ million	Operating exceptional items £ million
Turnover	2,980.3	(6.2)	–
Cost of sales	(2,124.9)	4.7	–
Gross profit	855.4	(1.5)	–
Distribution costs	(333.9)	0.4	–
Administrative expenses	(274.4)	1.0	17.5
Share of profits of associates	1.0	–	–
Operating profit including associates	248.1	(0.1)	17.5
		–	(17.5)
Loss on disposal of businesses	(89.7)	73.1	–
Reversal of provision for loss on disposal of business	72.9	(72.9)	–
Provision for loss on disposal	(4.1)	–	–
Costs on exit of business	(18.3)	–	–
Reversal of provision for loss on exit of business	29.6	–	–
Profit before interest	238.5	0.1	–
Net interest payable	(15.1)	–	–
		–	–
Profit on ordinary activities before tax	223.4	0.1	–
Tax on profit on ordinary activities	(42.5)	0.5	–
Profit on ordinary activities after tax	180.9	0.6	–
		(0.6)	–
	180.9	–	–
Minority interests	(8.3)	–	–
Profit attributable to shareholders	172.6	–	–
Dividends on equity and non-equity shares	(112.9)	–	–
Retained profit	59.7	–	–

Associates £ million	Gross up interest £ million	Transfer ordinary dividend to equity £ million	UK GAAP presented in IFRS format £ million	
				UK GAAP amounts in IFRS format
				Continuing operations
				Sales
–	–	–	2,974.1	
–	–	–	(2,120.2)	Cost of sales
–	–	–	853.9	Gross profit
–	–	–	(333.5)	Distribution costs
–	–	–	(255.9)	Administrative expenses
(0.2)	–	–	0.8	Share of results of associates
(0.2)	–	–	265.3	
–	–	–	(17.5)	Restructuring costs
–	–	–	(16.6)	Loss on disposal of business
–	–	–		
–	–	–	(4.1)	Provision for loss on disposal
–	–	–	(18.3)	Costs on exit of business
–	–	–	29.6	Reversal of provision for loss on exit of business
(0.2)	–	–	238.4	Profit from operations
–	(6.4)	–	(21.5)	Interest payable
–	6.4	–	6.4	Investment income
(0.2)	–	–	223.3	Profit before tax
0.2	–	–	(41.8)	Tax on profit on ordinary activities
–	–	–	181.5	Profit for the year from continuing operations
				Discontinued operations
–	–	–	(0.6)	Loss for the year from discontinued operations
–	–	–	180.9	Profit for the year
–	–	–	(8.3)	Minority interests
–	–	–	172.6	
–	–	97.3	(15.6)	Dividends on convertible cumulative preference shares
–	–	97.3	157.0	Profit for the year attributable to equity shareholders

CONSOLIDATED BALANCE SHEET AS AT 1 JANUARY 2005 RECONCILIATION OF UK GAAP TO IFRS

	UK GAAP presented in IFRS format £ million	Goodwill £ million	Computer software £ million	Share-based incentives £ million
Non-current assets				
Goodwill	214.2	12.1	–	–
Other intangible assets	–	0.1	4.5	–
Property, plant and equipment	746.7	–	(4.5)	–
Investments in associates	3.7	–	–	–
Trade and other receivables	4.0	–	–	–
Deferred tax assets	44.7	–	–	0.6
	1,013.3	12.2	–	0.6
Current assets				
Inventories	369.6	–	–	–
Trade and other receivables	508.7	–	–	–
Income tax recoverable	14.3	–	–	–
Available-for-sale Investments	1.6	–	–	–
Cash and cash equivalents	185.4	–	–	–
	1,079.6	–	–	–
Assets held for sale	32.8	–	–	–
Total assets	2,125.7	12.2	–	0.6
Current liabilities				
Bank overdrafts	(6.5)	–	–	–
Bank and other loans	(9.9)	–	–	–
Obligations under finance leases	(3.4)	–	–	–
Trade and other payables	(440.9)	–	–	(1.5)
Income tax liabilities	(11.6)	–	–	–
Provisions	(40.2)	–	–	–
	(512.5)	–	–	(1.5)
Non-current liabilities				
Bank and other loans	(399.5)	–	–	–
Obligations under finance leases	(8.7)	–	–	–
Trade and other payables	(12.3)	–	–	–
Post-employment benefit obligations	(175.0)	–	–	–
Deferred tax liabilities	(16.4)	(2.6)	–	(0.2)
Income tax liabilities	(154.1)	–	–	–
Provisions	(19.2)	–	–	–
	(785.2)	(2.6)	–	(0.2)
Liabilities directly associated with assets held for sale	(0.3)	–	–	–
Total liabilities	(1,298.0)	(2.6)	–	(1.7)
Net assets	827.7	9.6	–	(1.1)
Equity				
Capital and reserves				
Ordinary share capital	38.7	–	–	–
Share premium account	94.0	–	–	–
Own shares	(8.9)	–	–	–
Capital redemption reserve	461.9	–	–	–
Currency translation reserve	–	(0.1)	–	–
Retained losses	(137.3)	9.7	–	(1.1)
Shareholders' equity	448.4	9.6	–	(1.1)
Minority interests	42.1	–	–	–
Total equity	490.5	9.6	–	(1.1)
Convertible cumulative preference shares	337.2	–	–	–
	827.7	9.6	–	(1.1)

Post-employment benefits £ million	Proposed dividend £ million	Cumulative translation differences £ million	Deferred tax £ million	Restated under IFRS £ million
–	–	–	–	226.3
–	–	–	–	4.6
–	–	–	–	742.2
–	–	–	–	3.7
–	–	–	–	4.0
62.7	–	–	11.4	119.4
62.7	–	–	11.4	1,100.2
–	–	–	–	369.6
–	–	–	–	508.7
–	–	–	–	14.3
–	–	–	–	1.6
–	–	–	–	185.4
–	–	–	–	1,079.6
–	–	–	–	32.8
62.7	–	–	11.4	2,212.6
–	–	–	–	(6.5)
–	–	–	–	(9.9)
–	–	–	–	(3.4)
–	60.0	–	–	(382.4)
–	–	–	–	(11.6)
–	–	–	–	(40.2)
–	60.0	–	–	(454.0)
–	–	–	–	(399.5)
–	–	–	–	(8.7)
–	–	–	–	(12.3)
(101.5)	–	–	–	(276.5)
(23.6)	–	–	0.1	(42.7)
–	–	–	–	(154.1)
–	–	–	–	(19.2)
(125.1)	–	–	0.1	(913.0)
–	–	–	–	(0.3)
(125.1)	60.0	–	0.1	(1,367.3)
(62.4)	60.0	–	11.5	845.3
–	–	–	–	38.7
–	–	–	–	94.0
–	–	–	–	(8.9)
–	–	–	–	461.9
4.3	–	(31.2)	(0.6)	(27.6)
(66.2)	60.0	31.2	12.1	(91.6)
(61.9)	60.0	–	11.5	466.5
(0.5)	–	–	–	41.6
(62.4)	60.0	–	11.5	508.1
–	–	–	–	337.2
(62.4)	60.0	–	11.5	845.3

CONSOLIDATED BALANCE SHEET AS AT 1 JANUARY 2005 PRESENTATION OF UK GAAP AMOUNTS IN IFRS FORMAT

UK GAAP amounts in UK GAAP format	Previously reported under UK GAAP £ million	Debtors £ million	Creditors £ million
Fixed assets			
Intangible assets	214.2	–	–
Property, plant and equipment	776.5	–	–
Investments	5.3	–	–
		4.0	–
		44.8	–
	996.0	48.8	–
Current assets			
Stock	371.6	–	–
Debtors	600.9	(91.3)	–
		14.3	–
		–	–
Cash	185.4	–	–
	1,157.9	(77.0)	–
	–	–	–
	2,153.9	(28.2)	–
Current liabilities			
Creditors – amounts falling due within one year	(507.3)	–	500.8
		–	(9.9)
		–	(3.4)
		–	(441.2)
		–	(11.6)
		–	(40.2)
	(507.3)	–	(5.5)
Non current liabilities			
Creditors – amounts falling due after more than one year	(479.4)	–	79.9
		–	(8.7)
		–	(12.3)
		28.2	(53.6)
		–	–
Provisions	(339.5)	–	0.2
	(818.9)	28.2	5.5
		–	–
	(1,326.2)	28.2	–
Net assets	827.7	–	–

Provisions £ million	Investments £ million	Assets held for sale £ million	UK GAAP presented in IFRS format £ million	
				UK GAAP amounts in IFRS format
				Non-current assets
–	–	–	214.2	Goodwill
–	–	(29.8)	746.7	Property, plant and equipment
–	(1.6)	–	3.7	Investments in associates
–	–	–	4.0	Trade and other receivables
–	–	(0.1)	44.7	Deferred tax assets
–	(1.6)	(29.9)	1,013.3	
				Current assets
–	–	(2.0)	369.6	Inventories
–	–	(0.9)	508.7	Trade and other receivables
–	–	–	14.3	Income tax recoverable
–	1.6	–	1.6	Available-for-sale investments
–	–	–	185.4	Cash and cash equivalents
–	1.6	(2.9)	1,079.6	
–	–	32.8	32.8	Assets held for sale
–	–	–	2,125.7	Total assets
				Current liabilities
–	–	–	(6.5)	Bank overdrafts
–	–	–	(9.9)	Bank and other loans
–	–	–	(3.4)	Obligations under finance leases
–	–	0.3	(440.9)	Trade and other payables
–	–	–	(11.6)	Income tax liabilities
–	–	–	(40.2)	Provisions
–	–	0.3	(512.5)	
				Non current liabilities
–	–	–	(399.5)	Bank and other loans
–	–	–	(8.7)	Obligations under finance leases
–	–	–	(12.3)	Trade and other payables
(149.6)	–	–	(175.0)	Post-employment benefit obligations
(16.4)	–	–	(16.4)	Deferred tax liabilities
(154.1)	–	–	(154.1)	Income tax liabilities
320.1	–	–	(19.2)	Provisions
–	–	–	(785.2)	
–	–	(0.3)	(0.3)	Liabilities directly associated with assets held for sale
–	–	–	(1,298.0)	Total liabilities
–	–	–	827.7	Net assets

CONSOLIDATED BALANCE SHEET AS AT 3 JANUARY 2004 RECONCILIATION OF UK GAAP TO IFRS

	UK GAAP presented in IFRS format £ million	Goodwill £ million	Computer software £ million
Non-current assets			
Goodwill	216.7	–	–
Other intangible assets	–	–	6.5
Property, plant and equipment	754.4	–	(6.5)
Investments in associates	3.5	–	–
Deferred tax assets	54.9	–	–
	1,029.5	–	–
Current assets			
Inventories	352.6	–	–
Trade and other receivables	480.7	–	–
Income tax recoverable	23.9	–	–
Investments	1.7	–	–
Cash and cash equivalents	175.6	–	–
	1,034.5	–	–
Assets held for sale	99.5	–	–
Total assets	2,163.5	–	–
Current liabilities			
Bank overdrafts	(13.6)	–	–
Bank and other loans	(13.1)	–	–
Obligations under finance leases	(3.5)	–	–
Trade and other payables	(387.8)	–	–
Income tax liabilities	(15.7)	–	–
Provisions	(57.4)	–	–
	(491.1)	–	–
Non-current liabilities			
Bank and other loans	(401.0)	–	–
Obligations under finance leases	(12.9)	–	–
Trade and other payables	(4.8)	–	–
Post-employment benefit obligations	(195.4)	–	–
Deferred tax liabilities	(16.8)	–	–
Income tax liabilities	(170.0)	–	–
Provisions	(35.8)	–	–
	(836.7)	–	–
Liabilities directly associated with assets held for sale	(58.4)	–	–
Total liabilities	(1,386.2)	–	–
Net assets	777.3	–	–
Equity			
Capital and reserves			
Ordinary share capital	38.7	–	–
Share premium account	92.8	–	–
Own shares	(6.4)	–	–
Capital redemption reserve	461.9	–	–
Currency translation reserve	–	–	–
Retained losses	(180.2)	–	–
Shareholders' equity	406.8	–	–
Minority interests	33.3	–	–
Total equity	440.1	–	–
Convertible cumulative preference shares	337.2	–	–
	777.3	–	–

Share-based incentives £ million	Post-employment benefits £ million	Proposed dividend £ million	Future operating losses £ million	Deferred tax £ million	Restated under IFRS £ million
–	–	–	–	–	216.7
–	–	–	–	–	6.5
–	–	–	–	–	747.9
–	–	–	–	–	3.5
0.3	53.7	–	–	13.6	122.5
0.3	53.7	–	–	13.6	1,097.1
–	–	–	–	–	352.6
–	–	–	–	–	480.7
–	–	–	–	–	23.9
–	–	–	–	–	1.7
–	–	–	–	–	175.6
–	–	–	–	–	1,034.5
–	–	–	–	–	99.5
0.3	53.7	–	–	13.6	2,231.1
–	–	–	–	–	(13.6)
–	–	–	–	–	(13.1)
–	–	–	–	–	(3.5)
(1.2)	–	57.2	–	–	(331.8)
–	–	–	–	–	(15.7)
–	–	–	1.1	–	(56.3)
(1.2)	–	57.2	1.1	–	(434.0)
–	–	–	–	–	(401.0)
–	–	–	–	–	(12.9)
–	–	–	–	–	(4.8)
–	(137.0)	–	–	–	(332.4)
–	–	–	(0.4)	–	(17.2)
–	–	–	–	–	(170.0)
–	–	–	–	–	(35.8)
–	(137.0)	–	(0.4)	–	(974.1)
–	–	–	–	–	(58.4)
(1.2)	(137.0)	57.2	0.7	–	(1,466.5)
(0.9)	(83.3)	57.2	0.7	13.6	764.6
–	–	–	–	–	38.7
–	–	–	–	–	92.8
–	–	–	–	–	(6.4)
–	–	–	–	–	461.9
–	–	–	–	–	–
(0.9)	(81.0)	57.2	0.7	13.6	(190.6)
(0.9)	(81.0)	57.2	0.7	13.6	396.4
–	(2.3)	–	–	–	31.0
(0.9)	(83.3)	57.2	0.7	13.6	427.4
–	–	–	–	–	337.2
(0.9)	(83.3)	57.2	0.7	13.6	764.6

CONSOLIDATED BALANCE SHEET AS AT 3 JANUARY 2004 PRESENTATION OF UK GAAP AMOUNTS IN IFRS FORMAT

UK GAAP amounts in UK GAAP format	Previously reported under UK GAAP £ million	Debtors £ million	Creditors £ million
Fixed assets			
Intangible assets	216.7	–	–
Property, plant and equipment	793.7	–	–
Investments	7.4	–	–
	1,017.8	55.7	–
Current assets			
Stock	373.9	–	–
Debtors	624.2	(107.6)	–
		23.9	–
		–	–
Cash	175.6	–	–
	1,173.7	(83.7)	–
	–	–	–
	2,191.5	(28.0)	–
Current liabilities			
Creditors – amounts falling due within one year	(502.3)	–	488.7
		–	(13.1)
		–	(3.5)
		–	(414.0)
		–	(16.3)
		–	(59.2)
	(502.3)	–	(17.4)
Non current liabilities			
Creditors – amounts falling due after more than one year	(488.4)	–	87.4
		–	(12.9)
		–	(5.1)
		28.0	(56.7)
		–	–
		–	–
Provisions	(423.5)	–	4.7
	(911.9)	28.0	17.4
	–	–	–
	(1,414.2)	28.0	–
Net assets	777.3	–	–

Provisions £ million	Investments £ million	Assets held for sale £ million	UK GAAP presented in IFRS format £ million	
				UK GAAP amounts in IFRS format
				Non-current assets
–	–	–	216.7	Goodwill
–	–	(39.3)	754.4	Property, plant and equipment
–	(1.7)	(2.2)	3.5	Investments in associates
–	–	(0.8)	54.9	Deferred tax assets
–	(1.7)	(42.3)	1,029.5	
				Current assets
–	–	(21.3)	352.6	Inventories
–	–	(35.9)	480.7	Trade and other receivables
–	–	–	23.9	Income tax recoverable
–	1.7	–	1.7	Investments
–	–	–	175.6	Cash and cash equivalents
–	1.7	(57.2)	1,034.5	
–	–	99.5	99.5	Assets held for sale
–	–	–	2,163.5	Total assets
				Current liabilities
–	–	–	(13.6)	Bank overdrafts
–	–	–	(13.1)	Bank and other loans
–	–	–	(3.5)	Obligations under finance leases
–	–	26.2	(387.8)	Trade and other payables
–	–	0.6	(15.7)	Income tax liabilities
–	–	1.8	(57.4)	Provisions
–	–	28.6	(491.1)	
				Non current liabilities
–	–	–	(401.0)	Bank and other loans
–	–	–	(12.9)	Obligations under finance leases
–	–	0.3	(4.8)	Trade and other payables
(169.1)	–	2.4	(195.4)	Post-employment benefit obligations
(16.8)	–	–	(16.8)	Deferred tax liabilities
(170.0)	–	–	(170.0)	Income tax liabilities
355.9	–	27.1	(35.8)	Provisions
–	–	29.8	(836.7)	
–	–	(58.4)	(58.4)	Liabilities directly associated with assets held for sale
–	–	–	(1,386.2)	Total liabilities
–	–	–	777.3	Net assets

PROFIT FROM OPERATIONS AND OPERATING MARGINS BEFORE RESTRUCTURING INITIATIVES

	Industrial & Automotive £ million	Building Products £ million	Unallocated corporate activities £ million	Total £ million
Year ended 31 December 2005				
Revenue	2,298.6	883.8	–	3,182.4
Segment result	234.5	86.5	–	321.0
Adjust for:				
– Restructuring costs	18.7	1.6	–	20.3
– Disposals and exit of businesses	1.0	(9.5)	–	(8.5)
– Share of results of associates	0.6	–	–	0.6
– Gain on sale of available-for-sale investments	0.4	–	–	0.4
– Unallocated corporate activities	–	–	(25.3)	(25.3)
Profit from operations before restructuring initiatives	255.2	78.6	(25.3)	308.5
Operating margin before restructuring initiatives	11.1%	8.9%	–	9.7%
Year ended 1 January 2005				
Revenue	2,182.3	791.8	–	2,974.1
Segment result	248.7	60.4	–	309.1
Adjust for:				
– Restructuring costs	17.8	2.7	–	20.5
– Disposals and exit of businesses	(9.4)	6.9	–	(2.5)
– Share of results of associates	0.5	0.3	–	0.8
– Unallocated corporate activities	–	–	(23.6)	(23.6)
Profit from operations before restructuring initiatives	257.6	70.3	(23.6)	304.3
Operating margin before restructuring initiatives	11.8%	8.9%	–	10.2%

ADDITIONAL FINANCIAL INFORMATION
SUPPLEMENTAL CASH FLOW ANALYSIS

Reconciliation of the cash flow chart included in the Operating and Financial Review on page 34, to the consolidated cash flow statement prepared in accordance with IFRS on page 67.

	Year ended 31 December 2005		Year ended 1 January 2005	
	£ million	£ million	£ million	£ million
Cash generated from operations		336.5		333.9
Capital expenditure (net)				
– Purchase of property, plant & equipment	(128.5)		(154.5)	
– Purchase of intangible assets	(14.8)		(3.2)	
– Disposal of property, plant & equipment	23.8		5.5	
		(119.5)		(152.2)
Operating cash flow		217.0		181.7
Tax				
– Income tax paid	(79.5)		(56.0)	
– Income taxes received	9.0		16.2	
		(70.5)		(39.8)
Interest and preference dividends				
– Interest element of finance lease rental payments	(0.7)		(0.9)	
– Interest received	5.8		4.0	
– Interest paid	(26.1)		(18.6)	
– Preference dividends paid	(16.1)		(15.9)	
		(37.1)		(31.4)
Other movements				
– Capitalisation of development costs	(0.4)		–	
– Dividends received from associates	0.3		0.4	
– Investment by minority shareholder in a subsidiary	–		3.9	
– Dividend paid to a minority shareholder in a subsidiary	(5.9)		(2.7)	
		(6.0)		1.6
Free cash flow to equity		103.4		112.1
Acquisitions and disposals				
– Purchase of subsidiaries, net of cash acquired	(101.3)		(24.0)	
– Sales of subsidiaries, net of cash disposed	29.3		21.3	
– Lease obtained on acquisition	(2.0)		–	
		(74.0)		(2.7)
Ordinary dividends paid		(99.4)		(94.5)
Ordinary share movements				
– Issue of ordinary shares	0.4		1.2	
– Purchase of own shares	(2.4)		(4.1)	
– Sale of own shares	2.9		–	
		0.9		(2.9)
Foreign currency translation				
– Cash & cash equivalents	(24.3)		15.2	
– Other debt	(3.8)		(7.0)	
		(28.1)		8.2
Net fund movements		(97.2)		20.2

SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP

A. BACKGROUND

For the benefit of its US shareholders, in addition to its consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), the Group also presents its consolidated financial statements prepared in accordance with United States generally accepted accounting principles ("US GAAP").

IFRS differs from US GAAP in certain respects. An explanation of the significant differences that affect the Group's reported results, cash flows and financial position is presented below, together with reconciliation statements that quantify the effect of those differences on the Group's consolidated net income for the years ended 31 December 2005 ("2005") and 1 January 2005 ("2004") and its consolidated shareholders' equity as at 31 December 2005 and 1 January 2005.

An explanation of the Group's transition to IFRS is presented on pages 108 and 109. Under IFRS 1 "First-time Adoption of IFRS" the Group was not required to restate its consolidated income statement for the year ended 3 January 2004 ("2003") previously reported in accordance with United Kingdom generally accepted accounting principles ("UK GAAP") in accordance with IFRS. Consequently, the reconciliation statements presented below do not include a reconciliation of the Group's net income for 2003.

B. SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES

(I) GOODWILL

Under both IFRS and US GAAP, goodwill is not amortised but is tested at least annually for impairment. However, a significant difference exists between the carrying amounts of goodwill due largely to historical differences in the initial measurement and subsequent accounting for goodwill arising on past acquisitions.

Under IFRS, the Group elected not to apply IFRS 3 "Business Combinations" to business combinations that were recognised on or before 3 January 2004. As a result, the Group recognised goodwill amounting to £216.7 million as at 3 January 2004, which represented the carrying amount of goodwill that was recognised as an asset under UK GAAP on acquisitions completed on or after 3 May 1998. Goodwill arising on acquisitions completed before 3 May 1998 amounting to £1,054.8 million was written off to reserves under UK GAAP and was not reinstated on adoption of IFRS.

Under US GAAP, the carrying amount of goodwill as at 3 January 2004 was £953.4 million.

As at 31 December 2005 and 1 January 2005, the difference between the carrying value of goodwill under IFRS and that under US GAAP represents the difference between the carrying values as at 3 January 2004 adjusted for the effect of subsequent currency exchange rate movements.

(II) ACQUIRED INTANGIBLE ASSETS

Under both IFRS and US GAAP, an intangible resource acquired in a business combination is recognised as an intangible asset if it is separable from the acquired business or arises from contractual or legal rights. However, a significant difference exists between the carrying amounts of acquired intangible assets due largely to the differing treatment of intangible resources acquired in past acquisitions.

As a consequence of the decision not to apply IFRS 3 "Business Combinations" to business combinations that were recognised on or before 3 January 2004, intangible resources acquired in those business combinations are not recognised as intangible assets under IFRS.

Under US GAAP, the carrying amount of acquired intangible assets as at 3 January 2004 was £22.8 million.

As at 31 December 2005 and 1 January 2005, the difference between the carrying value of acquired intangible assets under IFRS and that under US GAAP represents the difference between the carrying values as at 3 January 2004 adjusted for the effect of subsequent amortisation and currency exchange rate movements.

(III) PRODUCT DEVELOPMENT COSTS

Under IFRS, certain product development costs are capitalised when the conditions specified by IAS 38 "Intangible Assets" are met. Capitalised development costs are amortised to the income statement over the expected life of the resulting product.

Under US GAAP, all product development costs are charged to the income statement in the period in which they are incurred.

(IV) RESTRUCTURING COSTS

Under IFRS, a restructuring plan is viewed as a whole and the related expenses are recognised when there exists an obligation to carry out the restructuring, which is generally when a detailed formal restructuring plan is announced.

Under US GAAP, each component of a restructuring plan must be examined separately to determine when the related expenses may be recognised.

Involuntary employee termination costs may be recognised when management has committed to a detailed termination plan and has communicated the plan to employees. Other restructuring expenses are generally recognised when they are incurred.

(V) DISPOSAL OF OPERATIONS

Differences between the gain or loss recognised on the disposal of an operation recognised under IFRS and that recognised under US GAAP arise principally because of differences in the carrying values of the assets and liabilities of the operation. In addition, differences in the gain or loss may arise if the operation was previously acquired, due to differences in the carrying amount of goodwill recognised in respect of that operation (see "Goodwill" above) and/or, if the operation is a foreign operation, due to differences in the cumulative currency translation differences that are recycled to the income statement on disposal of the operation (see "Cumulative currency translation differences" below).

(VI) CAPITALISATION OF INTEREST

Under IFRS, the Group does not capitalise any element of its interest expense. Under US GAAP, interest expense attributable to the construction of major items of property, plant and equipment is capitalised and amortised over the estimated useful life of the asset concerned.

(VII) INVENTORY

Under IFRS, inventories are stated at the lower of cost and net realisable value. Cost is generally determined on a first in, first out ("FIFO") basis. Use of the last in, first out ("LIFO") basis is prohibited under IFRS.

Under US GAAP, inventories are stated at the lower of cost and market value. Cost is generally determined on a FIFO basis, but a last in, first out ("LIFO") basis is used to determine the cost of inventory held by certain US subsidiaries.

RECONCILIATION OF IFRS TO US GAAP**SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP CONTINUED****(VIII) POST-EMPLOYMENT BENEFITS**

Under both IFRS and US GAAP, the cost of defined benefit plans is calculated using the projected unit credit method and is recognised over the average expected remaining service lives of participating employees, but differences exist, principally concerning the recognition of actuarial gains and losses, surpluses and the minimum pension liability.

Under IFRS, the plan assets (if any) and the plan liabilities must be measured at the Group's balance sheet date. Under US GAAP, measurement may take place up to three months prior to the Group's balance sheet date and is carried out as at 1 October each year.

Under IFRS, actuarial gains and losses are recognised in the statement of recognised income and expense in the period in which they occur. Under US GAAP, the Group uses the so-called "corridor approach" whereby actuarial gains and losses are amortised to the income statement over the remaining service lives of participating employees to the extent that, measured at the beginning of each year, they exceed 10 per cent of the greater of the market related value of the plan assets or the projected benefit obligation.

Under IFRS, where a plan is in surplus the asset recognised is limited to the amount of any unrecognised past service costs and the present value of any amount which the Group expects to recover by way of refunds or a reduction in future contributions. Under US GAAP, there is no restriction on the asset recognised in respect of a plan in surplus.

Under US GAAP, a minimum pension liability must be recognised that represents the amount by which the accumulated benefit obligation (ignoring projected future salary increases) exceeds the fair value of the plan assets. A corresponding amount is recognised as an intangible asset, to the extent of any unrecognised prior service cost and unrecognised transition obligation, and the balance is recognised in comprehensive income. Under IFRS, there is no equivalent requirement to recognise a minimum pension liability because the net liability is fully recognised on the balance sheet.

(IX) SHARE-BASED INCENTIVES

Under IFRS, the Group recognises a compensation expense in respect of share-based incentives that is based on the fair value of the awards in accordance with IFRS 2 "Share-based Payment". The Group applied IFRS 2 retrospectively to all awards that were outstanding but had not vested as at 1 January 2005, except those equity-settled awards that were granted on or before 7 November 2002.

Under US GAAP, prior to 2 January 2005, the compensation expense was based on the intrinsic value of the awards in accordance with APB 25 "Accounting for Stock Issued to Employees". Effective 2 January 2005, the Group adopted SFAS 123R "Share-Based Payment" which requires that the compensation expense is based on the fair value of the awards. The Group applied SFAS 123R prospectively to the unvested portion of all awards that were outstanding as at 1 January 2005.

While differences between the compensation expense recognised under IFRS and US GAAP will exist for the foreseeable future, it is expected that they will be eliminated in future years when the outstanding unvested equity-settled awards granted on or before 7 November 2002 either vest or are forfeited due to failure to meet the service or non-market performance conditions that apply to them.

(X) DERIVATIVES AND HEDGE ACCOUNTING

Under IFRS, prior to 2 January 2005, derivative financial instruments were not generally recognised as assets and liabilities on the balance sheet and gains or losses arising on them were not recognised until the hedged item was itself recognised in the financial statements. From 2 January 2005 onwards, derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date and, in the absence of hedge accounting, changes in their fair values are reflected immediately in the Group's profit for the period. The Group does not generally apply hedge accounting to transactional foreign currency hedging relationships. It does, however, apply hedge accounting to translational foreign currency hedging relationships and to hedges of its interest rate exposures where it is permissible to do so under IAS 39 "Financial Instruments: Recognition and Measurement".

Under US GAAP, derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date and, in the absence of hedge accounting, changes in their fair values are reflected immediately in the Group's net income. Prior to 2005, the Group chose not to apply hedge accounting but, thereafter, it has applied hedge accounting to translational hedging relationships where it is permissible to do so under SFAS 133 "Accounting for Derivative Instruments and Hedging Activities". While the Group achieves hedge accounting under US GAAP for those hedges of its interest rate exposures that qualify for hedge accounting under IFRS, it is not possible for it to achieve hedge accounting under US GAAP for certain translational foreign currency hedging relationships that qualify for hedge accounting as net investment hedges under IFRS.

(XI) PREFERENCE SHARES

Under IFRS, prior to 2 January 2005, the US dollar denominated 5.56% Convertible cumulative preference shares ("the Preference shares") were classified as non-equity shareholders' funds and were translated into Sterling at the exchange rate ruling at their date of issue. Dividends payable on the Preference shares were treated as an appropriation of profit.

From 2 January 2005 onwards, the Preference shares are classified as non-current liabilities and are retranslated into Sterling at the exchange rate ruling at the balance sheet date. The Preference shares have been designated as a net investment hedge and, to the extent the hedge is effective, currency translation differences are recognised directly in equity. Dividends payable on the Preference shares are included within interest payable.

Under US GAAP, the Preference shares are classified as shareholders' equity and are translated into Sterling at the exchange rate ruling at the date of issue. Dividends payable on the Preference shares are treated as an appropriation of shareholders' equity.

(XII) CUMULATIVE CURRENCY TRANSLATION DIFFERENCES

Under both IFRS and US GAAP, currency translation differences arising on the translation into Sterling of the results, assets and liabilities of foreign operations are recognised as a separate component of equity. On transition to IFRS, the Group elected to deem cumulative currency translation differences on its net investment in foreign operations to be £nil as at 3 January 2004. Accordingly, the gain or loss on disposal of a foreign operation recognised under IFRS does not include currency translation differences that arose before 4 January 2004.

SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP CONTINUED**C. PRESENTATIONAL DIFFERENCES****(I) DISCONTINUED OPERATIONS**

Under IFRS, an operation is classified as discontinued if it has been sold or is classified as held for sale at the balance sheet date, and itself represents, or its sale is part of a single plan to dispose of, a separate major line of business or geographical area of operations. Under US GAAP, discontinued operations include all components of the Group's businesses that have identifiable operations and cash flows and have been sold or are classified as held for sale at the balance sheet date.

(II) STATEMENT OF CASH FLOWS

Under IFRS, cash flow represents increases or decreases in cash and cash equivalents, which comprise cash in hand, deposits available on demand and other short-term highly liquid investments with a maturity on acquisition of three months or less, and bank overdrafts. Under US GAAP, cash flow is as defined under IFRS, except it excludes increases or decreases in bank overdrafts.

Under IFRS, dividends received from associates have been classified as cash flows from investing activities whereas under US GAAP they are classified as cash flows from operating activities.

Under IFRS, interest paid and interest received has been classified as cash flows from financing activities whereas under US GAAP they are classified within cash flows from operating activities.

RECONCILIATION OF IFRS TO US GAAP

RECONCILIATION STATEMENTS

NET INCOME

	Note B	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Profit for the period under IFRS		201.2	210.1
Minority interests		(9.0)	(10.1)
Net income under IFRS		192.2	200.0
US GAAP adjustments:			
– Acquired intangibles amortisation	(II)	(2.8)	(2.9)
– Product development costs	(III)	(0.4)	–
– Restructuring costs	(IV)	(0.5)	(10.9)
– Gain on disposal of operations	(V)	–	0.9
– Capitalised interest	(VI)	5.3	4.5
– Inventory	(VII)	(4.7)	(0.9)
– Post-employment benefits	(VIII)	(12.9)	(5.7)
– Share-based incentives	(IX)	(1.4)	2.2
– Derivatives and hedge accounting	(X)	(40.1)	20.1
– Preference dividends	(XI)	16.3	–
Deferred income tax on US GAAP adjustments		21.4	(2.8)
Minority interest in US GAAP adjustments		–	1.8
Net income under US GAAP expressed in Sterling		172.4	206.3
		\$ million	\$ million
Net income under US GAAP expressed in US dollars at the average exchange rate for the period of £ = \$1.8156 (2004 – £ = \$1.8257)		313.0	376.6
Currency translation differences		–	1.1
Net income under US GAAP expressed in US dollars		313.0	377.7

SHAREHOLDERS' EQUITY

	Note B	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Shareholders' equity under IFRS		664.5	466.5
US GAAP adjustments:			
– Goodwill (net)	(I)	766.8	686.3
– Acquired intangibles (net)	(II)	25.3	25.6
– Product development costs	(III)	(0.4)	–
– Restructuring costs	(IV)	0.4	0.8
– Capitalised interest (net)	(VI)	24.4	17.1
– Inventory	(VII)	(8.3)	(3.0)
– Post-employment benefits	(VIII)	(1.6)	0.2
– Share-based incentives	(IX)	–	2.8
– Derivatives and hedge accounting	(X)	5.6	7.6
– Preference shares	(XI)	304.7	337.2
Deferred income tax on US GAAP adjustments		(13.9)	(18.1)
Minority interest in US GAAP adjustments		–	(0.5)
Shareholders' equity under US GAAP expressed in Sterling		1,767.5	1,522.5
		\$ million	\$ million
Shareholders' equity under US GAAP expressed in US dollars at the closing exchange rate of £ = \$1.7168 (1 January 2005 – £ = \$1.9199)		3,034.4	2,923.1

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF TOMKINS PLC

We have audited the accompanying consolidated balance sheets of Tomkins plc and subsidiaries ("the Company") as of December 31, 2005, and January 1, 2005, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the fiscal years ended December 31, 2005, January 1, 2005 and January 3, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Tomkins plc as of December 31, 2005 and January 1, 2005 and the results of its operations and its cash flows for the fiscal years ended December 31, 2005, January 1, 2005 and January 3, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the financial statements, in fiscal 2005 the Company (1) changed the presentation of its consolidated statements of cash flows to include the cash flows from operating, investing, and financing activities of discontinued operations within the respective categories of operating, investing, and financing activities of the Company, and (2) separately restated the presentation within its statement of changes in shareholders' equity. Fiscal 2004 and fiscal 2003 have been retroactively restated to reflect these changes.

As discussed in Note 18 to the financial statements, the Company early adopted the provisions of Statement of Financial Accounting Standards No.123 (revised 2004), "Share-Based Payment" as of January 2, 2005.

DELOITTE & TOUCHE LLP

London, United Kingdom

March 10, 2006

CONSOLIDATED STATEMENTS OF CASH FLOWS

All numbers below are in millions USD

	Year ended December 31, 2005 \$ million	Restated* Year ended January 1, 2005 \$ million	Restated* Year ended January 3, 2004 \$ million
Cash flow from operating activities			
Net income	313.0	377.7	426.7
Adjustments to reconcile net income to net cash provided by operating activities:			
– Equity in net income of associates	(1.2)	(1.6)	(1.1)
– Depreciation and amortization	225.5	220.4	214.1
– Impairment of goodwill	–	–	53.9
– Impairment of property, plant and equipment	9.5	–	–
– Gain on disposal of discontinued operations	(1.6)	(11.0)	(49.6)
– Gain on sale of property, plant and equipment	(19.3)	(3.7)	(10.6)
– Share-based compensation	15.4	6.6	10.6
– Deferred income taxes	57.2	33.6	(7.2)
– Minority interest	16.4	15.2	13.2
– Dividends received from associates	0.5	0.7	0.8
– Changes in assets and liabilities, net of effects of businesses acquired or sold			
Decrease in taxes payable	(116.5)	(3.1)	(127.3)
Increase in accounts receivable	(56.7)	(61.0)	(35.2)
Decrease in prepaid expenses and other assets	10.2	20.8	7.2
Increase in inventories	(32.1)	(57.7)	(2.8)
Increase in accounts payable	21.0	100.4	17.2
Increase/(decrease) in other current liabilities (net)	(68.0)	(102.2)	20.0
Net cash provided by operating activities	373.3	535.1	529.9
Cash flows from investing activities			
Purchases of property, plant and equipment	(260.3)	(287.9)	(230.1)
Proceeds from the sale of property, plant and equipment	43.2	15.9	44.2
Proceeds from the sale of discontinued operations	52.8	30.0	64.6
Purchase of investments	(0.1)	–	–
Sale of investments	0.2	–	–
New business acquisitions, net of cash acquired	(188.0)	(46.0)	(240.0)
Changes in restricted cash	(0.9)	(2.0)	(3.8)
Net cash used in investing activities	(353.1)	(290.0)	(365.1)
Cash flows from financing activities			
Bank loans repayment	(89.1)	(15.7)	(83.8)
Bank loans drawn down	336.6	3.3	498.0
Repayment of overdrafts	(2.2)	(0.9)	–
Capital lease repayment	(5.1)	–	–
Issuance of common shares	0.8	2.2	1.1
Redemption of redeemable convertible cumulative preference shares	–	–	(604.5)
Proceeds on sale of treasury shares	5.3	–	–
Payments to acquire treasury shares	(4.4)	(7.5)	(4.0)
Dividend payments	(206.3)	(203.1)	(204.5)
Dividend paid to a minority shareholder in a subsidiary	(10.6)	(4.9)	(6.3)
Investment by/(repayment of capital to) a minority shareholder in a subsidiary	–	7.1	(1.3)
Net cash provided by/(used in) financing activities	25.0	(219.5)	(405.3)
Effect of exchange rate changes on cash and cash equivalents	(4.8)	16.1	5.0
Net increase/(decrease) in cash and cash equivalents	40.4	41.7	(235.5)
Cash and cash equivalents at beginning of period	356.0	314.3	549.8
Cash and cash equivalents at the end of the period	396.4	356.0	314.3
Supplemental schedule of investing and financing activities			
Cash paid during the period for interest	(48.7)	(35.6)	(32.3)
Cash paid during the period for income taxes	(144.2)	(102.4)	(97.8)
Non cash investing and financing activities:			
Capital lease additions	(3.6)	–	(7.0)

*** See Note 4.**

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

All numbers below are in millions USD, except per share data

	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 3, 2004 \$ million
Net sales	5,776.0	5,356.1	4,847.4
Cost of sales	(4,167.6)	(3,806.4)	(3,452.6)
Gross profit	1,608.4	1,549.7	1,394.8
Selling, general and administrative expenses	(1,084.4)	(1,038.5)	(958.7)
Goodwill impairment	-	-	(12.5)
Restructuring expenses	(39.0)	(34.1)	(38.0)
Operating income from continuing operations	485.0	477.1	385.6
Interest income	10.4	11.5	15.8
Interest expense	(34.8)	(34.9)	(30.2)
Other (expense)/income net	(65.2)	44.0	54.8
Income from continuing operations before taxes, minority interest and equity in net income of associates	395.4	497.7	426.0
Income tax (expense)/benefit	(68.8)	(103.2)	72.2
Minority interest in net income, net of tax charge of \$6.0 million (2004 – \$7.0 million, 2003 – \$5.9 million)	(16.4)	(15.2)	(12.4)
Equity in net income of associates, net of tax charge of \$0.4 million (2004 – \$0.2 million, 2003 – \$0.3 million)	1.2	0.9	0.8
Income from continuing operations	311.4	380.2	486.6
Loss from discontinued operations, net of tax charge of \$0.1 million (2004 – tax charge of \$4.2 million, 2003 – tax credit of \$14.5 million)	-	(13.5)	(109.5)
Gain on disposal of discontinued operations, net of tax charge of \$0.9 million (2004 – tax credit of \$6.8 million, 2003 – tax charge of \$11.9 million)	1.6	11.0	49.6
Net income	313.0	377.7	426.7
Gain on redemption of Redeemable convertible cumulative preference shares	-	-	17.4
Dividends on preferred shares	(29.1)	(28.5)	(47.1)
Net income attributable to common shareholders	283.9	349.2	397.0
Net income per common share			
<i>Basic</i>			
Income from continuing operations	0.37	0.46	0.59
Loss from discontinued operations	-	(0.02)	(0.14)
Gain on disposal of discontinued operations	-	0.01	0.06
Net income	\$0.37	\$0.45	\$0.51
<i>Diluted</i>			
Income from continuing operations	0.36	0.43	0.51
Loss from discontinued operations	-	(0.01)	(0.12)
Gain on disposal of discontinued operations	-	0.01	0.06
Net income	\$0.36	\$0.43	\$0.45

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

All numbers below are in millions USD, except share and per share data

	As at December 31, 2005 \$ million	Restated* As at January 1, 2005 \$ million
ASSETS		
Current assets		
Cash and cash equivalents	396.4	356.0
Restricted cash	9.2	9.4
Accounts receivable, net of allowances of \$13.5 million (January 1, 2005: \$11.7 million)	878.3	825.9
Inventories	749.3	703.8
Deferred income taxes	48.5	80.1
Prepaid expenses and other assets	118.3	128.1
Assets held for sale	23.0	61.8
Total current assets	2,223.0	2,165.1
Long-term assets		
Property, plant and equipment	1,466.7	1,453.0
Goodwill	1,864.9	1,752.3
Intangible assets	80.7	57.7
Deferred income taxes	104.9	237.6
Other long-term assets	43.1	70.3
Total assets	5,783.3	5,736.0
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank overdrafts, bank and other loans, current portion	69.7	31.5
Capital leases, current portion	4.1	6.5
Accounts payable	467.6	450.8
Other current liabilities	370.7	374.9
Taxes payable	186.1	290.7
Deferred income taxes	13.2	41.8
Liabilities related to assets held for sale	–	0.6
Total current liabilities	1,111.4	1,196.8
Long-term liabilities		
Bank and other loans, less current portion	903.5	767.1
Capital leases, less current portion	17.1	16.7
Pension obligations	249.9	261.9
Post retirement obligations other than pensions	265.8	286.1
Deferred income taxes	74.8	163.6
Other long-term liabilities	43.1	39.9
Total liabilities	2,665.6	2,732.1
Minority interest		
	83.3	80.8
Shareholders' equity		
Common shares, par value 5p, authorized shares – 1,585,164,220; issued and outstanding shares – 774,495,124 (January 1, 2005: 773,889,884)	55.7	55.6
Convertible cumulative preference shares of \$50; Authorized shares – 13,920,000; Issued and outstanding shares – 10,462,774 (January 1, 2005: 10,506,721)	523.1	525.4
Treasury shares	(10.9)	(11.4)
Additional paid-in capital	179.1	160.5
Restricted reserves	717.6	717.6
Retained earnings	1,801.2	1,697.8
Accumulated other comprehensive loss	(231.4)	(222.4)
Total shareholders' equity	3,034.4	2,923.1
Total liabilities and shareholders' equity	5,783.3	5,736.0

***See Note 4**

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

All numbers below are in millions USD, except share and per share data

	Common shares		Convertible cumulative preferred shares		Treasury shares	
	Number of shares thousands	Restated* \$ million	Number of shares thousands	Restated* \$ million	Number of shares thousands	Restated* \$ million
As at December 31, 2002	772,973	55.5	10,507	525.4	1,827	(3.1)
Comprehensive income						
Net income	–	–	–	–	–	–
Gain on redemption of Redeemable convertible cumulative preference shares	–	–	–	–	–	–
Minimum pension liability adjustments	–	–	–	–	–	–
Foreign currency translation	–	–	–	–	–	–
Total comprehensive income/(loss)						
Other changes in shareholders' equity						
Common shares issued	289	–	–	–	–	–
Treasury shares acquired	–	–	–	–	899	(4.0)
Cost of share-based compensation	–	–	–	–	–	–
Transfer of treasury shares	–	–	–	–	(97)	0.3
Transfer to restricted reserves on redemption of Redeemable convertible cumulative preference shares	–	–	–	–	–	–
Dividends on preferred shares						
– Redeemable convertible cumulative preference shares						
– 4.344 per cent	–	–	–	–	–	–
– Convertible cumulative preference shares – 5.56 per cent	–	–	–	–	–	–
Dividends on common shares – 12.6p per share	–	–	–	–	–	–
As at January 3, 2004	773,262	55.5	10,507	525.4	2,629	(6.8)
Comprehensive income						
Net income	–	–	–	–	–	–
Minimum pension liability adjustments	–	–	–	–	–	–
Foreign currency translation	–	–	–	–	–	–
Total comprehensive income/(loss)						
Other changes in shareholders' equity						
Common shares issued	628	0.1	–	–	–	–
Treasury shares acquired	–	–	–	–	(712)	2.9
Cost of share-based compensation	–	–	–	–	–	–
Transfer of treasury shares	–	–	–	–	1,583	(7.5)
Dividends on preferred shares – Convertible cumulative preference shares – 5.56 per cent	–	–	–	–	–	–
Dividends on common stock – 12.2p per share	–	–	–	–	–	–
As at January 1, 2005	773,890	55.6	10,507	525.4	3,500	(11.4)
Comprehensive income						
Net income	–	–	–	–	–	–
Unrealized gain on available-for-sale investments	–	–	–	–	–	–
Realized gain on available-for-sale investments	–	–	–	–	–	–
Minimum pension liability adjustments	–	–	–	–	–	–
Foreign currency translation	–	–	–	–	–	–
Total comprehensive income/(loss)						
Other changes in shareholders' equity						
Common shares issued	176	–	–	–	–	–
Conversions of Convertible cumulative preference shares	429	0.1	(44)	(2.3)	–	–
Treasury shares acquired	–	–	–	–	860	(4.4)
Cost of share-based compensation	–	–	–	–	–	–
Transfer or sale of treasury shares	–	–	–	–	(1,130)	4.9
Dividends on preferred shares – Convertible cumulative preference shares – 5.56 per cent	–	–	–	–	–	–
Dividends on common shares – 13.23p per share	–	–	–	–	–	–
As at December 31, 2005	774,495	\$55.7	10,463	\$523.1	3,230	\$(10.9)

*See Note 4.

Comprehensive income									
Accumulated other comprehensive income									Shareholders' equity
Restated* Additional paid-in capital \$ million	Restated* Restricted reserves \$ million	Retained earnings \$ million	Restated* Exchange translation reserve \$ million	Available- for-sale reserve \$ million	Minimum pension liability \$ million	Tax effect \$ million	Restated* Total \$ million	Restated* Total \$ million	Total \$ million
143.2	95.7	1,904.8	(140.7)	–	(261.4)	93.1	(309.0)		2,412.5
–	–	426.7	–	–	–	–	–	426.7	426.7
–	–	17.4	–	–	–	–	–	17.4	17.4
–	–	–	–	–	38.9	(7.7)	31.2	31.2	31.2
–	–	–	7.4	–	–	–	7.4	7.4	7.4
		444.1	7.4	–	38.9	(7.7)	38.6	482.7	
1.1	–	–	–	–	–	–	–	–	1.1
–	–	–	–	–	–	–	–	–	(4.0)
10.6	–	–	–	–	–	–	–	–	10.6
(0.3)	–	–	–	–	–	–	–	–	–
–	621.9	(621.9)	–	–	–	–	–	–	–
–	–	(17.7)	–	–	–	–	–	–	(17.7)
–	–	(29.4)	–	–	–	–	–	–	(29.4)
–	–	(158.8)	–	–	–	–	–	–	(158.8)
154.6	717.6	1,521.1	(133.3)	–	(222.5)	85.4	(270.4)		2,697.0
–	–	377.7	–	–	–	–	–	377.7	377.7
–	–	–	–	–	13.7	(8.0)	5.7	5.7	5.7
–	–	–	42.3	–	–	–	42.3	42.3	42.3
		377.7	42.3	–	13.7	(8.0)	48.0	425.7	
2.2	–	–	–	–	–	–	–	–	2.3
(2.9)	–	–	–	–	–	–	–	–	–
6.6	–	–	–	–	–	–	–	–	6.6
–	–	–	–	–	–	–	–	–	(7.5)
–	–	(28.5)	–	–	–	–	–	–	(28.5)
–	–	(172.5)	–	–	–	–	–	–	(172.5)
160.5	717.6	1,697.8	(91.0)	–	(208.8)	77.4	(222.4)		2,923.1
–	–	313.0	–	–	–	–	–	313.0	313.0
–	–	–	–	1.3	–	(0.6)	0.7	0.7	0.7
–	–	–	–	(1.0)	–	–	(1.0)	(1.0)	(1.0)
–	–	–	–	–	(57.0)	17.7	(39.3)	(39.3)	(39.3)
–	–	–	50.4	–	–	(19.8)	30.6	30.6	30.6
		313.0	50.4	0.3	(57.0)	(2.7)	(9.0)	304.0	
0.7	–	–	–	–	–	–	–	–	0.7
2.2	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	(4.4)
15.4	–	–	–	–	–	–	–	–	15.4
0.3	–	–	–	–	–	–	–	–	5.2
–	–	(29.1)	–	–	–	–	–	–	(29.1)
–	–	(180.5)	–	–	–	–	–	–	(180.5)
\$179.1	\$717.6	\$1,801.2	\$(40.6)	\$0.3	\$(265.8)	\$74.7	\$(231.4)		\$3,034.4

The accompanying notes form an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS

Tomkins plc and its subsidiaries (together, the "Company") comprise a global engineering and manufacturing business. With effect from January 2, 2005, the Company was reorganized for management reporting purposes into two business groups: Industrial & Automotive and Building Products.

Industrial & Automotive manufactures a wide range of systems and components for car, truck and industrial equipment manufacturing markets, and industrial and automotive aftermarkets throughout the world through five operating segments: Power Transmission, Fluid Power, Wiper Systems, Fluid Systems and Other Industrial & Automotive.

Building Products is comprised of two operating segments: Air Systems Components and Other Building Products. Air Systems Components supplies the industrial and residential heating, ventilation and air conditioning market mainly in North America. Other Building Products manufactures a variety of products for the building and construction industries mainly in North America.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Tomkins plc and its subsidiaries.

A subsidiary is an entity controlled, either directly or indirectly, by the Company, where control is the power to govern the financial and operating policies of the entity so as to obtain benefit from its activities. The income and expenses of a subsidiary acquired during the period are included in the Company's income and expenses from the date of acquisition. The income and expenses of a subsidiary sold during the period are included in the Company's income and expenses up to the date of disposal.

Transactions between Tomkins plc and its subsidiaries or between fellow subsidiaries, and any balances and unrealized gains and losses arising from such transactions, are eliminated on consolidation.

As at December 31, 2005, the carrying amount of minority interests in subsidiaries that were not wholly owned by the Company was \$83.3 million (January 1, 2005: \$80.8 million), which comprised the following outside ownership interests:

As at December 31, 2005 and January 1, 2005:	
Gates Korea Company Limited	49%
Gates Unitta India Private Company Limited	49%
Gates Unitta Korea Company Limited	49%
Gates Unitta Power Transmission (Suzhou) Limited	49%
Gates Unitta Power Transmission (Shanghai) Limited	49%
Gates Unitta Asia Company Limited	49%
Gates Unitta Asia Trading Company Pte Limited	49%
Gates Unitta (Thailand) Company Limited	49%
Schrader – Lu Hai Rubber Metal (Kunshan) Company Limited	40%

Where accumulated losses applicable to a minority interest in a subsidiary exceed the minority's interest in the equity of the subsidiary, the excess is allocated to the Company's interest in the subsidiary, except to the extent that the minority has a binding obligation and is able to make an additional investment to cover its share of the accumulated losses.

During fiscal 2005, fiscal 2004 and fiscal 2003, there were no variable interest entities in which the Company was deemed to be the primary beneficiary.

B. ASSOCIATES

An associate is an entity over which Tomkins plc, either directly or indirectly, is in a position to exercise significant influence by participating in, but not controlling or jointly controlling, the financial and operating policies of the entity. Associates are accounted for using the equity method whereby the Company's share of the earnings or losses of associates are included in consolidated net income and the Company's share of the net assets of its associates is included within other long-term assets.

Gains and losses recognized by Tomkins plc or its subsidiaries on transactions with an associate are eliminated to the extent of the Company's interest in the associate concerned.

As at December 31, 2005, the carrying amount of the Company's interests in associates was \$7.6 million (January 1, 2005: \$7.1 million), which comprised the following ownership interests:

As at December 31, 2005 and January 1, 2005:	
Dongfeng-Fuji-Thomson Thermostat Co. Limited	32%
Ideal International SA	40%
Pyung Hwa CMB Co. Limited	21%
Schrader Duncan Ltd	50%

Losses of an associate in excess of the Company's interest in the associate are not recognized, except to the extent that the Company has incurred obligations on behalf of the associate.

C. FOREIGN CURRENCY TRANSLATION

At entity level, transactions denominated in currencies other than the entity's functional currency are translated into the entity's functional currency at the exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate ruling on the balance sheet date. Currency translation differences are recognized in the statement of income for the period.

On consolidation, the results of operations of entities whose functional currency is other than the US dollar are translated into US dollars at the average exchange rate for the period and their assets and liabilities are translated into US dollars at the exchange rate ruling on the balance sheet date. Currency translation differences are recognized within other comprehensive income as a separate component of shareholders' equity. In the event that such an operation is sold, the cumulative currency translation differences that are attributable to the operation are reclassified to income.

In the statement of cash flows, the cash flows of operations whose functional currency is other than the US dollar are translated into US dollars at the average exchange rate for the period.

D. REVENUE RECOGNITION

Revenue from the sale of goods is recognized only when there is persuasive evidence of a sales agreement, the delivery of goods has occurred, the sales price is fixed or determinable and the collectibility of revenue is reasonably assured. Revenue is measured at the invoiced amount net of returns, early settlement discounts, rebates and sales taxes. The Company accrues for rebates pursuant to specific arrangements with certain of its customers, primarily in the aftermarket. Rebates generally provide for price reductions based upon the achievement of specified purchase volumes and are recorded as a reduction in revenue when recognized.

Revenue on long-term contracts is recognized by the percentage-of-completion method determined by comparing contract costs incurred for work performed to date to estimated total contract costs. Losses on contracts, if any, are recognized in the period when such losses become probable and can be reasonably estimated.

Revenue recognized on long-term contracts in fiscal 2005 was \$235.3 million (fiscal 2004: \$149.5 million; fiscal 2003: \$164.8 million), of which \$31.5 million in fiscal 2004 and \$68.8 million in fiscal 2003 related to discontinued operations. As at December 31, 2005, amounts billed but not yet received in respect of long-term contracts amounted to \$37.1 million (January 1, 2005: \$27.8 million), including customer retentions of \$5.7 million (January 1, 2005: \$1.2 million).

Interest income is accrued on a time basis using the effective interest method.

E. PRODUCT DEVELOPMENT COSTS

Research and development expenditure is charged to income in the period in which it is incurred. Research and development expenses were \$84.8 million in fiscal 2005, \$93.7 million in fiscal 2004 and \$95.6 million in fiscal 2003.

F. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, deposits available on demand and other short-term, highly liquid investments with maturities on acquisition of 90 days or less.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

G. RESTRICTED CASH

Restricted cash comprises cash balances pledged or advanced as collateral in the ordinary course of business.

H. INVENTORY

Inventories are stated at the lower of cost or market, with due allowance for any excess, obsolete or slow moving items based on management’s review of on-hand inventories compared to historical and estimated future sales and usage profiles.

Cost represents the expenditure incurred in bringing inventories to their existing location and condition, which may include the cost of raw materials, direct labor costs, other direct costs and related production overheads. Cost is generally determined on a first in, first out (“FIFO”) basis, but the cost of certain inventories is determined on a last in, first out (“LIFO”) basis. As at December 31, 2005, inventories whose cost was determined on a LIFO basis represented 35 per cent (January 1, 2005: 37 percent) of the total carrying amount of inventories. As at December 31, 2005, the replacement cost of inventories whose cost was determined on a LIFO basis exceeded their carrying values by \$8.5 million (January 1, 2005: \$1.6 million).

I. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and any recognized impairment losses. Major improvements are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred.

Freehold land and assets under construction are not depreciated. Depreciation of property, plant and equipment, other than freehold land and assets under construction, is generally provided on a straight-line basis so as to charge the depreciable amount to expense over the estimated useful life of the asset concerned. The estimated useful lives of items of property, plant and equipment are in the following ranges:

Freehold buildings and long leasehold land and buildings	10 to 50 years
Short leasehold land and buildings	Length of lease
Plant, equipment and vehicles	2 to 20 years

Interest costs attributable to funding the construction of major items of property, plant and equipment are capitalized and amortized over the estimated useful life of the asset concerned. Interest capitalized is determined by reference to the average interest rate on outstanding borrowings. In fiscal 2005 interest costs of \$13.8 million were capitalized (fiscal 2004: \$11.7million; fiscal 2003: \$7.2 million).

J. GOODWILL

Business combinations are accounted for in accordance with SFAS 141 “Business Combinations”.

Goodwill arises on the acquisition of subsidiaries and associates and represents any excess of the cost of the acquired entity over the Company’s interest in the fair value of the entity’s identifiable assets, liabilities and contingent liabilities determined at the date of acquisition. Goodwill is not amortized but is tested at least annually for impairment and carried at cost less any recognized impairment losses.

K. OTHER INTANGIBLE ASSETS

Intangible assets are stated at cost less accumulated amortization and any recognized impairment losses. All intangible assets recognized by the Company are considered to have finite useful lives.

(I) ASSETS ACQUIRED IN BUSINESS COMBINATIONS

An intangible resource acquired in a business combination is recognized as an intangible asset if it is separable from the acquired business or arises from contractual or other legal rights. An acquired intangible asset is amortized on a straight-line basis so as to charge its cost, which represents its fair value at the date of acquisition, to expense over its expected useful life. Acquired intangible assets mainly comprise patents and technology, customer relationships and intellectual property. The expected useful lives of these assets are in the range 8 to 15 years and the weighted average expected useful life is 11 years.

(II) COMPUTER SOFTWARE

Computer software that is not integral to an item of property, plant and equipment is recognized separately as an intangible asset. Non-integral computer software is amortized on a straight-line basis so as to charge its cost to expense over its expected useful life. The expected useful lives of non-integral computer software are in the range 3 to 5 years.

L. IMPAIRMENT OF LONG-LIVED ASSETS

(I) LONG-LIVED ASSETS OTHER THAN GOODWILL

Long-lived assets to be held and used, including intangible assets, are reviewed for impairment when events or circumstances indicate that the carrying amount of the asset or asset group may not be recoverable. The carrying value of a long-lived asset or asset group is considered to be impaired when the undiscounted expected future cash flows from the asset or asset group are less than its carrying amount. In that event, an impairment loss is recognized to the extent that the carrying amount of the asset or asset group exceeds its fair value. Fair value is determined based on quoted market prices, where available, or is estimated as the present value of the expected future cash flows from the asset or asset group discounted at a rate commensurate with the risk involved.

(II) GOODWILL

At the time of the business combination to which it relates, goodwill is allocated to one or more reporting units. Goodwill is tested at least annually for impairment. Firstly, to identify potential impairment of the goodwill, the fair value of the reporting unit to which the goodwill is allocated is compared with its carrying amount. Fair value is determined based on quoted market prices, where available, or is estimated as the present value of the expected future cash flows from the reporting unit discounted at a rate commensurate with the risk involved. Secondly, if the carrying amount of the reporting unit, including the goodwill, exceeds its fair value, the goodwill is tested for impairment based on its implied fair value. The implied fair value of goodwill represents the excess of the fair value of the reporting unit over the fair value of its identifiable assets, liabilities and contingent liabilities at the date of the impairment test. An impairment loss is recognized if and to the extent that the carrying amount of the goodwill exceeds its implied fair value.

M. INVESTMENTS

Listed investments are classified as available-for-sale and are measured at fair value. Changes in their fair values are recognized in other comprehensive income except to the extent that they represent another than temporary impairment in which case the impairment loss is recognized in income. Accumulated gains and losses recognized in other comprehensive income are reclassified to income in the event that they are realized on the disposal of the investments. Available-for-sale investments are included within other non-current assets. As at December 31, 2005, their carrying amount was \$3.8 million (January 1 2005: \$3.1 million). During fiscal 2005, a gain of \$1.3 million was reclassified to income on the disposal of available-for-sale investments.

N. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments, principally foreign currency swaps, forward foreign currency contracts and interest rate swaps, to reduce its exposure to exchange rate and interest rate movements. The Company does not hold or issue derivatives for speculative or trading purposes.

Derivative financial instruments are recognized as assets and liabilities measured at their fair values at the balance sheet date. Changes in their fair values are recognized in income and this is likely to cause volatility in situations where the carrying amount of the hedged item is either not adjusted to reflect fair value changes arising from the hedged risk or is so adjusted but that adjustment is not recognized in income. Provided the conditions specified by SFAS133 “Accounting for Derivative Instruments and Hedging Activities” are met, hedge accounting may be used to mitigate this volatility.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED**

Prior to fiscal 2005, the Company chose not to adopt the hedge accounting provisions of SFAS 133. During fiscal 2005, management reviewed its policy towards hedge accounting and decided to use hedge accounting in certain circumstances. With effect from fiscal 2005, the Company does not generally apply hedge accounting to transactional foreign currency hedging relationships, such as hedges of forecast or committed transactions. It does, however, apply hedge accounting to translational foreign currency hedging relationships and to hedges of its interest rate exposures where it is permissible to do so under SFAS133. When hedge accounting is used, the relevant hedging relationships are classified as a fair value hedge, a cash flow hedge or, in the case of a hedge of the Company's net investment in a foreign operation, a net investment hedge.

Where the hedging relationship is classified as a fair value hedge, the carrying amount of the hedged asset or liability is adjusted by the increase or decrease in its fair value attributable to the hedged risk and the resulting gain or loss is recognised in income where, to the extent that the hedge is effective, it offsets the change in the fair value of the hedging instrument.

Where the hedging relationship is classified as a cash flow hedge or as a net investment hedge, to the extent the hedge is effective, changes in the fair value of the hedging instrument are recognized in other comprehensive income rather than in income. Accumulated gains and losses recognized in other comprehensive income in relation to a cash flow hedge are reclassified to income in the same period or periods during which the hedged transaction affects income. Accumulated gains and losses recognized in other comprehensive income in relation to a net investment hedge are reclassified to income in the event of the disposal of the foreign operation.

Derivative financial instruments are classified as current assets or liabilities unless they qualify for hedge accounting under SFAS133 and the hedged item is classified as a non-current asset or liability.

Derivatives embedded in non-derivative host contracts are recognized separately as derivative financial instruments when their risks and characteristics are not closely related to those of the host contract and the host contract is not stated at its fair value with changes in its fair value recognized in the income statement.

O. LEASES

Leases that confer rights and obligations similar to those that attach to owned assets and meet the conditions specified by SFAS 13 "Accounting for Leases" are classified as capital leases. All other leases are classified as operating leases.

Assets held under capital leases are included within property, plant and equipment, initially measured at their fair value or, if lower, the present value of the minimum lease payments, and a corresponding liability is recognized within capital lease obligations. Subsequently, the assets are depreciated on a basis consistent with similar owned assets or over the term of the lease, if shorter. On commencement of the lease, the lease rentals are apportioned between an interest element and a capital element so as to produce a constant periodic rate of interest on the outstanding liability. Thereafter, the interest element is recognized in expense while the capital element is applied to reduce the outstanding liability. As at December 31, 2005, the cost of assets held under capital leases was \$57.5 million (January 1, 2005: \$64.9 million) and accumulated depreciation recognized in respect of those assets was \$37.8 million (January 1, 2005: \$40.5 million).

Operating lease rentals, and any incentives receivable, are recognized in expense on a straight-line basis over the term of the lease.

P. POST-RETIREMENT BENEFITS

Post-retirement benefits comprise pension benefits provided to employees throughout the world and other benefits, mainly healthcare, provided to certain employees in North America. The plans are structured to accord with local conditions and practices in each country and include defined contribution and defined benefit plans.

The Company accounts for its post-retirement benefit plans in accordance with SFAS 87, "Employers' Accounting for Pensions" and SFAS 106, "Employers' Accounting for Post-retirement Benefits other than Pensions". The principle underlying these accounting standards is that the cost of

providing these benefits is recognized in income on a smoothed basis over the service lives of the participating employees.

For defined contribution plans, the cost of providing the benefits represents the Company's contributions to the plans and is recognized in income in the period in which the contributions fall due.

For defined benefit plans, the cost of providing the benefits is determined based on actuarial valuations of each of the plans that are carried out annually by independent qualified actuaries at a date not more than three months before Company's fiscal year end. Plan assets (if any) are measured at a market-related value that smoothes the effect of short-term market fluctuations in asset values. Benefit obligations are measured using the projected unit credit method.

The net periodic cost comprises the service cost, the interest cost, the expected return on plan assets (if any), and the amortization of the prior service cost, the actuarial gain or loss and any unrecognized obligation or asset that existed on initial application by the Company of SFAS 87 and SFAS 106. The service cost represents the present value of benefits attributed to services rendered by employees during the period. The interest cost represents the increase in the projected benefit obligation (which is the present value of accrued benefits including assumed future salary increases) due to the passage of time. The discount rate used reflects the rates available on high-quality fixed-income debt instruments at the date of the plan valuation. Prior service costs resulting from plan amendments are recognized on a straight-line basis over the remaining service lives of participating employees.

Actuarial gains and losses represent differences between the expected and actual returns on the plan assets, gains and losses on the plan liabilities and the effect of changes in actuarial assumptions. The Company uses the so-called "corridor approach" whereby to the extent that they exceed 10 per cent of the greater of the market related value of the plan assets and the projected benefit obligation at the beginning of the fiscal year, they are amortized to income over the average remaining service lives of participating employees.

Gains and losses on settlements and curtailments are generally recognized in income in the period in which the curtailment or settlement occurs in accordance with SFAS 88 "Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits".

An additional liability is recognized to the extent that the accumulated benefit obligation (the present value of accrued benefits without allowance for future salary increases) exceeds the fair value of the plan assets. Where an additional minimum liability is recognized, an intangible asset is recognized up to the amount of any unrecognized prior service cost and any unrecognized transition obligation. Any amount not recognized as an intangible asset is reported in other comprehensive income.

Q. SHARE-BASED PAYMENTS

Share-based compensation is provided to employees under the Company's share option, bonus and other share award schemes.

The Company adopted SFAS 123R "Share-Based Payment" using the modified prospective method with an effective date of January 2, 2005, whereby the standard was applied prospectively to the unvested portion of awards that were outstanding as at January 1, 2005 and all awards granted, modified or settled on or after January 2, 2005.

Accordingly, the compensation expense recognized in fiscal 2005 was based on the fair value of the unvested awards, where appropriate measured using an option-pricing model. For equity-settled awards, the fair value is determined at the date of grant and is not subsequently re-measured unless the conditions on which the award was granted are modified. For cash-settled awards, the fair value is determined at the date of grant and is re-measured at each balance sheet date until the liability is settled. Generally, the compensation expense is recognized on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service conditions or non-market performance conditions.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Prior to adopting SFAS 123R, the Company accounted for stock based compensation in accordance with APB 25 "Accounting for Stock Issued to Employees", whereby the compensation expense was based on the intrinsic value of the unvested awards determined at the measurement date. The measurement date was the first date on which both the number of shares that were subject to the award and the option or purchase price, if any, was known. Adjustments for forfeitures were made to the compensation expense in the period in which they occurred.

The Company's financial statements for fiscal 2004 and fiscal 2003 have not been restated to reflect the adoption of SFAS123R. If the Company had accounted for the plans using the fair value method prescribed in SFAS 123, "Accounting for Stock-Based Compensation", the Company's net income and net income per common share in fiscal 2004 and fiscal 2003 would have been as follows:

	Year ended January 1, 2005 \$ million	Year ended January 3, 2004 \$ million
Reported net income	377.7	426.7
Deduct: Compensation expense determined under SFAS 123, net of tax	(6.8)	(4.9)
Add back: Compensation expense determined under APB 25, net of tax	4.2	7.2
Pro forma net income	375.1	429.0
Pro forma net income per common share		
Basic	\$0.45	\$0.52
Diluted	\$0.43	\$0.45

R. PRODUCT WARRANTIES

Provision is made for warranty claims on various products depending on specific market expectations and the type of product. These estimates are established using historical information on the nature, frequency and average cost of warranty claims. Management believes that the warranty reserve is appropriate; however, actual claims incurred could differ from the original estimates requiring adjustments to the reserve.

FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" requires that upon issuance of a guarantee, the guarantor must disclose and recognize a liability for the fair value of the obligation it assumes under that guarantee.

The requirements of FIN 45 are applicable to the Company's product warranty liability and certain guarantees. The Company's guarantees issued subject to the recognition and disclosure requirements of FIN 45 as at December 31, 2005 and January 1, 2005 were not material. As at December 31, 2005 the Company's product warranty liability recorded in other accrued liabilities was \$10.7 million (January 1, 2005: \$10.8 million). The following table summarizes the activity related to the product warranty liability during fiscal 2005 and 2004.

	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million
Balance at the beginning of the period	10.8	12.8
Provision for warranties issued	2.2	2.0
Payments	(2.1)	(4.4)
Foreign currency translation	(0.2)	0.4
Balance at the end of the period	10.7	10.8

Provision is made for the cost of product recalls if management consider it probable that it will be necessary to recall a specific product and the amount can be reasonably estimated.

S. INCOME TAXES

Current tax is the amount of tax payable or recoverable in respect of the taxable profit or loss for the period. Taxable profit differs from accounting profit because it excludes items of income or expense recognized for

accounting purposes that are either not taxable or deductible for tax purposes or are taxable or deductible in other periods. Current tax is calculated using tax rates that have been enacted at the balance sheet date.

The Company recognizes provisions in respect of uncertain tax positions whereby additional current tax may become payable in future periods following the audit by the tax authorities of previously filed tax returns. Provisions for uncertain tax positions are based upon management's assessment of the likely outcome of issues associated with assumed permanent differences, interest that may be applied to temporary differences, the possible disallowance of tax credits and penalties and are classified as current liabilities. Provisions for uncertain tax positions are reviewed regularly and are adjusted to reflect events such as the expiry of limitation periods for assessing tax, administrative guidance given by the tax authorities and court decisions.

Deferred tax is tax expected to be payable or recoverable on differences between the carrying amount of an asset or a liability and its tax base used in the computation of taxable profit. Deferred tax is accounted for using the liability method, whereby deferred tax assets and liabilities are generally recognised for all temporary differences based on enacted tax rates. Deferred tax assets are reduced through the establishment of a valuation allowance at such time as, based on available evidence, it is more likely than not that the deferred tax asset will not be realized.

Deferred tax is provided on temporary differences arising on investments in foreign subsidiaries, except where the Company intends, and is able, to reinvest such amounts indefinitely.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

T. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business. For this to be the case, the asset must be available for immediate sale in its present condition, management must be committed to and have initiated a plan to sell the asset which, when initiated, was expected to result in a completed sale within twelve months. An extension of the period required to complete the sale does not preclude the asset from being classified as held for sale, provided the delay was for reasons beyond the Company's control and management remains committed to its plan to sell the asset.

Assets that are classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Fair value is determined using quoted market prices, where available, or estimated based on the expected future cash flows from the asset or asset group concerned discounted at a rate commensurate with the risk involved. Long-lived assets classified as held for sale are no longer subject to depreciation.

Assets that are to be disposed of other than by sale are classified as held and used until the disposal occurs.

Discontinued operations comprise those operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes from the rest of the Company's activities and have either been disposed of or satisfy the criteria to be classified as held for sale.

U. RECLASSIFICATION OF AMOUNTS REPORTED IN PRIOR YEARS

Certain amounts reported in prior years have been reclassified to conform to the presentation used in fiscal 2005.

Computer software that is not integral to an item of property, plant and equipment has been reclassified from property, plant and equipment to other intangible assets. As at January 1, 2005, the carrying amount of such software was \$8.6 million.

Derivative financial instruments held to hedge the Company's translational foreign currency exposures that were previously included in the carrying amount of bank overdrafts were reclassified to accounts payable. As at January 1, 2005, the carrying amount of such derivative financial instruments was \$13.0 million.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED****V. USE OF ESTIMATES**

When applying the Company's accounting policies, management must make assumptions and estimates concerning the future that affect the carrying amounts of assets and liabilities at the balance sheet date, the disclosure of contingencies that existed at the balance sheet date and the amounts of revenue and expenses recognized during the accounting period. Estimates and assumptions are particularly important in accounting for post-retirement benefits, impairment of long-lived assets, product warranties and income taxes. Estimates and assumptions used are based on factors such as historical experience, the observance of trends in the industries in which the Company operates and information available from the Company's customers and other outside sources. Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes could differ from those assumptions and estimates.

W. NON-STATUTORY ACCOUNTS

The accompanying financial statements do not comprise statutory accounts within the meaning of section 240 of the Companies Act 1985. The Company's statutory accounts for fiscal 2005, that have been prepared in accordance International Financial Reporting Standards ("IFRS") adopted for use in the European Union and on which the Company's auditors, Deloitte & Touche LLP, have given an unqualified report that did not contain a statement under section 237(2) or (3) of the Companies Act 1985, will be filed with the Registrar of Companies for England and Wales following the Company's Annual General Meeting on May 22, 2006.

3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**A. ACCOUNTING PRONOUNCEMENTS ADOPTED DURING THE YEAR****SFAS 123R "SHARE-BASED PAYMENT"**

Share based compensation is provided to employees under the Company's share option, bonus and other share award plans, whereby the participating employees receive rights over shares in Tomkins plc. In previous periods, the Company accounted for these plans in accordance with APB 25 "Accounting for Stock Issued to Employees", which required that the compensation cost was measured on the basis of the intrinsic value of the awards at the grant date.

In December 2004, the FASB issued SFAS 123R "Share-Based Payment" which requires companies to measure the cost of share based compensation plans on the basis of the fair value of the awards. SFAS 123R supersedes APB 25.

Under SFAS 123R, the fair value of equity-settled awards is determined at the date of grant and is not subsequently re-measured unless the conditions on which the award was granted are modified. For cash-settled awards, the fair value is determined at the date of grant and is re-measured at each balance sheet date until the liability is settled. Generally, the compensation cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect actual and expected forfeitures during the vesting period due to failure to satisfy service conditions or non-market performance conditions.

The Company adopted SFAS 123R using the modified prospective method with an effective date of January 2, 2005, whereby SFAS 123R has been applied prospectively to the unvested portion of awards that were outstanding as of January 1, 2005 and all awards granted, modified or settled on or after January 2, 2005. The financial impact of adopting SFAS 123R is discussed in Note 18.

B. NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED**SFAS 154 "ACCOUNTING CHANGES AND ERROR CORRECTIONS"**

In May 2005, the FASB issued SFAS 154 "Accounting Changes and Error Corrections" which requires retrospective application to the financial statements of prior periods to reflect changes in accounting principle and redefines the term "restatement" as the revising of previously issued financial statements to reflect the correction of an error. Under retrospective application, the new accounting principle is applied as at the beginning of the first period presented as if that principle had always been used. The cumulative effect of the change is reflected in the carrying value of assets and liabilities as at the beginning of the first period presented and the offsetting adjustments are recorded to opening retained earnings. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of SFAS 154 to have a material effect on its consolidated financial position, results of operations or cash flows.

4. RESTATEMENT OF INFORMATION PRESENTED IN PRIOR YEARS

A. STATEMENTS OF CASH FLOWS

Subsequent to the issuance of the Company's consolidated financial statements for fiscal 2004, the United States Securities & Exchange Commission issued guidance to the effect that the cash flows associated with discontinued operations should not be presented as a single line item within the consolidated statements of cash flows. Accordingly, during fiscal 2005 the Company changed the presentation of its statements of cash flows to include the cash flows from discontinued operations within the categories of operating, investing, and financing activities. A summary of the effects of the change in presentation on the consolidated statements of cash flows for fiscal 2004 and fiscal 2003 is as follows:

	Year ended January 1, 2005 \$ million	Year ended January 3, 2004 \$ million
Net cash provided by operating activities		
Previously reported	526.4	550.9
Net cash flows from discontinued operations	8.7	(21.0)
Restated	535.1	529.9
Net cash used in investing activities		
Previously reported	(285.0)	(355.4)
Net cash flows from discontinued operations	(5.0)	(9.7)
Restated	(290.0)	(365.1)

Reported net cash used in financing activities in fiscal 2004 and fiscal 2003 was unaffected by the restatement.

B. STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Subsequent to the issuance of the Company's consolidated financial statements for fiscal 2004, management determined that certain shareholders' equity accounts were translated from the Company's functional currency to the reporting currency using current exchange rates rather than historical exchange rates. As a result, the consolidated statements of changes in shareholders' equity for fiscal 2004 and fiscal 2003 and the consolidated balance sheets as at January 1, 2005 and January 3, 2004 have been restated from the amounts previously reported. The restatement did not have any impact on the Company's previously reported net income, total shareholders' equity or cash flows and may be analyzed as follows:

	As at January 1, 2005		As at January 3, 2004		As at December 31, 2002	
	Previously reported \$ million	Restated \$ million	Previously reported \$ million	Restated \$ million	Previously reported \$ million	Restated \$ million
Common stock	74.3	55.6	69.3	55.5	62.3	55.5
Convertible cumulative preferred shares	647.4	525.4	603.6	525.4	542.9	525.4
Treasury shares	(17.1)	(11.4)	(11.5)	(6.8)	(6.6)	(3.1)
Additional paid-in capital	208.0	160.5	190.3	154.6	161.5	143.2
Restricted reserves	886.8	717.6	826.8	717.6	107.2	95.7
Retained earnings	1,697.8	1,697.8	1,521.1	1,521.1	1,904.8	1,904.8
Accumulated other comprehensive loss:						
– Exchange translation reserve	(442.7)	(91.0)	(365.5)	(133.3)	(191.3)	(140.7)
– Other	(131.4)	(131.4)	(137.1)	(137.1)	(168.3)	(168.3)
	(574.1)	(222.4)	(502.6)	(270.4)	(359.6)	(309.0)
Total shareholders' equity	2,923.1	2,923.1	2,697.0	2,697.0	2,412.5	2,412.5

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. ACQUISITIONS

FISCAL 2005

INDUSTRIAL & AUTOMOTIVE

Power Transmission

Additional goodwill of \$1.8 million was recognized on the acquisition of the businesses of Mectrol Corporation in December 2004 following completion of the initial accounting for the acquisition.

Fluid Power

On July 1, 2005, the Company acquired Eifeler Maschinenbau GmbH ("EMB"), a manufacturer of high-performance hydraulic tube fittings, adapters and accessories, for cash consideration, including costs, of €36.5 million (\$43.6 million). Provisional goodwill of \$19.7 million arising on the acquisition was capitalized which is attributable to the value of EMB's assembled workforce and its well established distribution network within Europe and Asia. In addition, there is opportunity for significant synergies from the sale of the Group's existing products through EMB's distribution network and from the ability to offer a broader range of product to the Company's existing customer base.

Other Industrial & Automotive

On March 18, 2005, the Company acquired L.E. Technologies, a recreational vehicle frame manufacturer, for cash consideration, including costs, of \$80.0 million. Goodwill of \$50.6 million arising on the acquisition was capitalized which reflects that the acquisition provides the Company with an extended product range, enables Dexter Axle Company Inc. to pre-integrate its axles to vehicle frames and gives the opportunity for a number of synergies.

BUILDING PRODUCTS

Air Systems Components

On January 27, 2005, the Company acquired Milcor Inc, a multi-brand manufacturer of building products, for cash consideration, including costs, of \$42.9 million. Goodwill of \$26.6 million arising on the acquisition was capitalized which reflects the value of the enhancement of the Company's position in the residential grilles, registers and diffusers market as a result of the acquisition, the strengthening of the Company's ability to secure sales representation in several key markets and the provision of growth opportunities in the commercial products portion of the market. In addition, the acquisition provides immediate access to a Chinese manufacturing source and an opportunity for significant synergies.

On September 23, 2005, the Company acquired NRG Industries Inc., a multi brand manufacturer of commercial building accessories, for cash consideration, including costs, of \$25.1 million. Provisional goodwill of \$12.7 million arising on the acquisition was capitalized which reflects that the acquisition gave the Company access to fully developed products that could be marketed more broadly through Ruskin Company and Air Systems Components channels. In addition, the acquisition increased our presence in significant markets as well as providing opportunity for a number of manufacturing synergies.

FISCAL 2004

INDUSTRIAL & AUTOMOTIVE

Power Transmission

On December 1, 2004, the Company acquired the polyurethane power transmission and motion control belt business, assets and liabilities of Mectrol Corporation for a provisional cash consideration, including costs, of \$46.0 million. Pending finalization of the initial accounting for the acquisition, goodwill of \$35.5 million was capitalized in fiscal 2004 reflecting the new technology that the acquisition brought to the Company's power transmission business and its extension of the Company's product and customer base. Additional goodwill of \$1.8 million was recognized in fiscal 2005.

FISCAL 2003

INDUSTRIAL & AUTOMOTIVE

Power Transmission

The Company acquired the business, assets and liabilities of Stackpole Limited on June 18, 2003 for a cash consideration of \$257.9 million (Cdn\$349.1 million). Goodwill of \$110.1 million arising on the acquisition was capitalized. The acquisition brought the Company expertise in powder metal and engineered components for its powertrain business.

BUILDING PRODUCTS

Air Systems Components

Goodwill recognized on the acquisition of Johnson Controls Inc in fiscal 2002 was reduced by \$0.8 million following completion of the initial accounting for the acquisition.

A summary of the purchase price allocation in respect of acquisitions in fiscal 2005, fiscal 2004 and fiscal 2003 is set out below:

	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million
Cash and cash equivalents	3.0	-
Other current assets	57.6	7.0
Property, plant and equipment	33.4	4.0
Intangible assets	6.7	-
Current liabilities	(21.1)	(1.5)
Long-term liabilities	-	-
Net assets	79.6	9.5
Goodwill capitalized	111.4	35.5
Consideration	191.0	45.0
Cash consideration	185.9	45.3
Costs	5.1	0.7
Adjustment to consideration agreed, but not received	-	(1.0)
	191.0	45.0

None of the acquisitions effected during fiscal 2005, fiscal 2004 and fiscal 2003 were material within the meaning of SFAS 141 "Business Combinations".

6. DISPOSALS

FISCAL 2005

CONTINUING OPERATIONS

INDUSTRIAL & AUTOMOTIVE

Fluid Power

On July 4, 2005, the business and assets of the North American Curved Hose business were sold for a net cash consideration of \$10.6 million resulting in a gain on disposal of \$1.4 million.

BUILDING PRODUCTS

Air Systems Components

On September 16, 2005, the business and assets of Gutter Helmet, part of the Hart & Cooley residential construction business, was sold for \$20.4 million resulting in a gain of \$16.2 million.

DISCONTINUED OPERATIONS

INDUSTRIAL & AUTOMOTIVE

Other Industrial & Automotive

On January 2, 2005, Unified Industries, Inc., was sold for \$1.0 million resulting in a loss of \$2.1 million, which was fully provided for in fiscal 2004.

On February 9, 2005, the business and assets of the AirSprings division were sold for a net consideration of \$7.9 million, of which \$5.0 million is deferred. This resulted in a loss of \$7.3 million, of which \$5.5 million was provided for in fiscal 2004.

A loss of \$1.1 million was recognized in relation to businesses sold in previous years.

BUILDING PRODUCTS

Other Building Products

A gain of \$5.4 million was recognized on the receipt of additional consideration in relation to businesses sold in previous years.

FISCAL 2004

INDUSTRIAL & AUTOMOTIVE

Other Industrial & Automotive

On November 17, 2004, the sale of the European curved hose business in Nevers, France was completed and the related closure of the European curved hose business in St Just, Spain was also completed during fiscal 2004. Net sales proceeds after costs totaled \$4.2 million, resulting in a profit on disposal of \$1.9 million.

During fiscal 2004, a provision of \$5.5 million was recognized for the expected loss on the disposal of the AirSprings division and a provision of \$2.1 million was recognized for the expected loss on disposal of Unified Industries Inc., both of which took place after the balance sheet date.

Costs of \$0.7 million relating to disposals recognized in prior years were incurred during fiscal 2004.

BUILDING PRODUCTS

Other Building Products

On January 30, 2004 and January 31, 2004 respectively, the business and assets of Hattersley Newman Hender, and Pegler Limited were sold for a combined consideration, before costs, of \$23.7 million of which \$10.5 million was deferred. Further net proceeds of \$0.9 million were received after related closure costs and disposal of the vacant site. There was a loss on sale of \$17.0 million before the release of a provision for impairment of \$39.1 million, which was provided in fiscal 2003.

On June 1, 2004 Mayfran International Inc. was sold for a total consideration of \$12.7 million of which \$4.2 million is deferred. There was a loss on sale of \$11.0 million.

Costs of \$0.5 million relating to disposals recognized in prior years were incurred during fiscal 2004.

FISCAL 2003

INDUSTRIAL & AUTOMOTIVE

Other Industrial & Automotive

On August 22, 2003, the Company sold Gates Formed-Fibre Products, Inc., for a cash consideration of \$47.0 million. There was a net gain on disposal of \$8.1 million, after charging \$11.7 million of goodwill and costs of \$2.2 million.

BUILDING PRODUCTS

Other Building Products

On January 27, 2003, the Company sold the business and assets of Milliken Valve Company Inc. for cash consideration of \$7.3 million, resulting in a gain on disposal of \$4.0 million after costs of \$0.3 million.

On June 30, 2003 Tomkins sold its 62.4% investment in the business and assets of Cobra Investments (Pty) Limited for cash consideration of \$12.5 million of which \$2.8 million was deferred. All of the deferred consideration has now been received. A loss of \$5.3 million was recognized on the disposal.

Costs of \$0.7 million relating to the ongoing sale of companies were incurred during fiscal 2003.

FOOD MANUFACTURING (FORMER OPERATING SEGMENT)

During fiscal 2003, the Company reversed a provision of \$55.4 million in respect of representations and warranties given to the purchaser of the Company's UK food manufacturing business in fiscal 2002/01. The reversal of this provision was reflected in the \$49.6 million gain on disposal of discontinued operations recognized in fiscal 2003.

6. DISPOSALS CONTINUED

DISCONTINUED OPERATIONS

The loss from discontinued operations may be analyzed as follows:

	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million
Net sales	1.9	85.1
Operating income	0.1	(10.6)
Income before taxes, minority interest and equity in net income of associates	0.1	(9.8)
Income taxes	(0.1)	(4.2)
Minority interest	–	–
Equity in net income of associates	–	0.5
Loss from discontinued operations	–	(13.5)

ASSETS HELD FOR SALE

Assets held for sale and directly associated liabilities were as follows:

	As at December 31, 2005 \$ million	As at January 1, 2005 \$ million
Assets:		
– Accounts receivable	–	1.2
– Inventories	–	3.8
– Prepaid expenses and other assets	–	0.2
– Property, plant and equipment	23.0	56.6
Total assets held for sale	23.0	61.8
Liabilities:		
– Accounts payable	–	(0.4)
– Other current liabilities	–	(0.2)
Total liabilities related to assets held for sale	–	(0.6)
Net assets of discontinued operations	23.0	61.2

Assets held for sale as at December 31, 2005 comprise vacant properties no longer required by the Company for its manufacturing operations. During fiscal 2005, the Company recognized an impairment loss of \$9.6 million on properties classified as held for sale following the decision to close the Wiper Systems plant in Pontypool, Wales. Assets held for sale as at January 1, 2005 comprise vacant properties and the assets of the AirSprings division and Unified Industries Inc. that were sold in fiscal 2005. Assets held for sale were held by the following operating segments:

	As at December 31, 2005 \$ million	As at January 1, 2005 \$ million
Industrial & Automotive:		
– Power Transmission	2.7	11.5
– Fluid Power	–	–
– Wipers	7.8	–
– Fluid Systems	0.1	–
– Other Industrial & Automotive	–	20.4
	10.6	31.9
Building Products:		
– Air Systems Components	5.1	6.0
– Other Building Products	1.3	1.3
	6.4	7.3
Central costs	6.0	2.8
Discontinued operations	–	19.2
	23.0	61.2

6. DISPOSALS CONTINUED

During fiscal 2003, management decided to sell Dearborn Mid-West Conveyor Company (“Dearborn”) and it was classified as a discontinued operation as at January 3, 2004. However, management was unable to secure a sale at an acceptable price and Dearborn was withdrawn from active sale and reclassified as a continuing operation during fiscal 2004. Dearborn’s net income for fiscal 2004 and fiscal 2003 was as follows:

	Year ended January 1, 2005 \$ million	Year ended January 3, 2004 \$ million
Net sales	118.0	96.0
Operating income	5.9	3.3
Income before taxes	5.9	3.3
Income taxes	(0.9)	(1.0)
Net income	5.0	2.3

7. SEGMENT INFORMATION

A. BACKGROUND

Prior to fiscal 2005, the Company prepared its home country consolidated financial statements in accordance with United Kingdom generally accepted accounting principles (“UK GAAP”). During fiscal 2005, the Company adopted International Financial Reporting Standards (“IFRS”) adopted for use in the European Union with a transition date of January 4, 2004. Accordingly, the Company’s home country consolidated financial statements for fiscal 2004 that were previously reported in accordance with UK GAAP were restated in accordance with IFRS.

SFAS131 “Disclosures about Segments of an Enterprise and Related Information” requires segment information provided in financial statements to reflect the information that was provided to the chief operating decision maker for purposes of making decisions about allocating resources within the Company and assessing the performance of each segment. The chief operating decision maker bases such decisions on operating income before restructuring initiatives and operating net assets. During fiscal 2005, the information provided to the chief operating decision maker was prepared in accordance with IFRS, and during fiscal 2004 and fiscal 2003 it was prepared in accordance with UK GAAP. Accordingly, the segment information presented below for fiscal 2005 is prepared in accordance with IFRS and that for fiscal 2004 and fiscal 2003 is prepared in accordance with UK GAAP. To assist comparison of segment information for fiscal 2005 with that for fiscal 2004, management has additionally presented segment information for fiscal 2004 prepared in accordance with IFRS.

The Company’s reportable segments are based upon the nature of their products and services. Effective January 2, 2005, the Company changed the structure of its internal organization reflect the changing focus of its operations. Segment information for fiscal 2004 and fiscal 2003 has been represented to reflect the resulting change in the Company’s reportable segments.

The information provided to the chief operating decision maker is presented in Sterling. In the tables that follow Sterling amounts have been translated into US dollars. Amounts for fiscal 2005 have been translated at the average exchange rate for the period of £= \$1.8156 (fiscal 2004: £=\$1.8257). Amounts as at December 31, 2005 have been translated at the closing exchange rate on that date of £=\$1.7168 (January 1, 2005: £=\$1.9199).

B. SEGMENT ANALYSIS BY BUSINESS SEGMENT – CONTINUING OPERATIONS

	IFRS		UK GAAP	
	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 3, 2004 \$ million
Net sales				
Industrial & Automotive:				
– Power Transmission	1,761.0	1,668.1	1,668.1	1,451.9
– Fluid Power	650.0	591.0	591.0	501.1
– Wipers	424.9	463.1	463.1	463.3
– Fluid Systems	418.1	416.3	416.3	361.7
– Other Industrial & Automotive	919.4	845.8	845.8	834.9
	4,173.4	3,984.3	3,984.3	3,612.9
Building Products:				
– Air Systems Components	881.3	772.3	772.3	730.3
– Other Building Products	723.3	673.3	673.3	668.1
	1,604.6	1,445.6	1,445.6	1,398.4
Discontinued operations	–	–	11.3	125.7
	5,778.0	5,429.9	5,441.2	5,137.0

7. SEGMENT INFORMATION CONTINUED

There were no material sales or transfers between segments in any period.

	IFRS		UK GAAP	
	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 3, 2004 \$ million
Operating income before restructuring initiatives				
Industrial & Automotive:				
– Power Transmission	234.8	250.3	254.1	225.0
– Fluid Power	66.6	62.3	54.4	29.3
– Wipers	19.6	27.6	20.8	33.8
– Fluid Systems	31.0	43.8	44.4	38.2
– Other Industrial & Automotive	110.6	86.4	52.4	47.1
	462.6	470.4	426.1	373.4
Building Products:				
– Air Systems Components	90.8	86.9	86.2	69.0
– Other Building Products	51.9	41.4	38.5	39.4
	142.7	128.3	124.7	108.4
Central costs	(45.2)	(43.1)	(43.3)	(39.1)
Discontinued operations	–	–	0.2	0.5
	560.1	555.6	507.7	443.2

Restructuring initiatives comprise restructuring expenses and gains and losses recognized on the disposal or exit of businesses.

Operating income before restructuring initiatives under UK GAAP in fiscal 2004 is stated before goodwill amortization of \$22.8 million (Fiscal 2003 – \$19.4 million). Goodwill amortization is not recognized under IFRS.

Operating income before restructuring initiatives includes income from associates as follows:

	IFRS		UK GAAP	
	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 3, 2004 \$ million
Associates				
Industrial & Automotive:				
– Power Transmission	0.5	0.4	0.4	0.4
– Fluid Systems	0.5	0.2	0.3	0.2
– Other Industrial & Automotive	–	0.3	0.5	0.5
	1.0	0.9	1.2	1.1
Building Products:				
– Other Building Products	–	0.5	0.7	0.4
	1.0	1.4	1.9	1.5

7. SEGMENT INFORMATION CONTINUED

	IFRS		UK GAAP	
	As at December 31, 2005 \$ million	As at January 1, 2005 \$ million	As at January 1, 2005 \$ million	As at January 3, 2004 \$ million
Operating net assets including goodwill				
Industrial & Automotive:				
– Power Transmission	980.8	969.8	1,024.1	863.2
– Fluid Power	283.8	170.9	214.0	193.5
– Wipers	270.0	302.0	260.1	256.9
– Fluid Systems	201.6	185.7	190.0	175.6
– Other Industrial & Automotive	137.9	112.6	201.7	127.1
	1,874.1	1,741.0	1,889.9	1,616.3
Building Products:				
– Air Systems Components	445.7	368.4	378.0	392.4
– Other Building Products	123.6	125.2	121.1	144.2
	569.3	493.6	499.1	536.6
Central costs	(33.0)	(9.0)	21.8	2.9
Discontinued operations	–	(7.5)	(7.5)	23.6
	2,410.4	2,218.1	2,403.3	2,179.4

	IFRS		UK GAAP	
	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 3, 2004 \$ million
Depreciation and amortization				
Industrial & Automotive:				
– Power Transmission	87.0	75.9	75.9	70.2
– Fluid Power	23.8	23.2	23.2	24.6
– Wipers	17.8	21.4	21.4	22.3
– Fluid Systems	26.7	25.9	25.9	21.2
– Other Industrial & Automotive	17.4	18.8	18.8	23.6
	172.7	165.2	165.2	161.9
Building Products:				
– Air Systems Components	25.4	26.7	26.7	26.8
– Other Building Products	17.2	19.0	19.0	20.5
	42.6	45.7	45.7	47.3
Central costs	0.9	0.7	0.7	0.5
	216.2	211.6	211.6	209.7

	IFRS		UK GAAP	
	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 3, 2004 \$ million
Expenditures for additions to long-lived assets				
Industrial & Automotive:				
– Power Transmission	123.4	156.0	156.0	76.5
– Fluid Power	37.2	42.0	42.0	34.6
– Wipers	12.0	9.3	9.3	11.6
– Fluid Systems	28.5	28.1	28.1	32.8
– Other Industrial & Automotive	16.0	21.5	21.5	30.0
	217.1	256.9	256.9	185.5
Building Products:				
– Air Systems Components	23.4	14.4	14.4	14.2
– Other Building Products	19.8	15.9	15.9	29.3
	43.2	30.3	30.3	43.5
Central costs	–	0.7	0.7	1.1
	260.3	287.9	287.9	230.1

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7. SEGMENT INFORMATION CONTINUED

C. RECONCILIATION OF SEGMENT INFORMATION TO US GAAP

Reconciliations of the Company's sales, operating income and operating net assets determined in accordance with IFRS and UK GAAP analyzed by segment to the equivalent amounts determined in accordance with US GAAP are presented below.

	Note	IFRS		UK GAAP	
		Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 3, 2004 \$ million
Net sales		5,778.0	5,429.9	5,441.2	5,137.0
Reclassification:					
– Discontinued operations	(I)(a)	(2.0)	(73.8)	(85.1)	(289.6)
Net sales (US GAAP)		5,776.0	5,356.1	5,356.1	4,847.4
Operating income before restructuring initiatives		560.1	555.6	507.7	443.2
Restructuring expenses		(36.9)	(37.4)	(31.9)	(58.5)
		523.2	518.2	475.8	384.7
Reclassifications:					
– Discontinued operations	(I)(a)	–	6.8	6.6	21.9
– Gain on disposal of continuing operations	(I)(b)	19.1	5.7	5.7	0.7
– Associates	(I)(c)	(1.2)	(1.5)	(1.9)	(1.5)
Accounting differences:					
– Goodwill impairment	(II)	–	–	–	(12.5)
– Acquired intangibles amortization	(III)	(5.1)	(5.3)	(5.3)	(2.6)
– Product development costs	(IV)	(0.7)	–	–	–
– Restructuring expenses	(V)	(0.9)	(0.9)	(2.2)	3.4
– Capitalized interest	(VI)	(4.2)	(3.5)	(3.5)	(3.1)
– Inventory	(VII)	(8.5)	(1.6)	(1.6)	(4.4)
– Post-retirement benefits	(VIII)	(34.2)	(44.8)	0.9	5.5
– Share-based compensation	(IX)	(2.5)	4.0	2.6	(6.5)
Operating income from continuing operations (US GAAP)		485.0	477.1	477.1	385.6
Interest income		10.4	11.5	11.5	15.8
Interest expense		(34.8)	(34.9)	(34.9)	(30.2)
Other income net		(65.2)	44.0	44.0	54.8
Income from continuing operations before taxes, minority interest and equity in net income of associates		395.4	497.7	497.7	426.0
Depreciation and amortization		216.2	211.6	211.6	209.7
Accounting differences:					
– Acquired intangible assets	(III)	5.1	5.3	5.3	2.6
– Restructuring costs	(V)	–	–	–	(1.3)
– Capitalized interest	(VI)	4.2	3.5	3.5	3.1
Depreciation and amortization (US GAAP)		225.5	220.4	220.4	214.1

Restructuring initiatives comprise restructuring expenses and gains and losses recognized on the disposal or exit of businesses.

7. SEGMENT INFORMATION CONTINUED

	Note	IFRS		UK GAAP	
		As at December 31, 2005 \$ million	As at January 1, 2005 \$ million	As at January 1, 2005 \$ million	As at January 3, 2004 \$ million
Operating net assets including goodwill (IFRS/UK GAAP)		2,410.4	2,218.1	2,403.3	2,179.4
Reclassifications:					
– Associates	(I)(c)	7.6	7.1	7.1	10.2
– Investments	(I)(d)	3.8	3.1	3.1	3.0
– Dividend on preferred shares	(I)(e)	(3.6)	–	(3.6)	(3.9)
Accounting differences:					
– Goodwill (net)	(II)	1,323.0	1,317.7	1,341.1	1,318.8
– Acquired intangibles (net)	(III)	37.6	49.1	49.1	43.9
– Product development costs	(IV)	(0.7)	–	–	–
– Restructuring expenses	(V)	0.7	1.5	1.5	23.3
– Capitalized interest (net)	(VI)	41.2	32.8	32.8	24.2
– Inventory	(VII)	(14.2)	(5.8)	(5.8)	(4.1)
– Post-retirement benefits	(VIII)	(2.8)	0.4	(194.2)	(227.8)
– Share-based compensation	(IX)	–	5.5	2.7	1.3
– Derivative financial instruments	(X)	–	3.1	(4.5)	(7.2)
Operating net assets including goodwill (US GAAP)		3,803.0	3,632.6	3,632.6	3,361.1
Operating net assets including goodwill under US GAAP comprise:					
– Current assets excluding cash and taxes		1,768.9	1,719.6	1,719.6	1,628.5
– Long-term assets excluding taxes		3,455.4	3,333.3	3,333.3	3,192.3
– Current liabilities excluding debt and taxes		(838.3)	(826.3)	(826.3)	(813.0)
– Long-term liabilities excluding debt and taxes		(558.8)	(587.9)	(587.9)	(637.9)
		3,827.2	3,638.7	3,638.7	3,369.9
Less: Fair value of derivatives hedging translational exposures		(24.2)	(6.1)	(6.1)	(8.8)
Operating net assets including goodwill (US GAAP)		3,803.0	3,632.6	3,632.6	3,361.1

An explanation of the significant differences between US GAAP, IFRS and UK GAAP that affect the Company's reported sales, operating income and operating net assets is presented below.

(I) CLASSIFICATION DIFFERENCES

(a) Discontinued operations

Under US GAAP and IFRS, net income from discontinued operations is shown as a separate line item below net income from continuing operations. Although there is commonality of presentation, differences in the amounts included within sales and operating income from continuing operations arise from the definition of a discontinued operation.

Under US GAAP, a discontinued operation is any component of an entity that has identifiable operations and cash flows and has been sold or is classified as held for sale at the balance sheet date. Under IFRS, a discontinued operation is an operation that has been sold or is classified as held for sale at the balance sheet date, and itself represents, or its sale is part of a single plan to dispose of, a separate major line of business or geographical area of operations. Accordingly, more operations are likely to be classified as discontinued under US GAAP than under IFRS.

Under UK GAAP, the income and expenses of discontinued operations were included in the line item to which they related but their contribution to certain line items was disclosed either on the face of the income statement or in the notes to the financial statements. Sales and operating income information provided to the chief decision maker included the contribution of discontinued operations.

(b) Gain on disposal of continuing operations

Under UK GAAP, gains on disposal of continuing operations were described as non-operating exceptional items and were shown separately within the income statement after operating income.

Under US GAAP and IFRS, there is no concept of a non-operating exceptional item and items that would have been classified as such under UK GAAP are included in operating income.

(c) Associates

Under US GAAP, operating income does not include any amounts in respect of the Company's associates.

Under IFRS, operating income includes the Company's share of the net income of its associates.

Under UK GAAP, operating income included the Company's share of the income before taxes and non-operating exceptional items of its associates.

Under US GAAP, the Company's investments in associates accounted for using the equity method are included in operating assets but they are (were) not included under IFRS and UK GAAP.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED**7. SEGMENT INFORMATION CONTINUED****(I) CLASSIFICATION DIFFERENCES CONTINUED***(d) Investments*

Under US GAAP, available-for-sale investments are included in operating assets but they are (were) not included under IFRS and UK GAAP.

(e) Dividends on preferred shares

Under US GAAP, accrued dividends on preferred shares are included in operating net assets.

Under IFRS, from January 2, 2005 onwards, accrued dividends on preferred shares are included in net debt and are therefore excluded from operating net assets.

Under UK GAAP, accrued dividends on preferred shares were not included in operating net assets.

(II) GOODWILL

Under both US GAAP and IFRS, goodwill is not amortized but is tested at least annually for impairment. However, a significant difference exists in the carrying value of goodwill due largely to historical differences in the initial measurement and subsequent accounting for goodwill arising on past acquisitions.

Under IFRS, the Company elected not to apply IFRS 3 "Business Combinations" to business combinations that occurred before January 4, 2004. As a result, the Company recognized goodwill amounting to \$387.9 million as at January 3, 2004, which represented the carrying value of goodwill recognized under UK GAAP on acquisitions completed on or after May 3, 1998. Goodwill arising on acquisitions completed before May 3, 1998 amounting to \$1,888.2 million was written off to reserves under UK GAAP and was not reinstated on adoption of IFRS. Under US GAAP, the carrying value of goodwill as at January 3, 2004 was \$1,706.7 million.

Under UK GAAP, capitalized goodwill was amortized over its estimated useful economic life, not exceeding 20 years, and was tested for impairment whenever circumstances indicated that it may have suffered an impairment loss.

(III) ACQUIRED INTANGIBLE ASSETS

Under both IFRS and US GAAP, intangible resources acquired in business combinations that occurred on or after January 4, 2004 are recognized as intangible assets if they are separable from the acquired business or arise from contractual or legal rights. However, a significant difference exists in the carrying value of acquired intangible assets due largely to the differing treatment of intangible resources acquired in past acquisitions.

As a consequence of the decision not to apply IFRS 3 "Business Combinations" to business combinations that occurred before January 4, 2004, intangible resources acquired in those business combinations are not recognized as intangible assets under IFRS. Under US GAAP, the carrying value of acquired intangible assets as at January 3, 2004 was \$40.9 million.

Acquired intangible assets are amortized under both US GAAP and IFRS, but the amortization charge under IFRS is likely to be lower than under US GAAP due to the lower carrying amount of these assets under IFRS.

Under UK GAAP, intangible resources acquired in business combinations were recognized separately from goodwill only if they were separable from the acquired business and arose from contractual or legal rights. The Company had not recognized any acquired intangible assets under UK GAAP.

(IV) PRODUCT DEVELOPMENT COSTS

Under US GAAP, product development costs are charged to income in the period in which they are incurred.

Under IFRS, certain product development costs are capitalized when the conditions specified by IAS 38 "Intangible Assets" are met. Capitalized development costs are amortized to the income statement over the expected life of the resulting product.

Under UK GAAP, product development costs were charged to income in the period in which they are incurred.

(V) RESTRUCTURING EXPENSES

Under US GAAP, each component of a restructuring plan must be examined separately to determine when the related expenses may be recognized.

Involuntary employee termination costs may be recognized when management has committed to a detailed termination plan and has communicated the plan to employees. Other restructuring expenses are generally recognized when they are incurred.

Under IFRS and UK GAAP, a restructuring plan is (or was) viewed as a whole and the related expenses are (or were) recognized when there exists an obligation to carry out the restructuring, which is generally when a detailed formal restructuring plan is announced.

(VI) CAPITALIZED INTEREST

Under US GAAP, interest costs attributable to funding the construction of major items of property, plant and equipment are capitalized and amortized over the estimated useful life of the asset concerned.

Under IFRS and UK GAAP, the Company does (or did) not capitalize any element of its interest costs.

(VII) INVENTORY

Under US GAAP, inventories are stated at the lower of cost and market value. Cost is generally determined on a FIFO basis, but a last in, first out ("LIFO") basis is used to determine the cost of inventory held by certain US subsidiaries.

Under IFRS and UK GAAP, use of the LIFO basis is (or was) prohibited.

(VIII) POST-RETIREMENT BENEFITS

Under US GAAP, IFRS and UK GAAP, the cost of defined benefit plans is (or was) calculated using the projected unit credit method and is (or was) recognized over the average expected remaining service lives of participating employees but there are (or were) significant differences with regard to the methods and assumptions that must be used for valuing plan assets and benefit obligations and for recognizing gains and losses.

Under US GAAP, the net periodic pension cost is charged wholly to operating income.

Under IFRS, the service cost, past service cost and gains and losses on settlements and curtailments are included within operating income, but the interest cost is included in interest expense, the expected return on plan assets is included in interest income and actuarial gains and losses are recognized directly in equity.

Under both US GAAP and IFRS, the net benefit obligation is recognized as a liability but the amounts recognized differ, due largely to different methods of recognizing surpluses and deficits.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7. SEGMENT INFORMATION CONTINUED

Under US GAAP, actuarial gains and losses are amortized over the remaining service lives of participating employees to the extent that, measured at the beginning of each fiscal year, they exceed 10 per cent of the greater of the market related value of the plan assets or the projected benefit obligation. Under IFRS, actuarial gains and losses are recognized in equity in the period in which they occur.

Under IFRS, where a plan is in surplus the asset recognized is limited to the amount of any unrecognized past service costs and the present value of any amount which the Company expects to recover by way of refunds or a reduction in future contributions. Under US GAAP, there is no restriction on the asset recognized in respect of a plan in surplus.

Under US GAAP, a minimum pension liability must be recognized that represents the amount by which the accumulated benefit obligation (ignoring projected future salary increases) exceeds the fair value of the plan assets. A corresponding amount is recognized as an intangible asset, to the extent of any unrecognized prior service cost and any recognized transition obligation, and the balance is recognized in comprehensive income. Under IFRS, there is no equivalent requirement to recognize a minimum pension liability because the net liability is fully recognized on the balance sheet.

Under UK GAAP, the net periodic pension cost was charged wholly to operating income and consisted of the regular cost and variations from the regular cost arising from actuarial gains and losses and retroactive changes in benefits that were aggregated and amortized over the expected remaining service lives of the active participants in the plan. Gains and losses on settlements and curtailments were generally recognized in the period in which they occurred and if they related to the disposal or exit of businesses were included in non-operating exceptional items.

Under UK GAAP, the net benefit obligation was not recognized as a liability.

(IX) SHARE-BASED COMPENSATION

Under US GAAP, the Company accounts for share-based compensation plans using the fair value method prescribed by SFAS 123R "Share-Based Payment". SFAS 123R was applied prospectively to the unvested portion of awards that were outstanding as at January 1, 2005 and all awards granted, modified or settled on or after January 2, 2005. Prior to January 2, 2005, the Company accounted for its stock based compensation plans using the intrinsic value method prescribed by APB 25 "Accounting for Stock Issued to Employees".

Under IFRS, the Company accounts for share-based compensation plans using the fair value method prescribed by IFRS 2 "Share-based Payment". IFRS 2 was applied retrospectively to all awards that were outstanding but had not vested as at January 1, 2005, except those equity-settled awards that were granted on or before November 7, 2002.

While differences between the compensation expense recognized under IFRS and US GAAP will exist in the medium-term, it is expected that they will be eliminated in future years when the outstanding unvested equity-settled awards granted on or before November 7, 2002 either vest or are forfeited due to failure to meet the service or non-market performance conditions that apply to them.

Under UK GAAP, the Company accounted for share-based compensation using the intrinsic value method specified by UITF 17 "Employee share schemes" which differed in certain respects from that specified by APB25. In particular, awards made under the Company's savings-related share option plan were regarded as non-compensatory under UITF17 whereas they were regarded as compensatory under APB25, and the compensation expense relating to deferred shares awarded under the Company's annual bonus plan was recognized at the grant date under UITF17 whereas it was recognized over the applicable vesting period under APB25.

(X) DERIVATIVE FINANCIAL INSTRUMENTS

Under US GAAP, derivative financial instruments are recognized as assets and liabilities measured at their fair values at the balance sheet date and, in the absence of hedge accounting, changes in their fair values are reflected immediately in income.

Under IFRS prior to January 2, 2005 and under UK GAAP, derivative financial instruments were not generally recognized as assets and liabilities on the balance sheet and gains or losses arising on them were not recognized until the hedged item was itself recognised in the financial statements.

Under IFRS from January 2, 2005 onwards, derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date and, in the absence of hedge accounting, changes in their fair values are reflected immediately in income.

Under US GAAP and IFRS, the Company applies hedge accounting in certain circumstances where it is permissible to do so under the applicable accounting standards. Fair value gains and losses on derivative financial instruments held to hedge translational exposures that are reflected in income because they do not qualify for hedge accounting are included in other income and do not affect operating income.

D. SELECTED GEOGRAPHIC INFORMATION

	US GAAP		
	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 3, 2004 \$ million
Net sales by geographic origin			
United States of America	3,853.8	3,489.7	3,287.6
United Kingdom	296.5	323.3	258.6
Rest of Europe	566.8	539.5	468.1
Rest of the World	1,058.9	1,003.6	833.1
	5,776.0	5,356.1	4,847.4
Long-lived assets by geographic location			
United States of America	729.0	718.5	760.0
United Kingdom	98.5	130.5	125.3
Rest of Europe	160.4	165.3	155.7
Rest of the World	478.8	438.7	340.8
	1,466.7	1,453.0	1,381.8

NOTES TO THE FINANCIAL STATEMENTS CONTINUED**7. SEGMENT INFORMATION CONTINUED****E. INFORMATION ABOUT MAJOR CUSTOMERS**

The Company has a significant concentration of customers in the United States of America, who accounted for 68.9% (2004: 67.5%; 2003: 67.2%) of the Company's sales during the period, and in the industrial and automotive industry, which accounted for 72.2% (2004: 73.4%; 2003: 70.3%) of the Company's sales during the period. No single customer accounted for more than 10 per cent of the Company's sales, and there were no significant accounts receivables from a single customer. The Company reviews a customer's credit history before extending credit. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information.

8. INCOME TAXES**A. ANALYSIS OF INCOME TAX EXPENSE/(BENEFIT)**

Income tax expense/(benefit) by location of taxing jurisdiction is as follows:

	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 3, 2004 \$ million
Current tax:			
United Kingdom	(34.5)	(30.9)	(148.8)
United States – Federal taxes	(33.4)	43.5	29.9
United States – State taxes	16.9	5.2	5.2
Other foreign taxes	62.6	51.8	48.7
Total current tax	11.6	69.6	(65.0)
Deferred tax:			
United Kingdom	20.7	0.2	(14.7)
United States – Federal taxes	46.1	31.7	16.4
United States – State taxes	3.9	4.7	3.3
Other foreign taxes	(13.5)	(3.0)	(12.2)
Total deferred tax	57.2	33.6	(7.2)
Total income tax expense/(benefit)	68.8	103.2	(72.2)

FISCAL 2005

Under the American Jobs Creation Act of 2004 ("AJCA") in the United States, the Company had the opportunity to benefit from a one-time repatriation of cash to the United States at a reduced tax rate. During fiscal 2005, the Company repatriated \$75.9 million to the United States under the AJCA on which it incurred a tax charge of \$3.8 million.

In fiscal 2005, there was a release of provisions for uncertain tax positions of \$106.6 million following the successful resolution of a tax issue in the United States, the expiry of time during which tax audits could be performed in certain tax jurisdictions and the change of views on the likely outcome of challenges by various tax authorities.

FISCAL 2004

In fiscal 2004, the Company reached agreement with the US Internal Revenue Service with respect to the examination of the tax returns of one of its subsidiaries for fiscal years 1999, 2000 and 2001. As a result, tax provisions of \$27.4 million were no longer considered necessary and were released to the income statement in fiscal 2004.

FISCAL 2003

During fiscal 2003, following an extensive tax risk management study, the Company implemented a new methodology to estimate its provision for uncertain tax positions. The principal change from the methodology used in prior periods was that the provision recognized was not assessed against a "portfolio" of tax exposures but, instead, provisions for uncertain tax positions were made on an item-by-item basis. As a result, there was a reduction of \$147.9 million in the Company's provision for uncertain tax positions which was released to the income statement in fiscal 2003.

8. INCOME TAXES CONTINUED

B. RECONCILIATION OF INCOME TAX EXPENSE/(BENEFIT) TO INCOME TAX CHARGED AT STATUTORY TAX RATE

The income tax expense/(benefit) for the period differs from the product of income from continuing operations before taxes, minority interest and equity in net income of associates and the rate of United Kingdom corporation tax as follows:

	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 3, 2004 \$ million
Income from continuing operations before taxes, minority interest and equity in net income of associates	395.4	497.7	426.0
United Kingdom corporation tax at 30% (2004: 30%; 2003:30%)	118.7	149.3	127.8
Tax effect of:			
Permanent differences	77.4	(18.5)	(24.6)
Effect of different tax rates on overseas profits	20.3	0.8	(11.4)
Release of provisions for uncertain tax positions	(106.6)	(27.4)	(147.9)
Utilization of losses not previously recognized	(73.0)	(6.9)	–
Change in deferred tax valuation allowance	57.6	5.9	(8.6)
Foreign tax credits	(25.6)	–	(7.5)
Income tax expense/(benefit)	68.8	103.2	(72.2)

C. ANALYSIS OF DEFERRED TAX ASSETS/LIABILITIES

Deferred tax assets/(liabilities) recognized by the Company were as follows:

	As at December 31, 2005 \$ million	As at January 1, 2005 \$ million
Deferred tax assets:		
Net operating losses	615.7	552.1
Pension and other post retirement obligations	159.6	165.0
Capital loss carry forwards	147.1	159.8
Accrued expenses and other	45.6	48.7
Compensation	38.8	32.1
Tax credits	29.5	13.3
Accounts receivable	7.0	5.7
Other	10.4	10.1
	1,053.7	986.8
Valuation allowance	(791.4)	(684.9)
Total deferred tax assets	262.3	301.9
Deferred tax liabilities:		
Property, plant and equipment	(109.9)	(105.6)
Inventories	(39.7)	(38.8)
Intangible assets	(35.3)	(28.7)
Other	(12.0)	(16.5)
Total deferred tax liabilities	(196.9)	(189.6)
Net deferred tax assets	65.4	112.3

As at December 31, 2005, the Company had operating tax losses amounting to \$2,063.8 million of which \$1,988.2 million can be carried forward indefinitely and \$75.6 million have expiry dates between 2006 and 2019. As at December 31, 2005, the Company recognized a deferred tax asset of \$26.3 million in respect of these losses, net of a valuation allowance of \$589.4 million.

As at December 31, 2005, the Company had capital tax losses amounting to \$491.6 million of which \$490.5 million can be carried forward indefinitely and \$1.1 million expire in 2009. As at December 31, 2005, the Company recognized a deferred tax asset of \$1.6 million in respect of these losses, net of a valuation allowance of \$145.5 million.

As at December 31, 2005, the undistributed earnings of foreign subsidiaries amounted to \$3,345.8 million (January 1, 2005 – \$2,848.8 million). No income taxes have been provided on the Company's share of these undistributed earnings due to management's ability and intent to reinvest such amounts indefinitely. A determination of the amount of the unrecognized deferred tax liability has not been made because it is not practical to do so.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. INCOME PER COMMON SHARE

Basic income per common share represents net income divided by the weighted average number of common shares outstanding during the fiscal year. Diluted income per common share considers the effect of potential common shares, unless the inclusion of the potential common shares would have an anti-dilutive effect.

	Year ended December 31, 2005 Number 000	Year ended January 1, 2005 Number 000	Year ended January 3, 2004 Number 000
Weighted average shares used to calculate basic earnings per share	771,427	770,717	771,037
Assumed conversion of convertible preferred shares	102,375	102,651	180,917
Assumed exercise of share options	2,339	3,931	2,034
Adjusted weighted average shares used to calculate diluted earnings per share	876,141	877,299	953,988

Share options numbering 1,883,396 (fiscal 2004: 8,226,950; fiscal 2003: 12,941,950) with an exercise price higher than the average market price during the fiscal year, were excluded in computing diluted earnings per share since the impact would be anti-dilutive. For the purposes of diluted earnings per share the income is increased for the dividend on the preferred shares of \$29.1 million (fiscal 2004: \$28.5 million; fiscal 2003: \$47.1 million).

10. INVENTORIES

	As at December 31, 2005 \$ million	As at January 1, 2005 \$ million
Raw materials and supplies	253.3	237.9
Work in progress	106.4	87.0
Finished goods and goods held for resale	403.8	384.6
Total inventories – current cost	763.5	709.5
Less excess of FIFO over LIFO cost	(14.2)	(5.7)
	749.3	703.8

11. PROPERTY, PLANT AND EQUIPMENT

	As at December 31, 2005 \$ million	As at January 1, 2005 \$ million
Cost:		
– Freehold land	610.0	583.1
– Long leasehold land and buildings	3.9	0.4
– Short leasehold land and buildings	18.2	18.6
– Plant, equipment and vehicles	2,204.4	2,048.0
– Assets under construction	167.1	200.2
	3,003.6	2,850.3
Less: Accumulated depreciation	(1,536.9)	(1,397.3)
Total	1,466.7	1,453.0

Freehold land amounting to \$69.4 million (January 1, 2005 – \$75.4 million) is not depreciated. Depreciation expense was \$216.1 million for fiscal 2005, \$206.0 million for fiscal 2004 and \$207.6 million for fiscal 2003.

12. GOODWILL

	As at January 1, 2005 \$ million	Acquisition of subsidiaries \$ million	Foreign currency translation \$ million	As at December 31, 2005 \$ million
Year ended December 31, 2005				
Industrial & Automotive:				
– Power Transmission	681.0	1.8	2.9	685.7
– Fluid Power	87.4	19.7	(0.5)	106.6
– Wipers	167.0	–	–	167.0
– Fluid Systems	257.3	–	–	257.3
– Other Industrial & Automotive	130.2	50.6	–	180.8
	1,322.9	72.1	2.4	1,397.4
Building Products:				
– Air Systems Components	333.8	39.3	(1.2)	371.9
– Other Building Products	95.6	–	–	95.6
	429.4	39.3	(1.2)	467.5
	1,752.3	111.4	1.2	1,864.9

	As at January 3, 2004 \$ million	Acquisition of subsidiaries \$ million	Foreign currency translation \$ million	As at January 1, 2005 \$ million
Year ended January 1, 2005				
Industrial & Automotive:				
– Power Transmission	636.2	35.5	9.3	681.0
– Fluid Power	87.2	–	0.2	87.4
– Wipers	167.0	–	–	167.0
– Fluid Systems	257.4	–	(0.1)	257.3
– Other Industrial & Automotive	130.3	–	(0.1)	130.2
	1,278.1	35.5	9.3	1,322.9
Building Products:				
– Air Systems Components	333.0	–	0.8	333.8
– Other Building Products	95.6	–	–	95.6
	428.6	–	0.8	429.4
	1,706.7	35.5	10.1	1,752.3

In fiscal 2003, an impairment loss of \$53.9 million was recognized, of which \$12.5 million related to Lasco Fittings Inc. and was included in income from continuing operations, and \$41.4 million related to the Company's Valves, Taps and Mixers businesses and was included in loss from discontinued operations.

13. INTANGIBLE ASSETS

	As at December 31, 2005			As at January 1, 2005		
	Cost \$ million	Accumulated amortization \$ million	Net \$ million	Cost \$ million	Accumulated amortization \$ million	Net \$ million
Patents and technology	9.1	(9.1)	–	9.1	(9.1)	–
Customer relationships	35.3	(10.5)	24.8	30.0	(6.3)	23.7
Intellectual property	20.3	(3.8)	16.5	20.3	(2.2)	18.1
Non-competition agreement	2.1	–	2.1	–	–	–
Capitalized software	92.2	(61.5)	30.7	61.5	(52.9)	8.6
	159.0	(84.9)	74.1	120.9	(70.5)	50.4
Pension intangible asset not subject to amortization	6.6	–	6.6	7.3	–	7.3
Total intangible assets	165.6	(84.9)	80.7	128.2	(70.5)	57.7

NOTES TO THE FINANCIAL STATEMENTS CONTINUED**13. INTANGIBLE ASSETS CONTINUED**

During fiscal 2005, the amortization expense in respect of intangible assets was \$9.4 million (fiscal 2004: \$14.4 million; fiscal 2003: \$6.5 million). Estimated amortization expense for the following five years is as follows:

	\$ million
Fiscal year:	
– 2006	13.1
– 2007	13.1
– 2008	13.1
– 2009	12.7
– 2010	12.7

14. BANK OVERDRAFTS, BANK AND OTHER LOANS

	As at December 31, 2005			As at January 1, 2005		
	Current liabilities \$ million	Non-current liabilities \$ million	Total \$ million	Current liabilities \$ million	Non-current liabilities \$ million	Total \$ million
Bank overdrafts	17.9	–	17.9	12.5	–	12.5
Bank and other loans:						
– Bank loans – secured	5.3	–	5.3	5.4	–	5.4
– Bank loans – unsecured	38.3	205.0	243.3	8.4	3.5	11.9
– Other loans – unsecured	7.7	698.5	706.2	4.6	763.6	768.2
– Unsecured loan notes	0.5	–	0.5	0.6	–	0.6
	51.8	903.5	955.3	19.0	767.1	786.1
	69.7	903.5	973.2	31.5	767.1	798.6

Borrowings are repayable as follows:

	As at December 31, 2005 \$ million	As at January 1, 2005 \$ million
Current liabilities:		
– On demand or within one year	69.7	31.5
Non-current liabilities:		
– In the second year	–	1.7
– In the third year	–	1.8
– In the fourth year	–	–
– In the fifth year	205.5	–
– After more than five years	698.0	763.6
	903.5	767.1
	973.2	798.6

BANK LOANS

Bank loans are principally amounts drawn down under the Company's £400 million multi-currency revolving credit facility. As at December 31, 2005, \$205.8 million (January 1, 2005 - \$ nil) had been drawn down, including tranches denominated in US dollars totaling \$175.0 million. Borrowings under the facility attract interest at floating rates determined by reference to LIBOR and the weighted average rate payable was 4.8% as at December 31, 2005.

OTHER LOANS

The Company has a Euro Medium Term Note Program under which it may borrow up to a total maximum principal amount of £750 million. So far, two bonds have been issued under this program: £150 million repayable at par on December 20, 2011 that bears interest at a fixed rate of 8%; and £250 million repayable at par on September 16, 2015 that bears interest at a fixed rate of 6.125%.

The carrying amount of other loans may be analyzed as follows:

	As at December 31, 2005 \$ million	As at January 1, 2005 \$ million
Principal amount	686.7	768.0
Accrued interest payable	8.4	5.0
Unamortized transaction costs	(3.7)	(4.8)
Carrying amount before hedge accounting	691.4	768.2
Fair value hedge adjustment (Note 15)	14.8	–
Carrying amount	706.2	768.2

UNSECURED LOAN NOTES

The unsecured loan notes must be repaid, at par, on June 30, 2012. Until that time, in certain circumstances the note holders have the right to require full or part repayment, at par, half yearly on June 30 and December 31 and for this reason they are classified as current liabilities. The unsecured loan notes bear interest at a fixed rate of 2.6%.

14. BANK OVERDRAFTS, BANK AND OTHER LOANS CONTINUED

BORROWING FACILITIES

As at December 31, 2005, the Company had undrawn committed borrowing facilities of \$480.9 million (January 1, 2005 – \$768.0 million) available under the multi-currency revolving credit facility that expires on August 8, 2010.

BORROWING COVENANTS

The Company is subject to covenants, representations and warranties commonly associated with investment grade borrowings in respect of its committed borrowing facilities and borrowings under the Euro Medium Term Note Program.

The Company is subject to two financial covenants in respect of its committed borrowing facilities. The ratio of net debt to consolidated earnings before interest, tax, depreciation and amortization must not exceed 2.5 times, and the ratio of consolidated operating profit to the consolidated net interest charge must not be less than 3.0 times. The financial covenants are calculated by applying “frozen” UK GAAP as at December 31, 2002.

15. DERIVATIVE FINANCIAL INSTRUMENTS

A. SUMMARY

The carrying amount of derivative financial instruments held by the Company was as follows:

	As at December 31, 2005			As at January 1, 2005		
	Assets \$ million	Liabilities \$ million	Net \$ million	Assets \$ million	Liabilities \$ million	Net \$ million
Translational hedges:						
– Currency forwards	0.2	(13.9)	(13.7)	–	(13.0)	(13.0)
– Interest rate swaps	37.9	–	37.9	19.1	–	19.1
	38.1	(13.9)	24.2	19.1	(13.0)	6.1
Transactional hedges:						
– Currency forwards and swaps	4.8	(1.5)	3.3	0.2	–	0.2
	42.9	(15.4)	27.5	19.3	(13.0)	6.3
Classified as:						
– Current	8.9	(15.4)	(6.5)	0.7	(13.0)	(12.3)
– Non-current	34.0	–	34.0	18.6	–	18.6
	42.9	(15.4)	27.5	19.3	(13.0)	6.3

The Company does not hold or issue derivatives for speculative or trading purposes.

The Company ensures that its portfolio of derivative financial instruments is managed such that there is no significant concentration of credit risk in any one bank or other financial institution.

B. CURRENCY DERIVATIVES

As at December 31, 2005, the notional principal amount of outstanding foreign exchange contracts that are used to manage the currency profile of the Company’s net assets was \$705.9 million (January 1, 2005: \$708.3 million). These contracts do not qualify for hedge accounting under SFAS133 “Accounting for Derivative Instruments and Hedging Activities” and in fiscal 2005 the net fair value loss on these contracts of \$62.7 million was recognized in other (expense)/income (fiscal 2004: net fair value gain of \$22.2 million; fiscal 2003 net fair value gain of \$57.0 million).

During fiscal 2005, the Company drew-down US-dollar denominated borrowings under its multi-currency revolving credit facility which had the effect of providing an economic hedge of the translational currency exposures arising on its net investment in certain of its subsidiaries whose functional currency is the US dollar. As at December 31, 2005, the amount of US-dollar denominated borrowings outstanding under the facility was \$175.0 million. These borrowings do not qualify for hedge accounting under SFAS133 and in fiscal 2005, the attributable foreign currency translation loss of \$9.5 million was recognized in other expense. Also in fiscal 2005, a net gain of \$1.0 million was recognized within other income in respect of other currency translation hedges that did not qualify for hedge accounting under SFAS133 (fiscal 2004: \$nil; fiscal 2003: \$nil).

In fiscal 2005, a net fair value gain of \$0.6 million was recognized within operating income in respect of currency derivatives that were held to provide an economic hedge of transactional currency exposures but were not designated as hedges for accounting purposes (fiscal 2004: net fair value gain of \$2.6 million; fiscal 2003 net fair value gain of \$2.6 million).

C. INTEREST RATE SWAPS

Interest rate swaps are used to swap borrowings under the Company’s Euro Medium Term Note Program from fixed interest rates to floating interest rates. As at December 31, 2005, the nominal value of the contracts outstanding was \$686.7 million (January 1, 2005: \$768.0 million). The Company had not previously elected to designate these contracts as fair value hedges in accordance with SFAS133, but during fiscal 2005 they were so designated and were subsequently considered to be effective hedges for accounting purposes. As at December 31, 2005, an adjustment of \$14.8 million was made to the carrying amount of the hedged borrowings to reflect the extent to which the swaps provided an effective hedge against fair value interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED**15. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED**

Interest rate swaps are also used to restrict the amount of floating rate US dollar debt. As at December 31, 2005, the nominal value of these contracts held was \$420 million (January 1, 2005: \$ 210 million), including contracts with a nominal value of \$210 million that commence on the maturity of equivalent contracts that are currently in force in June 2006 and June 2008.

During fiscal 2005, a net gain of \$6.0 million was recognized within other income that represented the net change in the fair value of interest rate swaps that did not qualify for hedge accounting under FAS133 (fiscal 2004: net fair value gain of \$12.0 million; fiscal 2003 net fair value loss of \$11.6 million).

The profile of interest rate swaps held by the Company was as follows:

	Notional principal amount million	Interest rate				Variable rate index
		Payable		Receivable		
		Variable	Fixed	Variable	Fixed	
As at December 31, 2005						
Maturity date:						
– December 2011	£150.0	7.2%	–	–	8.0%	6 month LIBOR
– September 2015	£250.0	5.7%	–	–	6.1%	3 month LIBOR
– June 2006	US\$145.0	–	2.8%	4.5%	–	3 month LIBOR
– June 2008	US\$65.0	–	3.8%	4.5%	–	3 month LIBOR
– December 2007 (commences June 2006)	US\$145.0	–	4.2%	–	–	3 month LIBOR
– December 2009 (commences June 2008)	US\$65.0	–	4.6%	–	–	3 month LIBOR
As at January 1, 2005						
Maturity date:						
– December 2011	£150.0	7.5%	–	–	8.0%	6 month LIBOR
– September 2015	£250.0	6.0%	–	–	6.1%	3 month LIBOR
– June 2006	US\$145.0	–	2.8%	2.5%	–	3 month LIBOR
– June 2008	US\$65.0	–	3.8%	2.5%	–	3 month LIBOR

16. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value information is provided below in respect of financial assets and liabilities that comprise the Company's net debt and other financial assets and liabilities whose carrying value is not considered to approximate to fair value.

	As at December 31, 2005		As at January 1, 2005	
	Carrying amount \$ million	Fair value \$ million	Carrying amount \$ million	Fair value \$ million
Cash and cash equivalents	396.4	396.4	356.0	356.0
Restricted cash	9.2	9.2	9.4	9.4
Borrowings classified as current liabilities	(69.7)	(69.7)	(31.5)	(31.5)
Borrowings classified as non-current liabilities	(903.5)	(933.1)	(767.1)	(826.1)
Capital lease obligations	(21.2)	(21.2)	(23.2)	(23.2)
Derivative financial instruments:				
– Interest rate derivatives	37.9	37.9	19.1	19.1
– Foreign currency derivatives	(10.4)	(10.4)	(12.8)	(12.8)
Convertible cumulative preference shares	(526.7)	(538.2)	(647.4)	(481.1)

Cash and cash equivalents and restricted cash largely attract floating interest rates. Accordingly, their carrying amounts are considered to approximate to fair value.

Borrowings classified as current liabilities mainly comprise overdrafts and loans that attract floating interest rates. Accordingly their carrying amount is considered to approximate to fair value.

Borrowings classified as non-current liabilities principally comprise borrowings under the Group's multi-currency revolving credit facility that attract floating interest rates, whose carrying amount is considered to approximate to fair value, and the listed bonds issued under the Group's Euro Medium Term Note Program, whose fair values represent their quoted market prices.

Capital lease obligations attract fixed interest rates that are implicit in the lease rentals and their fair value has been assessed by reference to prevailing market interest rates.

Interest rate derivatives are valued by discounting the applicable cash flows at prevailing market interest rates.

Foreign currency derivatives are valued on a mark to market basis by reference to prevailing currency exchange rates.

The Convertible cumulative preference shares are not traded in an organized market and their fair value has been assessed using a valuation model that takes into account prevailing market interest rates and the existence of the holders' conversion option.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. POST-RETIREMENT BENEFITS

The Company has defined benefit and defined contribution plans covering substantially all employees of the Company and its domestic and international subsidiaries. Benefits under defined benefit plans on a worldwide basis are generally based on years of service and employees' compensation during the last years of employment. In North America, the Company also provides various post-retirement health and life insurance benefits for certain of its employees.

The Company contributes to multi-employer plans for certain collective bargaining United States employees. In addition, various other defined contribution plans are sponsored worldwide.

	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 3, 2004 \$ million
Multi-employer plan expense	6.3	7.3	7.3
Defined contribution plan expense	42.2	40.7	39.7
Accrued liability for multi-employer and defined contribution plans included in other liabilities at the end of the period	12.8	10.8	9.5

The components of net periodic benefit cost for defined benefit plans are as follows:

	UK Pension Plans		
	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 3, 2004 \$ million
Service cost	1.8	3.1	6.7
Interest cost	19.5	19.9	18.8
Expected return on plan assets	(23.6)	(23.8)	(19.8)
Amortization of prior service cost	0.4	0.4	–
Amortization of transition obligation	(1.3)	(1.4)	(1.6)
Amortization of actuarial loss	2.1	1.7	2.4
Loss/(gain) on curtailments and settlements	1.7	(0.6)	1.0
Net periodic benefit expense/(income)	0.6	(0.7)	7.5

Weighted average assumptions used to determine net periodic benefit costs:

– Discount rate	5.75%	5.75%	5.99%
– Rate of compensation increase	4.00%	4.00%	4.01%
– Expected return on plan assets	7.28%	7.23%	7.73%

	Non UK Pension Plans		
	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 3, 2004 \$ million
Service cost	10.0	9.7	10.6
Interest cost	42.8	43.8	45.6
Expected return on plan assets	(35.8)	(38.2)	(45.4)
Amortization of prior service cost	0.5	0.5	1.2
Amortization of transition asset	0.5	0.5	0.4
Amortization of actuarial loss	17.5	12.1	4.6
Loss/(gain) on curtailments and settlements	0.2	(2.8)	1.9
Special termination benefits	(2.5)	–	–
Net periodic pension expense	33.2	25.6	18.9

Weighted average assumptions used to determine net periodic benefit costs:

– Discount rate	5.87%	5.95%	6.75%
– Rate of compensation increase	5.40%	5.39%	5.75%
– Expected return on plan assets	7.78%	8.16%	9.13%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. POST-RETIREMENT BENEFITS CONTINUED

The components of net periodic benefit cost for other post-retirement benefits are as follows:

	Other post-retirement benefits		
	Year ended January 1, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 3, 2004 \$ million
Service cost	0.8	0.8	1.1
Interest cost	12.1	13.7	19.0
Amortization of prior service cost	(2.5)	(1.5)	(1.2)
Amortization of actuarial gain	(4.5)	–	–
(Gain)/loss on curtailments and settlements	(8.0)	(2.1)	2.0
Net periodic benefit (income)/expense	(2.1)	10.9	20.9
Weighted average assumptions used to determine net periodic benefit costs:			
– Discount rate	6.00%	6.15%	6.75%
– Ultimate medical trend rate	4.18%	4.50%	5.03%

The Company generally uses a measurement date three months before the fiscal year end for the majority of its plans. Changes in the pension and other post retirement benefit obligations, fair value of plan assets and the amounts recognized in the consolidated balance sheets are shown below:

	Pension benefits				Other benefits	
	UK Plans		Non-UK Plans		All Plans	
	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million
Benefit obligation						
Benefit obligation at end of prior year	366.4	350.9	753.7	753.5	213.8	276.7
Service cost	1.8	3.1	10.0	9.7	0.8	0.8
Interest cost	19.5	19.9	42.8	43.8	12.1	13.7
Plan amendments	–	–	0.6	7.5	(1.3)	(10.3)
Actuarial (gain)/loss	75.1	4.0	52.2	16.4	(1.0)	(45.0)
Divestitures	(1.7)	–	–	(2.8)	–	(2.6)
Curtailments	–	(5.9)	(0.2)	–	–	–
Settlements	(0.9)	(11.6)	(0.5)	(14.6)	(10.2)	–
Special termination benefits	–	–	(3.6)	–	–	–
Disbursements and benefits paid	(15.7)	(19.1)	(53.0)	(67.4)	(19.2)	(21.0)
Contributions by participants	0.2	0.2	0.2	0.2	–	–
Foreign currency translation	(43.1)	24.9	(2.8)	7.4	0.6	1.5
Benefit obligation at end of year	401.6	366.4	799.4	753.7	195.6	213.8
Plan assets						
Fair value of plan assets at end of prior year	346.6	316.1	466.1	441.4	–	–
Actual return on plan assets	52.9	24.6	50.7	57.3	–	–
Divestitures	(1.7)	–	–	–	–	–
Settlements	(0.9)	(11.6)	(0.9)	(5.9)	–	–
Disbursements and benefits paid	(15.7)	(19.1)	(53.0)	(67.3)	(19.2)	(21.0)
Company contributions	8.4	13.1	73.1	36.0	19.2	21.0
Contributions by participants	0.2	0.2	0.2	0.2	–	–
Foreign currency translation	(39.0)	23.3	0.3	4.4	–	–
Fair value of plan assets at end of year	350.8	346.6	536.5	466.1	–	–

17. POST-RETIREMENT BENEFITS CONTINUED

	Pension benefits				Other benefits	
	UK Plans		Non-UK Plans		All Plans	
	As at December 31, 2005 \$ million	As at January 1, 2005 \$ million	As at December 31, 2005 \$ million	As at January 1, 2005 \$ million	As at December 31, 2005 \$ million	As at January 1, 2005 \$ million
Funded status-assets (less than)/in excess of benefit obligation	(50.8)	(19.7)	(262.9)	(287.6)	(195.6)	(213.8)
Contributions after measurement date	1.4	1.2	4.2	4.5	4.4	5.0
Unrecognized net actuarial loss/(gain)	70.9	34.8	248.3	229.9	(55.1)	(56.6)
Unrecognized net (asset)/liability at transition	(0.4)	(1.8)	4.7	5.7	–	–
Unrecognized prior service cost	0.5	1.0	3.0	2.6	(19.5)	(20.7)
Net amount recognized	21.6	15.5	(2.7)	(44.9)	(265.8)	(286.1)
Amounts recognized in the consolidated balance sheet:						
– Prepaid benefit cost	–	13.5	1.6	2.9	–	–
– Accrued benefit liability	(48.6)	(25.6)	(201.3)	(236.3)	(265.8)	(286.1)
– Intangible asset	0.6	0.9	6.0	6.4	–	–
– Accumulated other comprehensive income	69.6	26.7	191.0	182.1	–	–
Net amount recognized	21.6	15.5	(2.7)	(44.9)	(265.8)	(286.1)

The accumulated benefit obligation for all defined benefit pension plans was \$1,133.9 million at December 31, 2005 and \$1,058.6 million at January 1, 2005. The accumulated benefit obligation has been calculated in accordance with Approach 1 described in EITF 88-1 "Determination of Vested Benefit Obligation for a Defined Benefit Pension Plan".

During fiscal 2004, certain assets and liabilities of one of the Group's Japanese pension arrangements were transferred to the Japanese government. The value of liabilities transferred exceeded the amount of assets transferred by \$8.7 million. The impact of this government subsidy is reflected in the above figures.

	Pension benefits				Other benefits	
	UK Plans		Non-UK Plans		All Plans	
	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million
Increase in minimum liability included in other comprehensive income	42.9	(0.6)	8.9	(13.1)	n/a	n/a

Information regarding pension plans in which projected benefit obligations (inclusive of anticipated future compensation increases) and accumulated benefit obligations exceed plan assets:

	UK Plans		Non-UK Plans	
	As at December 31, 2005 \$ million	As at January 1, 2005 \$ million	As at December 31, 2005 \$ million	As at January 1, 2005 \$ million
Projected benefit obligation	(370.9)	(140.1)	(797.7)	(737.4)
Accumulated benefit obligation	(363.8)	(134.6)	(738.2)	(687.0)
Fair value of plan assets	316.9	112.9	534.8	452.3

The major assumptions used in valuing year end pension and post-retirement plan obligations were as follows:

	Pension benefits				Other benefits	
	UK Plans		Non-UK Plans		All Plans	
	As at December 31, 2005	As at January 1, 2005	As at December 31, 2005	As at January 1, 2005	As at December 31, 2005	As at January 1, 2005
Weighted average assumptions used to determine benefit obligations at year end:						
– Discount rate	5.00%	5.75%	5.34%	5.87%	5.44%	6.00%
– Rate of compensation increase	4.00%	4.00%	5.39%	5.39%	n/a	n/a
– Ultimate medical trend rate	n/a	n/a	n/a	n/a	4.18%	4.50%

17. POST-RETIREMENT BENEFITS CONTINUED

PENSION PLAN ASSETS

Pension plan assets are invested in equity securities, bonds and other fixed income securities, money market instruments, and insurance contracts. The Company's weighted-average worldwide actual asset allocations at December 31, 2005 and January 1, 2005 by asset category are as follows:

Asset category:	Plan assets		Target allocation
	As at December 31, 2005	As at January 1, 2005	
– Equity securities	60%	61%	65-75%
– Fixed income securities	35%	35%	27-33%
– Other assets	5%	4%	0-10%
Total	100%	100%	100%

The Company's investment strategy for pension plan assets includes diversification to minimize interest and market risks. On December 1, 2005 the Tomkins North American Retirement Board redenominated existing fixed income assets in the US defined benefit pension plans amounting to \$152.0 million and entered into \$308.0 million of US dollar denominated interest rate swaps with a combined average duration of 11.5 years. This has resulted in a hedge of the interest rate risk inherent in the accrued benefit obligation of the plans, whereby future changes in the accrued benefit obligation arising from changes in the interest rate will be matched by equal and opposite movements in the value of the assets, protecting the deficit from future interest rate changes. In general, the investment strategy for non-US plans does not involve the use of derivative financial instruments. Plan assets are re-balanced periodically to maintain target asset allocations. Maturities of investments are not necessarily related to the timing of expected future benefit payments, but adequate liquidity to make immediate and medium term benefit payments is ensured.

CONTRIBUTIONS

The Company's funding policy for its defined benefit plans is to contribute amounts determined annually on an actuarial basis to provide for current and future benefits in accordance with federal law and other regulations. Post retirement health and life insurance benefits are funded as incurred. The Company expects to contribute approximately \$69 million to its pension plans during fiscal 2006.

BENEFIT PAYMENTS

The following benefit payments, which reflect expected future service as appropriate, are expected to be paid:

Fiscal years:	Pension Benefits		Other Benefits
	UK Plans \$ million	Non-UK Plans \$ million	All Plans \$ million
– 2006	16.4	54.7	20.1
– 2007	17.2	54.0	20.3
– 2008	18.5	54.6	20.5
– 2009	18.4	55.2	20.4
– 2010	19.4	54.9	20.2
– 2011-2015	106.2	277.3	93.0

HEALTH CARE COST TRENDS AND THE IMPACT OF THE MEDICARE PRESCRIPTION ACT OF 2003

The weighted average annual rate of increase in the per-capita cost of covered benefits (i.e., health care cost trend rate) is assumed to be 8.68% for fiscal 2006, reducing gradually to 4.18% by fiscal 2011 and remaining at that level thereafter. A one percentage point change in the assumed health care cost trend rate would have the following effects as of December 31, 2005:

	1 % point increase \$ million	1 % point decrease \$ million
Effect on the total of service and interest cost	1.1	1.1
Effect on the post retirement benefit obligation	16.1	15.6

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. The Act introduced a plan sponsor subsidy based on a percentage of a beneficiary's annual prescription drug benefits, within defined limits, and the opportunity for a retiree to obtain prescription drug benefits under Medicare.

In January 2004, the FASB issued Staff Position FAS 106-1, "Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (the "Act", or "FSP FAS 106-1"). FSP FAS 106-1 allows for current recognition or a one-time deferral of the effects of the Act. The deferral suspends the application of the measurement requirements of SFAS 106 "Employer's Accounting for Post retirement Benefits Other Than Pensions," and it revised the disclosure requirements of SFAS 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits" for pensions and other post retirement plans for the effects of the Act. In May 2004, the FASB issued Staff Position FAS 106-2, "Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (the Act, or "FSP FAS 106-2"), which supercedes FSP FAS 106-1 and provides guidance on the accounting for the effects of the Act and requires employers that sponsor post retirement healthcare plans that provide prescription drug benefits to provide certain disclosures regarding the effect of the federal subsidy included in the Act. FSP FAS 106-2 was effective for the first interim or annual period beginning after June 15, 2004 and did not have a material impact on the Company's results of operations, cash flows or financial position.

18. SHARE-BASED COMPENSATION

A. BACKGROUND

The Company operates a number of share-based compensation plans to provide incentives to its senior management and other eligible employees. Details of the plans in respect of which options and awards were outstanding as at December 31, 2005 are set out below.

The Company adopted SFAS123R "Share-Based Payment" using the modified prospective method with an effective date of January 2, 2005. Prior to adopting SFAS123R, the Company accounted for share-based compensation using the intrinsic value method prescribed in APB25 "Accounting for Stock Issued to Employees". The Company's financial statements for fiscal 2004 and fiscal 2003 have not been restated to reflect the adoption of SFAS123R. Pro-forma information on the effect on the Company's net income and net income per common share for fiscal 2004 and fiscal 2003 had the Company previously accounted for share-based compensation using the fair value method prescribed in SFAS123 "Accounting for Stock-Based Compensation" is presented in Note 2.

Under SFAS 123, the Company recognized the effect of forfeitures due to failure to satisfy service conditions or non-market performance conditions when they occurred. Under SFAS 123R, the Company adjusts the compensation expense recognized in each period to reflect actual and expected forfeitures. The cumulative effect of this change of accounting policy as at January 1, 2005 was not material.

The compensation expense recognized in income and the related income tax benefit in respect of share-based compensation plans was as follows:

	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$million	Year ended January 3, 2004 \$ million
Equity-settled awards:			
– Share options	9.8	0.6	7.2
– Other equity-settled awards	5.6	3.7	1.1
	15.4	4.3	8.3
Cash-settled awards	1.1	2.3	2.3
Total compensation expense	16.5	6.6	10.6
Income tax benefit	–	(2.4)	(3.4)
Effect on net income	16.5	4.2	7.2

B. SHARE OPTIONS

Following a review by management in fiscal 2004, it was decided that the Company's executive share option plans would not be renewed when they lapsed for the purposes of new grants in May 2005. Accordingly, no new options were granted under these plans during fiscal 2005. Options will continue to be granted from time to time under the Tomkins 2005 Sharesave Scheme, a savings related share option plan which is open to employees who are resident for tax purposes in the United Kingdom. Options granted under the Tomkins 2005 Sharesave Scheme generally vest on the fifth anniversary of the grant date and expire if they are not exercised within six months of the vesting date.

Details of the share option plans that are closed for the purposes of new grants but under which options were outstanding as at December 31, 2005 are as follows:

TOMKINS EXECUTIVE SHARE OPTION SCHEME NO.3 ("ESOS 3") AND THE TOMKINS EXECUTIVE SHARE OPTION SCHEME NO. 4 ("ESOS 4")

Options granted under ESOS3 and ESOS4 cannot generally be exercised until the third anniversary of the date of grant and until the performance condition has been satisfied. The performance condition will be achieved if the rate of increase of the Company's earnings per share exceeds the growth in the United Kingdom Retail Prices Index by an average of 2 per cent per annum over any three-year period after the option is granted based on a simple arithmetic calculation that is made annually when the Company's results are known. In any event, options granted under these plans generally expire if they are not exercised by the tenth anniversary of the grant date.

TOMKINS PREMIUM PRICED OPTION

The Tomkins Premium Priced Option was an option specifically and solely granted to James Nicol as part of the incentive package to attract him to the Company. It consists of a non-transferable option to acquire 5,076,142 shares granted on February 11, 2002. The price per share payable on the exercise of the option will be 338 cents in respect of 2,538,072 shares ("A option shares"), 474 cents in respect of 1,522,842 shares ("B option shares") and 592 cents in respect of 1,015,228 shares ("C option shares"). No performance conditions are attached to these options. The options vested as to one-third of A, B and C option shares on February 18, 2003, one-third of A, B and C option shares on February 18, 2004 and as to one-third of A, B and C option shares on February 18, 2005. The option will expire on February 11, 2012 or earlier in certain circumstances.

ONGOING OPTION

The Ongoing Option was also an option specifically and solely granted to James Nicol on February 11, 2002, as part of the incentive package to attract him to the Company. It consisted of a non-transferable option to acquire 1,522,842 shares at 338 cents, which could not be exercised before February 18, 2005 and unless and until the performance condition has been satisfied or waived. The performance condition will be achieved if, on or after the third anniversary of the date of grant, the rate of increase of the Company's earnings per share over any three-year period is equal to or greater than the rate of increase of the United Kingdom Retail Prices Index plus 9 per cent. The performance condition may be waived or amended by the Remuneration Committee. If there is a change of control of the Company then the option is exercisable immediately regardless of whether the performance condition is satisfied. The option will expire on February 11, 2012 or earlier in certain circumstances. As at December 31, 2005, the option had not vested because the performance condition had not been met.

TOMKINS SAVINGS RELATED SHARE OPTION SCHEME NO. 2

The Tomkins Savings Related Share Option Scheme No.2 was open to employees who are resident for tax purposes in the United Kingdom. Options granted under this plan generally vest on the fifth anniversary of the grant date and expire if they are not exercised within six months of the vesting date. During fiscal 2005, this plan expired for the purposes of new grants and was replaced with The Tomkins 2005 Sharesave Scheme.

18. SHARE-BASED COMPENSATION CONTINUED

Changes in the total number of options outstanding during the period were as follows:

	Options Number	Weighted average exercise price Cents
Outstanding as at January 1, 2005	30,333,766	429.37
Granted during the period	419,297	396.53
Forfeited during the period	(1,197,190)	389.99
Exercised during the period	(175,884)	435.67
Expired during the period	(950,857)	596.97
Outstanding as at December 31, 2005	28,429,132	424.90
Exercisable as at December 31, 2005	5,079,142	454.53

Options that were exercisable as at December 31, 2005 had a total intrinsic value of \$4.3 million and a weighted average remaining contractual term of 6.1 years.

The Company expects to recognize an aggregate compensation expense of \$8.2 million in respect of options that were not exercisable as at December 31, 2005 over their weighted average remaining period to vesting of 1.1 years.

During fiscal 2005, the Company received \$0.7million (fiscal 2004: \$2.2 million; fiscal 2003: \$1.1 million) in cash from the exercise of share options whose total intrinsic value was \$0.1 million (fiscal 2004: \$0.9 million; fiscal 2003: \$0.1 million). The tax benefit realized by the Company on the exercise of these options was \$nil (fiscal 2004: \$0.3 million; fiscal 2003: \$nil).

The compensation expense recognized in respect of share options is based on their fair value at the grant date calculated using the Black-Scholes option-pricing model.

Assumptions made in calculating the fair values of options granted were as follows:

	Year ended December 31, 2005	Year ended January 1, 2005	Year ended January 3, 2004
Options granted	419,297	6,853,762	9,721,456
Weighted average fair value	158.39c	128.13c	92.99c
Weighted average assumptions:			
– Share price	495.66c	457.03c	389.04c
– Exercise price	396.53c	436.43c	389.04c
– Expected volatility	30.46%	31.50%	31.50%
– Expected term	5.25 years	5.83 years	6.0 years
– Risk free interest rate	3.84%	4.51%	4.43%
– Expected dividends	22.88c	21.91c	19.57c

Expected volatility was determined based on the historical volatility of the market price of the Company's ordinary shares over the period since May 2001 when, following a period of significant de-merger activity, the Company was re-focused on its remaining core businesses. Adjustments have been made to the expected term used in the model to reflect the effects of non-transferability, exercise restrictions and behavioral considerations, where available based on historical experience of similar awards.

C. OTHER EQUITY-SETTLED AWARDS

Details of the other equity-settled plans operated by the Company under which awards were outstanding as at December 31, 2005 are as follows:

ANNUAL BONUS INCENTIVE PLAN

The Company's executive Directors and other senior executives participate in the Annual Bonus Incentive Plan ("ABIP"). Each participant in the plan receives a percentage of "bonusable profit" of the business for which he or she has responsibility. Bonusable profit is based on operating profit less a charge for tax and a charge for invested capital. Bonusable profit may also be adjusted for restructuring costs and, with the approval of the Remuneration Committee, certain other items such as gains or losses on the disposal and exit of businesses.

Senior participants receive their bonus as to four-sevenths in cash, one-seventh in bonus shares and two-sevenths in deferred shares. Other participants receive their bonus as to three-quarters in cash, one-twelfth in bonus shares and one sixth in deferred shares. Bonuses are paid at the end of June, September and December based on 75 per cent of the bonus earned to the end of the previous quarter, with the balance of the full entitlement to the bonus for the fiscal year paid at the end of March following the fiscal year-end.

Bonus shares are restricted and vest only after a period of three years after the initial bonus award. Dividends are paid on the bonus shares. Deferred shares are awarded at the time of the initial bonus award but the vesting of the shares is conditional on continued employment with the Company for three years after the award. Dividends are not paid on the deferred shares until they have vested.

As a condition of continued participation in the Plan, senior participants are required to hold shares with a purchase cost equivalent to one year's total after-tax remuneration including bonus, based on an average of the previous three years. Other participants are required to hold shares with a purchase cost equivalent to one half of one year's total after-tax remuneration including bonus, based on an average of the previous three years.

18. SHARE-BASED COMPENSATION CONTINUED

SHARE MATCHING SCHEME

The Tomkins Share Matching Scheme (“SMS”) was related to The Tomkins Restricted Share Plan (“RSP”) which closed for the purposes of new grants in fiscal 2000/01. The RSP required participants either to take an element of their annual bonus in the form of restricted shares, or to acquire further shares in the Company using cash bonuses already paid to them. Awards made under the RSP were subject to forfeiture if the participant left the Company before the third anniversary of the grant date. In the event that restricted shares vested under the RSP, the SMS provided for up to two conditional matching awards. Each matching award was for the number of shares that had vested under the RSP with proportionate reductions in the event that the participant disposed of any shares that had vested under the RSP. The first matching award under the SMS was subject to forfeiture if the participant left the Company before the second anniversary of the grant date. The second matching award was made when the first matching award vested and was subject to forfeiture if the participant left the Company before the second anniversary of the grant date. The final grant under the SMS was made during fiscal 2005 and the plan is now closed for the purposes of new grants.

Changes in the total number of awards outstanding under these plans during fiscal 2005 were as follows:

	Awards Number	Weighted average grant date fair value Cents
Outstanding as at January 1, 2005	1,889,075	469.83
Granted during the period	1,426,367	296.72
Forfeited during the period	(18,701)	487.25
Vested during the period	(73,744)	463.16
Outstanding as at December 31, 2005	3,222,997	468.10

During fiscal 2005, awards were made over 1,415,047 ordinary shares under ABIP and matching awards were made over 11,320 ordinary shares under the SMS.

The Company expects to recognize an aggregate compensation expense of \$4.6 million in respect of awards that had not vested as at December 31, 2005 over their weighted average remaining period to vesting of 1.6 years.

The total intrinsic value of awards that vested under these plans during fiscal 2005 was \$nil (fiscal 2004: \$2.9 million; fiscal 2003: \$0.9 million).

The tax benefit realized by the Company on the vesting of these awards was \$nil (fiscal 2004: \$1.0 million; fiscal 2003: \$0.3 million).

The fair value of awards made under these plans is measured based on the market price of the Company’s ordinary shares on the date of the award. Where the awards do not attract dividends during the vesting period, the market price is reduced by the present value of the dividends expected to be paid during the expected life of the awards.

D. CASH-SETTLED AWARDS

DEFERRED MATCHING SHARE PURCHASE PLAN

The Deferred Matching Share Purchase Plan was introduced for James Nicol as part of the incentive package to attract him to the Company. Under this plan 3,045,684 ordinary shares (“Matching Shares”) were awarded on February 11, 2002 following the purchase by Mr Nicol of 1,015,228 ordinary shares. After three years from February 18, 2002 (or earlier in certain circumstances), the award was to vest in respect of 1,015,228 Matching Shares and the remaining 2,030,456 Matching Shares were to vest to the extent that, for every 1 penny the highest market price of the Company’s ordinary shares sustained over a five-day period during the six-month period ended February 18, 2005 exceeded 197 pence, being the market price on February 18, 2002, Mr Nicol was entitled to receive 5,153 shares. In the event, the market price achieved under the terms of the plan was 285.25 pence and of the 2,030,456 Matching Shares, 454,752 vested and the balance lapsed.

Under the terms of his contract, Mr Nicol was entitled to elect to receive a cash payment in lieu of shares and for this reason this plan was classified as a cash-settled transaction. As at January 1, 2005, the Company recognized a liability of \$6.9 million in respect of the plan. During fiscal 2005, the Company recognized a compensation expense of \$1.1 million in respect of the plan (fiscal 2004: \$2.3 million; fiscal 2003: \$2.3 million).

In the event, Mr Nicol elected to receive cash and was paid \$8.0 million (subject to statutory deductions) in settlement on February 28, 2005.

The tax benefit realized by the Company on the vesting of this award was \$0.9 million.

19. CAPITAL LEASES

Future minimum lease payments under capital leases that had initial or remaining non-cancellable lease terms in excess of one year as at December 31, 2005 were as follows:

	\$ million
Fiscal year:	
– 2006	4.6
– 2007	4.1
– 2008	3.6
– 2009	2.7
– 2010	2.6
– Thereafter	11.0
Total minimum payments	28.6
Less: Future interest	(7.4)
Total principal payable	21.2

NOTES TO THE FINANCIAL STATEMENTS CONTINUED**20. COMMITMENTS UNDER OPERATING LEASES**

Future minimum lease payments under operating leases that had initial or remaining non-cancellable lease terms in excess of one year as at December 31, 2005 were as follows:

	\$ million
Fiscal year:	
– 2006	35.7
– 2007	28.3
– 2008	26.6
– 2009	22.0
– 2010	19.9
– Thereafter	81.2
Total minimum payments	213.7

The rental expense recognized in respect of assets held under operating leases was as follows:

	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$million	Year ended January 3, 2004 \$million
Land and buildings	26.7	26.5	20.4
Plant and machinery	10.9	12.8	15.2
Total operating lease rental expense	37.6	39.3	35.6

21. CONTINGENCIES

The Company is, from time to time, party to legal proceedings and claims, which arise in the ordinary course of business. The Directors do not anticipate that the outcome of any of the above proceedings and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

22. RESTRUCTURING

The Company defines restructuring expenses to include charges incurred with respect to exit or disposal activities accounted for in accordance with SFAS 146 "Accounting for Costs Associated with Exit or Disposal Activities", employee severance costs incurred as a result of an exit or disposal activity accounted for in accordance with SFAS 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" and SFAS 112 "Employers' Accounting for Postemployment Benefits", and pension and other post employment benefit costs incurred as a result of an exit or disposal activity accounted for in accordance with SFAS 87 "Employers' Accounting for Pensions" and SFAS 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions".

The Company has undertaken various restructuring activities to streamline its operations, consolidate and take advantage of available capacity and resources, and ultimately achieve net cost reductions. Restructuring activities include efforts to integrate and rationalize the Company's businesses and to relocate manufacturing operations to lower cost markets.

During fiscal 2005 there were \$40.8 million of restructuring costs charged to the consolidated income statement compared with \$34.1 million in fiscal 2004. Provisions for restructuring costs were as follows:

	Employee related \$ million	Fixed asset write-downs \$ million	Other costs \$ million	Total \$ million
Balance as at December 31, 2002	20.2	–	10.9	31.1
Cash expenditure	(23.0)	–	(16.2)	(39.2)
Non-cash expenditure	–	(6.8)	(3.9)	(10.7)
Charged to income	14.1	6.8	17.1	38.0
Foreign currency translation	0.2	–	–	0.2
Balance as at January 3, 2004	11.5	–	7.9	19.4
Cash expenditure	(7.6)	–	(23.5)	(31.1)
Non cash expenditure	–	(9.0)	(1.4)	(10.4)
Charged to income	6.2	9.0	18.9	34.1
Foreign currency translation	0.1	–	–	0.1
Balance as at January 1, 2005	10.2	–	1.9	12.1
Cash expenditure	(7.5)	–	(11.9)	(19.4)
Non cash expenditure	–	(8.0)	(7.9)	(15.9)
Charged to income	10.1	8.0	20.9	39.0
Foreign currency translation	(0.7)	–	(0.2)	(0.9)
Balance as at December 31, 2005	12.1	–	2.8	14.9

22. RESTRUCTURING CONTINUED

INDUSTRIAL & AUTOMOTIVE

The loss of a local major customer and uncompetitive labor costs resulted in the decision to announce the closure of the Company's curved hose production plant in Nowra, Australia. The plant will close in July 2006 allowing time to honor current customer commitments. Due to continued losses, Wipers announced its intention to transfer the remaining manufacturing capability from the Wiper Systems plant in Pontypool, Wales to more cost competitive locations. The transfer will complete in the first half of fiscal 2006. Taken together, these projects will result in the termination of 362 employees in fiscal 2006.

AIR SYSTEMS COMPONENTS

In Air Systems Components, a number of plant rationalizations occurred with the closure of the Tabor City and Englewood facilities and the transfer to production to lower cost facilities.

Segmental analysis of income statement expense:

	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 3, 2004 \$ million
Industrial & Automotive:			
– Power Transmission	1.9	8.6	13.1
– Fluid Power	(1.6)	1.8	0.3
– Wipers	29.9	8.9	14.3
– Fluid Systems	0.7	4.7	–
– Other Industrial & Automotive	3.0	5.2	2.6
	33.9	29.2	30.3
Building Products:			
– Air Systems Components	5.2	1.8	6.6
– Other Building Products	(0.1)	3.1	1.1
	5.1	4.9	7.7
	39.0	34.1	38.0

Segmental analysis of restructuring provisions:

	As at December 31, 2005 \$ million	As at January 1, 2005 \$ million	As at January 3, 2004 \$ million
Industrial & Automotive:			
– Power Transmission	2.0	0.4	3.3
– Fluid Power	–	2.4	4.3
– Wipers	6.7	2.3	4.9
– Fluid Systems	–	0.9	–
– Other Industrial & Automotive	2.0	1.1	1.6
	10.7	7.1	14.1
Building Products:			
– Air Systems Components	4.2	4.5	5.2
– Other Building Products	–	0.5	0.1
	4.2	5.0	5.3
	14.9	12.1	19.4

As at December 31, 2005, the Company expected to recognize further expenses in relation to ongoing restructurings amounting to \$11.3 million, all of which will be incurred in fiscal 2006.

23. CAPITAL STRUCTURE

The Company's issued share capital comprises ordinary shares of 5p each ("common shares") and convertible cumulative preference shares of \$50 each ("preferred shares").

PREFERRED SHARES

The preferred shares were issued on terms that they could be converted at any time, at the shareholder's option, into fully paid common shares of the Company on the basis of 9.77 common shares for every preferred share so converted. At the date of issue, the conversion terms of the preferred shares were equivalent to a price of 334p per common share.

The Company has the option, at any time when the total amount of the preferred shares issued and outstanding is less than 10% of the amount originally issued and in any event on or after July 29, 2006 to redeem, in the first case, all but not some only and, in the second case, all or any of the preferred shares which remain issued and outstanding at that time. As at December 31, 2005, the Company was unable to redeem the preferred shares.

Until such time as the preferred shares are converted or redeemed, the holders of the preferred shares have a right to receive dividends at an annual rate of 5.560 per cent in preference to the holders of the Company's common shares.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED**23. CAPITAL STRUCTURE CONTINUED**

The holders of the preferred shares are entitled to vote at a general meeting of the Company where, on a show of hands, each holder will have one vote and, on a poll, each holder will have one vote in respect of every seven fully paid common shares to which the holder would be entitled on the full exercise of his conversion rights, except if two or more consecutive quarterly dividends are in arrears whereupon, on a poll, each holder shall have one vote in respect of every fully paid common share to which the holder would be entitled on the full exercise of his conversion rights and such voting rights would continue until such time as any arrears of dividends have been paid in full.

On a return of assets on liquidation or otherwise, other than on redemption or repurchase of the preferred shares, the assets of the Company available to shareholders will be applied first in repaying the capital paid up or credited as paid up in respect of the preferred shares together with all arrears and accruals of dividends to the holders of the preferred shares and any other classes of shares ranking *pari passu* as to capital with the preferred shares.

RESTRICTED RESERVES

Under United Kingdom law, there is a concept of a capital redemption reserve. In the event that the Company purchases its own shares, in certain circumstances it is required to transfer an amount equivalent to the nominal value of the shares purchased to the capital redemption reserve in order to maintain the capital of the Company. The capital redemption reserve is a restricted reserve, as it cannot be distributed to shareholders. On August 26, 2003, the Company redeemed all of its outstanding Redeemable convertible cumulative preference shares of \$50 each and transferred \$621.9 million to the capital redemption reserve. In fiscal 2003, the Company recognized a gain of \$17.4 million on redemption of the Redeemable convertible cumulative preference shares in comprehensive income.

24. RELATED PARTY TRANSACTIONS

During the period, the Group purchased aviation services under an agreement with IGC, LLC and GForce Aviation, LLC. IGC, LLC was wholly-owned by Mr C C Gates until his death on August 28, 2005, when ownership passed to the Gates family. Mr Gates had and Gates family members have an interest in the Company's preferred shares. The agreement was entered into on an arm's length basis and the services provided are used strictly for corporate travel to the Company's diverse locations within North America and only if there is no lower cost alternative available to the Company's employees. The agreement permits the Company to purchase an unlimited number of aircraft flying hours at the rate of \$1,950 per flying hour, plus \$1,300 per day crew, plus \$1,800 per month to cover insurance costs. During fiscal 2005, the Company recognized an expense of \$ 147,870 (fiscal 2004: \$145,705) in respect of these services. As at December 31, 2005, an amount of \$2,100 (January 1, 2005: \$1,700) due to IGC, LLC was included in trade payables.

There are no further transactions or proposed transactions with related parties that are material to the Company or to a related party.

25. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The movements in the allowance for doubtful account are as follows.

	Year ended December 31, 2005 \$ million	Year ended January 1, 2005 \$ million	Year ended January 3, 2004 \$ million
Balance at the beginning of the period	11.7	15.8	16.7
Charged to income	5.4	1.3	0.7
Additions charged to other accounts *	(1.3)	(1.3)	(1.0)
Utilized	(1.6)	(4.9)	(2.3)
Foreign currency translation	(0.7)	0.8	1.7
Balance at the end of the period	13.5	11.7	15.8

* Includes the currency retranslation of opening balances and movements arising from the acquisition and disposal of subsidiaries.

26. SUBSEQUENT EVENTS

On March 1, 2006, the Company completed the acquisition of 100% of the issued stock of Selkirk Americas, L.P. ("Selkirk") for a provisional consideration of \$124.4 million. Selkirk is a manufacturer of chimney, venting and air distribution products for commercial and residential applications and it will be integrated into the Company's Air Systems Components business segment. Selkirk is headquartered in the United States of America and has manufacturing facilities in the United States of America, Canada and Mexico.

On March 2, 2006, the Company announced that it had received conversion notices in respect of an aggregate of 7,800,000 Convertible cumulative preference shares of US\$50 each ("preferred shares") held by B-C Management LLC as nominee for Bear Creek Inc., a corporate trustee administering certain Gates family trusts, and The Gates Family Foundation who together controlled approximately 99.15% of the preferred shares in issue. The preferred shares were converted into 76,205,998 fully paid ordinary shares of 5p each ("common shares") on March 9, 2006. Based on the Company's issued share capital as at March 2, 2006, the number of issued common shares increased from 777,431,246 to 853,637,244 following the conversion and 2,656,912 preferred shares remained in issue.

FINANCIAL STATEMENTS OF THE COMPANY PREPARED IN ACCORDANCE WITH UK GAAP
DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

The Directors are required by law to prepare separate financial statements of Tomkins plc ("the Company") in accordance with the Companies Act 1985. The Directors have prepared the financial statements of the Company under United Kingdom generally accepted accounting principles ("UK GAAP"), rather than International Financial Reporting Standards.

The Directors are required to ensure that the Company's financial statements give a true and fair view of the state of affairs of the Company at the end of the financial year and of its profit or loss for the financial year. However, the Directors are permitted by section 230 of the Companies Act 1985 not to include the Company's profit and loss account in the financial statements.

In preparing the Company's financial statements, the Directors are required to select suitable accounting policies and apply them consistently, make judgments and estimates that are reasonable and prudent, and state whether applicable accounting standards have been followed subject to any material departures that must be disclosed and explained in the financial statements.

The Directors are responsible for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the Company's financial statements comply with applicable law.

The Directors are responsible for safeguarding the assets of the Company and hence for taking such steps as are reasonably open to them to prevent and detect fraud and other irregularities.

The Directors are also responsible for the maintenance and integrity of the financial information contained on the corporate website, www.tomkins.co.uk. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Company's financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

TO THE MEMBERS OF TOMKINS PLC

We have audited the individual financial statements of Tomkins plc ("the Company") for the year ended 31 December 2005 ("the Company's financial statements") which comprise the Company's balance sheet and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

The Corporate Governance statement and the Remuneration Committee report are included in the Annual Report of Tomkins plc for the year ended 31 December 2005.

We have reported separately on the consolidated financial statements of Tomkins plc and its subsidiaries for the year ended 31 December 2005 and on the information in the Remuneration Committee's report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the statement of Directors' responsibilities on page 167, the Directors are responsible for preparing the Company's financial statements in accordance with applicable United Kingdom law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Principles).

Our responsibility is to audit the Company's financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Company's financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the Company financial statements have been properly prepared in accordance with the Companies Act 1985. We report to you if, in our opinion, the Directors' report is not consistent with the Company's financial statements. We also report to you if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions with the Company is not disclosed.

We read the Directors' report and the other information contained in the Annual Report for the above year and described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Company's financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Company's financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Company's financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Company's financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the Company's financial statements.

OPINION

In our opinion, the Company's financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Principles, of the state of the Company's affairs as at 31 December 2005, and have been properly prepared in accordance with the Companies Act 1985.

DELOITTE & TOUCHE LLP

Chartered Accountants and Registered Auditors
London

21 February 2006

FINANCIAL STATEMENTS OF THE COMPANY PREPARED IN ACCORDANCE WITH UK GAAP
COMPANY BALANCE SHEET

	Note	As at 31 December 2005 £ million	Restated* As at 1 January 2005 £ million
Fixed assets			
Tangible assets	5	4.8	5.2
Investments in subsidiaries	6	1,551.5	1,555.7
		1,556.3	1,560.9
Current assets			
Debtors: amounts falling due within one year	7	5.0	24.5
Debtors: amounts falling due after more than one year	7	76.7	396.6
Cash at bank and in hand		–	3.0
		81.7	424.1
Creditors: amounts falling due within one year	8	(20.7)	(26.4)
Net current assets		61.0	397.7
Total assets less current liabilities		1,617.3	1,958.6
Creditors: amounts falling due after more than one year			
Convertible cumulative preference shares	17	(304.7)	–
Other creditors	9	(294.2)	(655.1)
		(598.9)	(655.1)
Net assets before net pension liability		1,018.4	1,303.5
Net pension liability	11	(11.4)	(8.8)
NET ASSETS		1,007.0	1,294.7
Capital and reserves			
Ordinary share capital	14	38.7	38.7
Share premium account	14	95.8	94.0
Own shares	15	(8.5)	(8.6)
Capital redemption reserve	16	461.9	461.9
Merger reserve	16	115.4	115.4
Capital reserve	16	56.5	56.5
Profit and loss account reserve	16	247.2	199.6
Convertible cumulative preference shares	17	–	337.2
SHAREHOLDERS' FUNDS		1,007.0	1,294.7
Analysis of shareholders' funds			
Equity		1,007.0	957.5
Non-equity		–	337.2
		1,007.0	1,294.7

*As explained in note 1, certain amounts as at 1 January 2005 have been restated to reflect changes in the Company's accounting policies.

Approved by the Board on 21 February 2006 and signed on its behalf by:

J NICOL }
 K LEVER } Directors

1. PRINCIPAL ACCOUNTING POLICIES

A. BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with the Companies Act 1985 and applicable UK accounting standards and, except as described under the heading "Financial instruments", under the historical cost convention.

The Company's principal accounting policies are unchanged compared with the year ended 1 January 2005 except as described below.

B. CHANGES OF ACCOUNTING POLICY

(I) CHANGES APPLIED RETROSPECTIVELY

During the period, the Company adopted the following accounting standards:

- FRS 17 "Retirement benefits"
- FRS 20 (IFRS 2) "Share-based Payment"
- FRS 21 (IAS 10) "Events after the Balance Sheet Date"
- FRS 28 "Corresponding amounts"

Restated to reflect the retrospective application of these accounting standards, the Company's loss for the year ended 1 January 2005 of £50.4 million is £5.4 million higher than previously reported and its shareholders' funds as at 1 January 2005 of £1,294.7 million are £55.3 million higher than previously reported. An analysis of the adjustments that have been made to comparative information as at 1 January 2005 and for the year then ended is presented in note 16.

The Directors estimate that the Company's profit for the year ended 31 December 2005 was reduced by £1.2 million because of its adoption of FRS 20. It is not practicable to estimate the effect of adopting FRS 17 on the Company's results for the year ended 31 December 2005 because the Directors no longer obtain actuarial advice in accordance with the previously applicable accounting standard, SSAP 24 "Accounting for pension costs". The adoption of FRS 21 and FRS 28 had no effect on the Company's profit for the year ended 31 December 2005.

(II) ADOPTION OF FRS25 & FRS26

The Company adopted FRS 25 (IAS 32) "Financial Instruments: Disclosure and Presentation" and FRS 26 (IAS 39) "Financial Instruments: Measurement" prospectively from 2 January 2005. Accordingly, comparative information as at 1 January 2005 and for the year then ended has not been restated to reflect the adoption of these accounting standards.

On adoption of FRS 25 and FRS 26, the Company recognised an increase in shareholders' funds of £63.6 million that may be analysed as follows:

	£ million
Convertible cumulative preference shares	63.6
Fair valuation of derivative financial instruments	4.1
Hedge accounting adjustment to borrowings	(4.1)
Increase in shareholders' funds	63.6

An explanation of the effect of adopting FRS 25 and FRS 26 is presented below under the heading "Financial instruments".

(III) ADOPTION OF FRS 23

The Company adopted FRS 23 (IAS 21) "The Effects of Changes in Foreign Exchange Rates" prospectively from 2 January 2005. On adoption of FRS 23, there was no change in the Company's shareholders' funds.

C. INVESTMENTS IN SUBSIDIARIES

A subsidiary is an entity controlled, either directly or indirectly, by the Company, where control is the power to govern the financial and operating policies of the entity so as to obtain benefit from its activities. Investments in subsidiaries represent interests in the Company's subsidiaries that are directly owned by the Company and are stated at cost less any provision for impairment.

D. FOREIGN CURRENCY TRANSLATION

Transactions denominated in foreign currencies are translated into Sterling at the exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate ruling on the balance sheet date. Currency translation differences are recognised in the profit and loss account.

E. TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment. Freehold land and assets under construction are not depreciated. Depreciation of tangible fixed assets, other than freehold land and assets under construction, is provided on a straight-line basis so as to charge the depreciable amount to the profit and loss account over the expected useful life of the asset concerned, which is in the following ranges:

Freehold buildings	50 years
Plant, equipment and vehicles	2 to 20 years

F. FINANCIAL INSTRUMENTS

(I) DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to manage its exposure to exchange rate and interest rate movements. The Company does not hold or issue derivatives for speculative or trading purposes. Prior to 2 January 2005, such derivative contracts were not recognised as assets and liabilities on the balance sheet and gains or losses arising on them were not recognised until the hedged item was itself recognised in the financial statements.

From 2 January 2005 onwards, derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. Changes in their fair values are recognised in the profit and loss account and this is likely to cause volatility in situations where the carrying value of the hedged item is either not adjusted to reflect fair value changes arising from the hedged risk or is so adjusted but that adjustment is not recognised in the profit and loss account. Provided the conditions specified by FRS 26 are met, hedge accounting may be used to mitigate such volatility.

The Company does not generally apply hedge accounting to transactional foreign currency hedging relationships, such as hedges of forecast or committed transactions. It does, however, apply hedge accounting to hedges of its interest rate exposures where it is permissible to do so under FRS26. When hedge accounting is used, the hedging relationship is classified either as a fair value hedge or as a cash flow hedge.

Where the hedging relationship is classified as a fair value hedge, the carrying amount of the hedged asset or liability is adjusted by the increase or decrease in its fair value attributable to the hedged risk and the resulting gain or loss is recognised in the profit and loss account where, to the extent that the hedge is effective, it offsets the change in the fair value of the hedging instrument.

Where the hedging relationship is classified as a cash flow hedge, to the extent that the hedge is effective, changes in the fair value of the hedging instrument are recognised in the statement of total recognised gains and losses rather than in the profit and loss account. When the hedged item is recognised in the financial statements, the accumulated gains and losses on the hedging instrument are either recycled to the profit and loss account or, if the hedged item results in a non-financial asset, are recognised as adjustments to its initial carrying amount.

Derivative financial instruments are classified as current assets or liabilities unless they qualify for hedge accounting under FRS 26 and the hedged item is classified as a non-current asset or liability.

(II) EMBEDDED DERIVATIVES

Prior to 2 January 2005, embedded derivatives were not recognised in the financial statements. From 2 January 2005 onwards, derivatives embedded in non-derivative host contracts are recognised separately as derivative financial instruments when their risks and characteristics are not closely related to those of the host contract and the host contract is not stated at its fair value with changes in its fair value recognised in the profit and loss account.

1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

F. FINANCIAL INSTRUMENTS CONTINUED

(III) PREFERENCE SHARES

In July 1996, the Company issued US dollar denominated 5.56% Convertible cumulative preference shares ("the Preference shares"). Prior to 2 January 2005, the Preference shares were classed as non-equity shareholders' funds and were translated into Sterling at the exchange rate ruling at their date of issue. Dividends payable on the shares were dealt with as an appropriation of profit.

From 2 January 2005 onwards, the Preference shares are classified as non-current liabilities and are retranslated into Sterling at the exchange rate ruling at the balance sheet date. Currency translation differences are recognised in the profit and loss account. Dividends payable on the Preference shares are included within interest payable.

(IV) OWN SHARES

Own shares represent the Company's ordinary shares that are held by the Company and sponsored ESOP trusts in relation to the Group's employee share schemes. Own shares are deducted at cost in arriving at shareholders' funds and gains and losses on their sale or transfer are recognised directly in reserves.

G. RETIREMENT BENEFITS

Retirement benefits comprise pension benefits provided to employees in the United Kingdom.

For defined contribution plans, the pension cost represents the Company's contributions to the plans and is recognised in the profit and loss account in the period in which the contributions fall due.

For defined benefit plans, the pension cost is determined using the projected unit credit method based on actuarial valuations of each of the plans that are carried out annually at the Company's balance sheet date by independent qualified actuaries. The current service cost represents the increase in the present value of the plan liabilities expected to arise from employee service in the current period. Past service costs resulting from enhanced benefits are recognised in the profit and loss account on a straight-line basis over the vesting period, or immediately if the benefits have vested. Gains or losses on curtailments or settlements are recognised in the profit and loss account in the period in which the curtailment or settlement occurs. Actuarial gains and losses, which represent differences between the expected and actual returns on the plan assets and the effect of changes in actuarial assumptions, are recognised in the statement of total recognised gains and losses in the period in which they occur. The net pension liability or asset recognised in the balance sheet comprises the net total for each plan of the present value of the benefit obligation at the balance sheet date, minus any past service costs not yet recognised, minus the fair value of the plan assets, if any, at the balance sheet date and is stated net of deferred tax. Where a plan is in surplus, the asset recognised is limited to the present value of any amounts that the Company expects to recover by way of refunds or a reduction in future contributions.

H. SHARE-BASED INCENTIVES

Share-based incentives are provided to employees under the Company's share option, bonus and other share award schemes. The Company recognises a compensation expense in respect of these schemes that is based on the fair value of the awards, where appropriate measured using an option-pricing model. For equity-settled schemes, the fair value is determined at the date of grant and is not subsequently re-measured unless the conditions on which the award was granted are modified. For cash-settled schemes, the fair value is determined at the date of grant and is re-measured at each balance sheet date until the liability is settled. Generally, the compensation expense is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service conditions or non-market performance conditions.

In accordance with the transitional provisions of FRS 20 (IFRS 2) "Share-based Payment", the Company has not applied this policy to equity-settled awards that were granted on or before 7 November 2002.

I. TAXATION

Deferred tax is recognised on a full provision basis on timing differences between the recognition of gains and losses in the financial statements and their recognition for tax purposes. Deferred tax assets are recognised only to the extent that it is considered more likely than not that that future taxable profits will be available against which the asset can be utilised. Deferred tax is determined using the tax rates that have been enacted or substantially enacted at the balance sheet date and are expected to apply in the periods in which the timing differences are expected to reverse. Deferred tax assets and liabilities are not discounted.

J. DIVIDENDS ON ORDINARY SHARES

Dividends payable on ordinary shares are recognised in the financial statements when they have been appropriately authorised and are no longer at the Company's discretion. Accordingly, interim dividends are recognised when they are paid and final dividends are recognised when they are declared following approval by shareholders at the Company's Annual General Meeting. Dividends on ordinary shares are recognised as an appropriation of shareholders' funds.

2. PROFIT FOR THE PERIOD

As permitted by section 230 of the Companies Act 1985, the Directors have elected not to present the profit and loss account of the Company. The Company's profit for the period was £90.2 million (Restated 2004 – £50.4 million loss).

3. DIVIDENDS ON ORDINARY SHARES

	Year ended 31 December 2005 per share	Year ended 1 January 2005 per share	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Paid or proposed in respect of the period				
Interim dividend	5.07p	4.83p	39.4	37.3
Proposed final dividend	8.16p	7.77p	63.2	60.0
	13.23p	12.60p	102.6	97.3

	Year ended 31 December 2005 £ million	Restated Year ended 1 January 2005 £ million
Recognised in the period		
Final 2004 – 7.77p per share, paid 26 May 2005	60.0	–
Interim 2005 – 5.07p per share, paid 14 November 2005	39.4	–
Final 2003 – 7.40p per share, paid 1 June 2004	–	57.2
Interim 2004 – 4.83p per share, paid 12 November 2004	–	37.3
	99.4	94.5

The Directors propose a final dividend for 2005 of 8.16p per share that, subject to approval by shareholders, will be paid on 31 May 2006 to shareholders on the register on 21 April 2006.

4. AUDITORS' REMUNERATION

Fees payable to the Company's auditors, Deloitte & Touche LLP, in respect of services provided to the Company during the period were as follows:

	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Audit services:		
– Statutory audit	0.4	0.3
– Audit-related regulatory services	0.6	0.3
	1.0	0.6
Further assurance services	0.3	0.4
	1.3	1.0
Tax services:		
– Compliance services	–	0.1
– Advisory services	0.2	0.1
	0.2	0.2
Total fees	1.5	1.2

Audit-related regulatory services include the review of the interim financial statements and the audit of the US GAAP financial statements included in the Form 20-F filing with the Securities and Exchange Commission in the US. Further assurance services include advice on accounting matters and non-regulatory reporting and include £0.3 million (2004 – £0.1 million) in relation to the transition to IFRS.

Fees relating to further assurance services or to tax advisory services must be reported to the Audit Committee and approved by the Chairman of the Audit Committee.

5. TANGIBLE FIXED ASSETS

	Freehold land and buildings £ million	Long leasehold property £ million	Plant, equipment and vehicles £ million	Total £ million
Cost				
As at 1 January 2005	5.4	0.1	2.7	8.2
Additions	–	–	0.2	0.2
Disposals	–	–	(0.7)	(0.7)
As at 31 December 2005	5.4	0.1	2.2	7.7
Accumulated depreciation and impairment losses				
As at 1 January 2005	1.2	–	1.8	3.0
Depreciation charge for the period	0.1	–	0.4	0.5
Disposals	–	–	(0.6)	(0.6)
As at 31 December 2005	1.3	–	1.6	2.9
Net book value				
As at 1 January 2005	4.2	0.1	0.9	5.2
As at 31 December 2005	4.1	0.1	0.6	4.8

6. INVESTMENTS IN SUBSIDIARIES

	£ million
Cost	
As at 1 January 2005	1,555.7
Impairment loss recognised in the period	(4.2)
As at 31 December 2005	1,551.5

Details of the Company's principal subsidiaries as at 31 December 2005 are set out on page 182. A complete list of the Company's subsidiaries will be filed with the Company's next Annual Return.

7. DEBTORS

	As at 31 December 2005 £ million	Restated As at 1 January 2005 £ million
Amounts falling due within one year		
Trade debtors	–	0.1
Amounts owed by subsidiaries	1.0	18.1
Other taxes and social security	0.1	0.2
Deferred tax (note 13)	–	0.7
Other debtors	0.2	1.0
Prepayments and accrued income	3.7	4.4
	5.0	24.5
Amounts falling due after more than one year		
Amounts owed by subsidiaries	70.4	390.7
Derivative financial instruments (note 10)	6.3	–
Deferred tax (note 13)	–	0.2
Other debtors	–	5.7
	76.7	396.6
	81.7	421.1

Amounts owed by subsidiaries classified as falling due after more than one year have no specified terms of repayment but it is considered unlikely that they will be settled within twelve months. Generally, these amounts bear interest at floating rates based on prevailing market interest rates applicable to the currencies in which they are denominated.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED**8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	As at 31 December 2005 £ million	Restated As at 1 January 2005 £ million
Trade creditors	0.2	0.5
Bank overdrafts – unsecured	3.7	11.9
Loan notes – unsecured	0.3	0.3
Amounts owed to subsidiaries	1.3	2.8
Other taxes and social security	0.4	0.3
Other creditors	5.7	5.1
Accrued dividend on preference shares (note 17)	2.1	1.9
Accruals and deferred income	7.0	3.6
	20.7	26.4

The loan notes must be repaid at par, by the Company on 30 June 2012. Until that time, the noteholders have the right to require full or part repayment, at par, half yearly on 30 June and 31 December and for this reason they are classified as current liabilities. The loan notes bear interest at a fixed rate of 2.6% per annum.

9. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Other creditors:		
– Other loans – unsecured	156.1	150.0
– Amounts owed to subsidiaries	138.1	505.1
	294.2	655.1

Other loans comprise a £150 million bond drawn down by the Company under the Group's Euro Medium Term Note Program. The bond is repayable at par on 20 December 2011 and bears interest at a fixed rate of 8% per annum.

The carrying amount of other loans may be analysed as follows:

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Principal amount	150.0	150.0
Accrued interest payable	0.4	0.4
Unamortised transaction costs	(0.3)	(0.4)
Carrying amount before hedge accounting	150.1	150.0
Fair value hedge adjustment (note 10)	6.0	–
Carrying amount	156.1	150.0

Amounts owed to subsidiaries classified as falling due after more than one year have no specified terms of repayment but it is considered unlikely that they will be settled within twelve months. Generally, these amounts bear interest at floating rates based on prevailing market interest rates applicable to the currencies in which they are denominated.

10. DERIVATIVE FINANCIAL INSTRUMENTS

The Company holds derivative financial instruments in accordance with the Group's policy in relation to financial risk management. Details of that policy are set out in the Operating and Financial Review.

The carrying value of derivative financial instruments held by the Company was as follows:

Carrying value	As at 31 December 2005		As at 1 January 2005	
	Assets £ million	Liabilities £ million	Assets £ million	Liabilities £ million
Interest rate swaps	6.3	–	–	–

The Company adopted FRS 25 and FRS 26 prospectively from 2 January 2005. Accordingly, comparative information as at 1 January 2005 has not been restated.

Interest rate swaps are used to swap borrowings by the Company under the Group's Euro Medium Term Note Program from fixed interest rates to floating interest rates. As at 31 December 2005, the nominal value the contracts outstanding was £150 million (1 January 2005 – £150 million). These contracts have been designated and are effective as fair value hedges in relation to the borrowings. As at 31 December 2005, an adjustment of £6.0 million was made to the carrying value of the hedged borrowings to reflect the extent to which the swaps provided an effective hedge against fair value interest rate risk.

During 2005, a net gain of £0.3 million was recognised in the profit and loss account that represented changes in the fair value of interest rate swaps that did not qualify for hedge accounting under FRS 26.

The profile of interest rate swaps held by the Company was as follows:

	Notional principal amount million	Interest rate		Variable rate index
		Payable	Receivable	
As at 31 December 2005				
Maturity date:				
– December 2011	£150.0	7.2%	8.0%	6 month LIBOR
As at 1 January 2005				
Maturity date:				
– December 2011	£150.0	7.5%	8.0%	6 month LIBOR

11. PENSIONS

The Company operates a number of funded defined benefit pension plans in the United Kingdom that provide benefits based upon final pensionable salary and the period of service of the individual employees. The plan assets are held separately from the Company's assets in funds that are under the control of trustees. Day to day management of the plan assets is carried out by independent investment managers who, at the request of the Company, are prohibited by the trustees from investing directly in the Company.

Certain employees and former employees whose pension benefits exceed the maximum that may be provided from the Company's defined benefit pension plans are entitled to an additional unfunded pension payable directly by the Company after their retirement.

The defined benefit pension plans operated by the Company are closed to new entrants.

Full actuarial valuations of the plans are carried out at least every three years. The last full actuarial valuation was carried out as at 5 April 2004. The principal assumptions used in the actuarial valuations carried out at the balance sheet date were as follows:

	As at 31 December 2005	As at 1 January 2005	As at 3 January 2004
Salary increases	4.0%	4.0%	4.0%
Increase to pensions in payment	2.8%	2.8%	2.5% – 2.7%
Increase to deferred pensions	2.8%	2.8%	2.5% – 2.7%
Discount rate	4.75%	5.5%	5.5%
Inflation rate	2.8%	2.8%	2.5% – 2.7%

The fair value of the plan assets and the expected rates of return were as follows:

	As at 31 December 2005		As at 1 January 2005		As at 3 January 2004	
	Long-term rate of return expected % p.a.	Fair value £ million	Long-term rate of return expected % p.a.	Fair value £ million	Long-term rate of return expected % p.a.	Fair value £ million
Equities	7.80 – 8.20	81.8	8.14	69.6	8.14	19.9
Bonds	4.50	70.1	5.27 – 6.40	63.4	5.27 – 6.4	24.4
Other assets	–	–	3.73	0.5	–	–
		151.9		133.5		44.3

11. PENSIONS CONTINUED

The net pension liability may be analysed as follows:

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Fair value of plan assets	151.9	133.5
Present value of plan liabilities:		
– Funded	(161.2)	(140.8)
– Unfunded	(0.1)	(0.1)
Deficit in the plans	(9.4)	(7.4)
Adjustment for unrecoverable surplus	(2.0)	(1.4)
Net pension liability	(11.4)	(8.8)

The Company has not recognised a deferred tax asset in respect of its pension obligations, because it is considered unlikely that future taxable profits will be available against which the asset could be utilised.

The change in the deficit in the plans during the period may be analysed as follows:

	Year ended 31 December 2005 £ million	Year ended 1 January 2005 £ million
Deficit in the plans at the beginning of the period	(8.8)	(7.8)
Net pension credit recognised in the profit and loss account	1.5	2.0
Actuarial losses	(7.0)	(7.6)
Transfer of pension plan from a subsidiary	–	0.1
Employer's contributions	2.9	4.5
Deficit in the plans at the end of the period	(11.4)	(8.8)

The history of actuarial gains and losses recognised during the last four periods is as follows:

	Year ended 31 December 2005	Year ended 1 January 2005	Year ended 3 January 2004	Eight months ended 31 December 2002
Difference between the expected and actual return on plan assets:				
– Amount (£ million)	12.5	1.3	1.0	(3.6)
– Percentage of plan assets	8.2%	1.0%	2.3%	17.0%
Experience gain/(loss) on plan liabilities:				
– Amount (£ million)	1.5	(0.7)	1.6	(2.1)
– Percentage of the present value of plan liabilities	0.9%	0.5%	3.2%	7.6%
Effect of changes in assumptions on present value of plan liabilities:				
– Amount (£ million)	(20.4)	(8.2)	(2.2)	(1.3)
Adjustment for unrecoverable surplus				
– Amount (£ million)	(0.6)	–	–	–
Total actuarial gain/(loss):				
– Amount (£ million)	(7.0)	(7.6)	0.4	(7.0)
– Percentage of the present value of plan liabilities	4.3%	5.4%	0.8%	25.2%

Percentages presented in the above table are calculated based on the fair value of plan assets or on the present value of plan liabilities at the end of the relevant period.

12. SHARE-BASED INCENTIVES

A. BACKGROUND

The Company operates a number of share-based compensation arrangements to provide incentives to the Company's senior management and other eligible employees. Details of the schemes in respect of which options and awards are outstanding are set out in the Remuneration Committee report on pages 50 to 55.

The information provided below relates only to such options and awards that were granted to persons who are employees of the Company.

B. SHARE OPTIONS

Following a review by the Board in 2004, it was decided that the Company's executive share option schemes would not be renewed when they lapsed for the purposes of new grants in May 2005. Accordingly, no new options were granted under these schemes during 2005. Options will continue to be granted from time to time under the Company's savings-related share option scheme, which is restricted to employees who are resident for tax purposes in the United Kingdom.

Options granted under the Company's share option schemes are classified as equity-settled awards. The compensation expense recognised during the period in respect of share options was £1.4 million (2004 – £0.7 million).

12. SHARE-BASED INCENTIVES CONTINUED

Changes in the total number of share options outstanding to employees of the Company during the period were as follows:

	Year ended 31 December 2005		Year ended 1 January 2005	
	Options Number	Weighted average exercise price Pence	Options Number	Weighted average exercise price Pence
Outstanding at the beginning of the period	13,800,056	235.87	12,056,572	233.24
Granted during the period	32,983	218.40	1,907,994	245.40
Forfeited during the period	(82,897)	154.58	(108,085)	175.35
Exercised during the period	(155,777)	242.00	(56,425)	208.02
Expired during the period	(130,723)	327.83	–	–
Outstanding at the end of the period	13,463,642	235.36	13,800,056	235.87
Exercisable at the end of the period	5,076,142	250.30	3,670,595	252.71

On the dates on which options were exercised during 2005, the weighted average market price of the Company's ordinary shares was 275.85p per share (2004 – 262.22p per share).

The compensation expense recognised in respect of share options is based on their fair value at the grant date calculated using the Black-Scholes option-pricing model.

Assumptions made in calculating the fair values of options granted to the Company's employees during the period were as follows:

	Year ended 31 December 2005	Year ended 1 January 2005
Options granted	32,983	1,907,994
Weighted average fair value	87.24 p	64.77 p
Weighted average assumptions:		
Share price	273.00 p	250.33 p
Exercise price	218.40 p	239.05 p
Expected volatility	30.46%	31.50%
Expected life	5.25 years	5.83 years
Risk free interest rate	3.84%	4.51%
Expected dividends	12.60 p	12.00 p

Expected volatility was determined based on the historical volatility of the market price of the Company's ordinary shares over the period since May 2001 when, following a period of significant de-merger activity, the Group was re-focused on its remaining core businesses. Adjustments have been made to the expected life used in the model to reflect the effects of non-transferability, exercise restrictions and behavioural considerations.

The weighted average contractual life of share options outstanding to the Company's employees at the end of the period was as follows:

	As at 31 December 2005		As at 1 January 2005	
	Outstanding Number	Weighted average remaining contractual life Years	Outstanding Number	Weighted average remaining contractual life Years
Range of exercise prices:				
– 150p to 200p	4,569,914	6.00	4,646,580	6.99
– 201p to 250p	4,730,778	7.26	4,863,026	8.01
– 251p to 300p	3,147,722	7.06	3,147,722	8.06
– 301p and higher	1,015,228	6.12	1,142,728	6.33
	13,463,642		13,800,056	

C. OTHER EQUITY-SETTLED AWARDS

The Company's principal share-based compensation arrangement is the Annual Bonus Incentive Plan ("ABIP") which is restricted to senior management and provides an award of bonus shares and deferred shares based on the profit of the business for which the participants have responsibility.

During the period, awards were made over 349,598 ordinary shares (2004 – 350,814 ordinary shares) under the ABIP. Also during the period, matching awards were made over 9,068 ordinary shares (2004 – 9,380 ordinary shares) under the Share Matching Scheme ("SMS") which is a legacy scheme that is closed to new entrants.

The fair value of awards made under these schemes is measured based on the market price of the Company's ordinary shares on the date of the award. Where the awards do not attract dividends during the vesting period, the market price is reduced by the present value of the dividends expected to be paid during the expected life of the awards. The weighted average fair value of awards made during the period was 257.86p (2004 – 253.14p).

Awards made under these schemes are classified as equity-settled awards. The compensation expense recognised during the period was £0.8 million (2004 – £ 0.5 million).

12. SHARE-BASED INCENTIVES CONTINUED

D. CASH-SETTLED AWARDS

The Deferred Matching Share Purchase Plan was introduced for James Nicol as part of the incentive package to attract him to the Company. Under this plan 3,045,684 ordinary shares ("Matching Shares") were awarded on 11 February 2002 following the purchase by Mr Nicol of 1,015,228 ordinary shares. After three years from 18 February 2002 (or earlier in certain circumstances), the award was to vest in respect of 1,015,228 Matching Shares and the remaining 2,030,456 Matching Shares were to vest to the extent that, for every 1 penny the highest market price of the Company's ordinary shares sustained over a five-day period during the six-month period ended 18 February 2005 exceeded 197 pence, being the market price on 18 February 2002, Mr Nicol was entitled to receive 5,153 shares. In the event, the market price achieved under the terms of the plan was 285.25 pence and of the 2,030,456 Matching Shares, 454,752 vested and the balance lapsed.

Under the terms of his contract, Mr Nicol was entitled to elect to receive a cash payment in lieu of shares and for this reason this plan was classified as a cash-settled transaction. In the event, Mr Nicol elected to receive cash and was paid £4,193,000 (subject to statutory deductions) in settlement on 28 February 2005.

As at 1 January 2005, the Company recognised a liability of £3.6 million. During the period, the Company recognised a compensation expense of £0.6 million (2004 – £1.3 million).

13. DEFERRED TAX

Movements in the net deferred tax assets recognised by the Company were as follows:

	Accelerated depreciation £ million	Other timing differences £ million	Total £ million
As at 1 January 2005	0.1	0.8	0.9
Charge to the profit and loss account	(0.1)	(0.8)	(0.9)
As at 31 December 2005	–	–	–

Deferred tax assets are presented in the Company's balance sheet as follows:

	As at 31 December 2005 £ million	As at 1 January 2005 £ million
Debtors: amounts falling due within one year	–	0.7
Debtors: amounts falling due after more than one year	–	0.2
	–	0.9

14. ORDINARY SHARES

	Number of shares	Nominal value £ million
Ordinary shares of 5p each		
Authorised		
As at 1 January 2005 and 31 December 2005	1,585,164,220	79.2

	Number of shares	Share capital £ million	Share premium account £ million	Total £ million
Allotted and fully paid				
As at 1 January 2005	773,889,884	38.7	94.0	132.7
Shares issued	605,240	–	1.8	1.8
As at 31 December 2005	774,495,124	38.7	95.8	134.5

During the period, 175,884 ordinary shares were allotted pursuant to options exercised under employee share option schemes for total consideration of £0.4 million. In addition, 429,356 ordinary shares were issued on conversion of 43,947 convertible cumulative preference shares at a total value of £1.4 million.

15. OWN SHARES

	Year ended 31 December 2005		Year ended 1 January 2005	
	Number of shares	£ million	Number of shares	£ million
At the beginning of the period	3,449,205	8.6	2,077,583	5.0
Own shares purchased	860,338	2.4	1,583,482	4.1
Sale or transfer of own shares	(1,083,382)	(2.5)	(211,860)	(0.5)
At the end of the period	3,226,161	8.5	3,449,205	8.6

Own shares comprise the Company's ordinary shares acquired to meet the expected obligations under the employee share schemes described in the Remuneration Committee report on pages 50 to 55. Dividends relating to own shares held have been waived with the exception of those that are payable to participants in the relevant schemes.

As at 31 December 2005, 1,567,358 ordinary shares (1 January 2005 – 2,213,567 ordinary shares) were held in trust and 1,658,803 ordinary shares (1 January 2005 – 1,235,638 ordinary shares) were held by the Company as treasury shares.

As at 31 December 2005, the market value of own shares held was £9.7 million (1 January 2005 – £8.9 million).

16. OTHER RESERVES

	Capital redemption reserve £ million	Merger reserve £ million	Capital reserve £ million	Profit and loss account reserve £ million	Total £ million
As at 1 January 2005 – Previously reported	461.9	115.4	56.5	144.3	778.1
Prior year adjustment (see below)	–	–	–	55.3	55.3
As at 1 January 2005 – Restated	461.9	115.4	56.5	199.6	833.4
Adoption of FRS 25 & FRS 26 (note 1B)	–	–	–	63.6	63.6
	461.9	115.4	56.5	263.2	897.0
Profit for the period attributable to equity shareholders	–	–	–	90.2	90.2
Other recognised gains and losses:					
– Retirement benefits					
Actuarial losses	–	–	–	(6.4)	(6.4)
Adjustment for unrecoverable surplus	–	–	–	(0.6)	(0.6)
Total recognised gains and losses	–	–	–	83.2	83.2
Loss on sale or transfer of own shares	–	–	–	(2.0)	(2.0)
Cost of equity-settled share-based incentives	–	–	–	2.2	2.2
Dividends paid on ordinary shares	–	–	–	(99.4)	(99.4)
As at 31 December 2005	461.9	115.4	56.5	247.2	881.0

The profit and loss account reserve is stated after including the net pension liability of £11.4 million as at 31 December 2005 (1 January 2005 – £8.8 million).

The Company's distributable reserves as at 31 December 2005 amounted to £298.4 million, comprising the capital reserve of £56.5 million and £241.9 million of the profit and loss account reserve.

As explained in note 1B, the Company's shareholders' funds as at 1 January 2005 and loss for the year then ended were restated to reflect the retrospective application of certain new accounting standards, the individual effect of which was as follows:

	Previously reported £ million	FRS 17 Retirement Benefits £ million	FRS 20 Share-based Payment £ million	FRS 21 Events after the Balance Sheet Date £ million	Total effect of restatement £ million	Restated £ million
Year ended 1 January 2005						
Loss for the period	(45.0)	(4.8)	(0.6)	–	(5.4)	(50.4)
As at 1 January 2005						
Debtors: amounts falling due within one year	26.8	(2.3)	–	–	(2.3)	24.5
Creditors: amounts falling due within one year	(88.4)	1.9	0.1	60.0	62.0	(26.4)
Creditors: amounts falling due after more than one year	(659.5)	4.4	–	–	4.4	(655.1)
Net pension liability	–	(8.8)	–	–	(8.8)	(8.8)
		(4.8)	0.1	60.0	55.3	
Profit and loss account reserve	144.3	(4.8)	0.1	60.0	55.3	199.6

17. CONVERTIBLE CUMULATIVE PREFERENCE SHARES

	Number of shares	Nominal value US\$ million		
Convertible cumulative preference shares of US\$50 each				
Authorised				
As at 1 January 2005 and 31 December 2005	13,920,000	696.0		
		Carrying value		
	Number of shares	Nominal value £million	Accrued dividend payable £million	Total £ million
Allotted and fully paid				
As at 1 January 2005	10,506,721	337.2	–	337.2
Adoption of FRS 25 & FRS 26 (note 1B)	–	(63.6)	1.9	(61.7)
	10,506,721	273.6	1.9	275.5
Shares converted	(43,947)	(1.4)	–	(1.4)
Foreign currency translation	–	32.5	0.2	32.7
As at 31 December 2005	10,462,774	304.7	2.1	306.8

The convertible cumulative preference shares ("the Preference shares") were issued on terms that they could be converted at any time, at the shareholder's option, into fully paid ordinary shares of 5p each in the Company on the basis of 9.77 ordinary shares for every one preference share so converted. At the date of issue, the conversion terms of the Preference shares were equivalent to a price of 334p per ordinary share.

The Company has the option, at any time when the total amount of the Preference shares issued and outstanding is less than 10% of the amount originally issued and in any event on or after 29 July 2006, to redeem, in the first case, all but not some only and, in the second case, all or any of the Preference shares which remain issued and outstanding at that time.

Until such time as the Preference shares are converted or redeemed, the holders have a right to receive dividends at an annual rate of 5.560 per cent in preference to the holders of the Company's ordinary shares. As at 31 December 2005, the carrying value of the Preference shares included an accrued dividend payable of £2.1 million (1 January 2005 – £nil).

The holders of the Preference shares are entitled to vote at a general meeting of the Company where, on a show of hands, each holder will have one vote and, on a poll, each holder will have one vote in respect of every seven fully paid ordinary shares to which the holder would be entitled on the full exercise of his conversion rights, except if two or more consecutive quarterly dividends are in arrears whereupon, on a poll, each holder shall have one vote in respect of every fully paid ordinary share to which the holder would be entitled on the full exercise of his conversion rights and such voting rights would continue until such time as any arrears of dividends have been paid in full.

On a return of assets on liquidation or otherwise, other than on redemption or repurchase of the Preference shares, the assets of the Company available to shareholders will be applied first in repaying the capital paid up or credited as paid up in respect of the Preference shares together with all arrears and accruals of dividends to the holders of the Preference shares and any other classes of shares ranking *pari passu* as to capital with the Preference shares.

18. CONTINGENCIES

The Company has guaranteed the borrowing facilities of certain subsidiaries. The maximum borrowings permitted under these facilities, as at 31 December 2005, was £817.2 million (1 January 2005 – £829.5 million). Drawings against these facilities as at 31 December 2005 amounted to £441.6 million (2004: £309.9 million). The Company has also guaranteed certain property leases and performance bonds entered into in the ordinary course of business by certain of its subsidiaries.

GROUP FIVE YEAR SUMMARY

	IFRS		UK GAAP in IFRS format			
	Year ended 31 December 2005	Year ended 1 January 2005	Year ended 1 January 2005	Year ended 3 January 2004	Restated ⁽¹⁾ Eight months ended 31 December 2002	Restated ⁽¹⁾ Year ended 30 April 2002
£ million, except where stated otherwise						
CONTINUING OPERATIONS						
Sales	3,182.4	2,974.1	2,974.1	3,073.3	2,033.3	3,276.3
Profit from operations before restructuring initiatives	308.5	304.3	265.3	259.3	170.1	276.3
Restructuring costs	(20.3)	(20.5)	(17.5)	(25.5)	(32.0)	(26.1)
Gain/(loss) on disposal and exit of businesses	8.5	2.5	(9.4)	(21.6)	10.6	6.7
Profit from operations	296.7	286.3	238.4	212.2	148.7	256.9
Profit before tax	257.7	260.3	223.3	203.8	147.4	263.5
Profit for the period from continuing operations	198.7	209.2	181.5	248.3	119.3	194.6
DISCONTINUED OPERATIONS						
Profit/(loss) for the period from discontinued operations	2.5	0.9	(0.6)	(68.4)	4.6	(1.7)
Profit for the period	201.2	210.1	180.9	179.9	123.9	192.9
Minority interests	(9.0)	(10.1)	(8.3)	(8.1)	(6.1)	(5.4)
Dividends on preference shares	–	(15.6)	(15.6)	(28.9)	(24.5)	(39.3)
Profit for the period attributable to equity shareholders	192.2	184.4	157.0	142.9	93.3	148.2
Earnings per ordinary share						
Basic	24.92p	23.93p	20.37p	18.53p	12.10p	19.16p
Diluted	23.79p	22.81p	19.67p	18.01p	11.82p	18.78p
Dividends per ordinary share	13.23p	12.60p	12.60p	12.00p	8.00p	12.00p
Shareholders' equity						
Minority interests	664.5	466.5	448.4	406.8	316.0	342.9
Total equity	48.4	41.6	42.1	33.3	38.0	34.2
712.9	508.1	490.5	440.1	354.0	377.1	
Enterprise value ⁽²⁾	2,962.8	2,549.3	2,549.3	2,682.0	2,034.5	2,650.5
Ordinary share price at the end of the period	299.75p	254.25p	254.25p	269.00p	190.00p	264.00p
Average number of employees	37,324	36,720	36,720	39,328	39,596	40,670

⁽¹⁾ Restated to reflect the adoption during the year ended 3 January 2004 of UITF38 "Accounting for ESOP trusts"

⁽²⁾ Enterprise value represents market capitalisation and net debt, including preference shares.

The Group adopted IFRS with a transition date of 4 January 2004. In accordance with IFRS1 "First-time Adoption of IFRS", the Group has not restated its results for periods ending prior to that date in accordance with IFRS.

An analysis of the adjustments that were made to restate the Group's financial position as at 1 January 2005 and its results for the year then ended in accordance with IFRS is presented in the section of this document entitled "Transition to IFRS" on pages 108 to 121. If the financial information presented above for earlier periods was to be restated in accordance with IFRS, the adjustments that would be necessary would be similar in nature to, although may differ in magnitude from, those outlined in that section. In order to assist comparison, the financial information for those periods and for the year ended 1 January 2005 prepared in accordance with UK GAAP is re-presented above in the format required under IFRS.

Details of the Company's principal trading subsidiaries and associates as at 31 December 2005 are set out below. Unless otherwise stated, each entity is wholly owned by the Group and is registered in England and Wales. A complete list of the Company's subsidiaries and associates will be filed with the Company's Annual Return.

INDUSTRIAL & AUTOMOTIVE

Dearborn Mid-West Conveyor Company

Heavy duty conveyor systems for OEM plants
US

Dexter Axle Company Inc

Manufactured housing, mobile home and trailer products
US

Dongfeng-Fuji-Thomson Thermostat Co. Ltd*

(ordinary shares – 32% owned)
 Automotive thermostats
China

Eifeler Maschinenbau GmbH

Hydraulic tube fittings
Germany

Formflo Limited

Powertrain components, systems and assemblies

Gates GmbH

Belts
Germany

Gates SA

Belts, hose and couplings
France

Gates Argentina SA

Belt and hose distributor
Argentina

Gates Australia Pty Ltd

Belt and hose distributor
Australia

Gates do Brasil Industria e Comercio Ltda

Belts and hose
Brazil

Gates Canada Inc

Belts and hose
Canada

Gates Europe NV

Belts and hose
Belgium

Gates (India) Private Ltd

Hose
India

Gates Korea Company Ltd

(ordinary shares – 51% owned)
 Belts
Korea

Gates Mectrol Inc

Belts
US

Gates Polska S.p.z.o.o.

Belts
Poland

Gates PT Spain, SA

(formerly Gates Vulca, SA)
 Belts and hose
Spain

The Gates Rubber Company

Belts and hose
US

Gates Rubber Company (NSW) Pty Ltd

Hose
Australia

Gates Rubber Company (Singapore) Pte Ltd

Hose distributor
Singapore

Gates Rubber de Mexico SA de CV

Belts and hose
Mexico

Gates Rubber (Shanghai) Co Ltd

Hose distributor
China

Gates (U.K.) Ltd

Belts and couplings
Scotland

Gates Unitta Asia Company Ltd

(ordinary shares – 51% owned)
 Belts
Japan

Gates Unitta Asia Trading Company Pte Ltd

(ordinary shares – 51% owned)
 Belts
Singapore

Gates Unitta India Private Company Ltd

(ordinary shares – 51% owned)
 Belts
India

Gates Unitta Korea Company Ltd

(ordinary shares – 51% owned)
 Belts
Korea

Gates Unitta Power Transmission (Shanghai) Ltd

(ordinary shares – 51% owned)
 Belts
China

Gates Unitta Power Transmission (Suzhou) Ltd

(ordinary shares – 51% owned)
 Belts
China

Gates Unitta (Thailand) Company Ltd

(ordinary shares – 51% owned)
 Belts
Thailand

Ideal

Hose clamps
US

Ideal International SA*

(ordinary shares – 40% owned)
 Hose clamps
Mexico

L.E. Technologies LLC

Recreational vehicle frames
US

Plews/Edelmann

Lubrication tools
US

Pyung Hwa CMB Co Ltd*

(ordinary shares – 21% owned)
 Belts
Korea

Schrader SA

Valves and fittings
France

Schrader Bridgeport Brasil Ltda

Valves and fittings
Brazil

Schrader-Bridgeport International Inc

Valves and fittings
US

Schrader Duncan Ltd*

(ordinary shares – 50% owned)
 Valves and fittings
India

Schrader Electronics Ltd

Automotive electronics
Northern Ireland

Schrader-Lu Hai Rubber Metal (Kunshan) Co Ltd

(ordinary shares – 60% owned)
 Valves and fittings
China

Stackpole Limited

Powertrain components, systems and assemblies
Canada

Standard-Thomson Corporation

Automotive thermostats
US

Stant Manufacturing, Inc

Automotive closure caps
US

Trico Ltd

Wiper blades and systems

Trico Latinoamericana, SA

Wiper blades and systems
Argentina

Trico Products Corporation

Wiper blades and systems
US

Trico Pty Ltd

Wiper blades and systems
Australia

BUILDING PRODUCTS

Air System Components LP

Heating, ventilating and air conditioning components
US

Aquatic Industries Inc

Whirlpools
US

Hart & Cooley Inc

Heating, ventilating and air conditioning components
US

Lasco Bathware Inc

Fibreglass and acrylic baths and whirlpools
US

Lasco Fittings Inc

PVC pipe fittings
US

NRG Industries, Inc.,

Commercial air conditioning components
US

Philips Products Inc

Aluminium, wood and vinyl windows, vinyl clad steel doors and ventilating devices
US

Ruskin Company

Air, fire and smoke dampers, louvres and fibreglass products
US

Ruskin Air Management Ltd

Air handling products and louvred windows

Ruskin (Thailand) Co., Ltd

Commercial and industrial air, fire/smoke, and control dampers
Thailand

* Associate

INVESTOR INFORMATION

GENERAL INFORMATION

ANNUAL GENERAL MEETING

Shareholders are invited to attend the Annual General Meeting to be held at 11.00 am on Monday, 22 May 2006. The venue is The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The nearest Underground stations are St. James's Park and Westminster.

DIVIDENDS

The final dividend of 8.16 pence per ordinary share will be paid on 31 May 2006 to shareholders on the register at the close of business on 21 April 2006. For holders of American Depositary Receipts (ADRs), the dividend, declared in pence, is converted to US dollars on the dividend payment date using the exchange rate prevailing on that day.

PAYMENT OF DIVIDEND

Shareholders who have mandated their dividends to be credited to a nominated bank or building society account should note that dividends are paid automatically to their account through the Bankers' Automated Clearing Services (BACS) with the associated tax voucher being sent direct to shareholders at their registered address unless requested otherwise. If the nominated account is with a bank or building society which is not a member of BACS, both the payment and tax voucher are sent to the account holding branch. Shareholders who do not currently mandate their dividends and who wish to have their dividend paid direct to a bank or building society account should complete a dividend mandate instruction form obtainable from Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA, or by telephoning 0870 600 3953.

DIVIDEND REINVESTMENT PLAN

The Company offers a Dividend Reinvestment Plan. This allows shareholders to invest their cash dividend in purchasing shares of the Company in the market. The Company's registrar arranges, on behalf of participants, through the agency of a suitably authorised stockbroking business, the purchase of the maximum whole number of ordinary shares possible on, or as soon as reasonably practicable after, the dividend payment date. Favourable dealing costs have been arranged. For further details or an application form please write to Lloyds TSB Registrars, Share Dividend Team, The Causeway, Worthing, West Sussex BN99 6DA, or telephone their Helpline on 0870 241 3018.

INDIVIDUAL SAVINGS ACCOUNTS (ISAS)

A Tomkins ISA enables UK residents to invest in the Company in a tax efficient manner. You can obtain more information on ISAs from our corporate ISA provider, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6UY, or by telephoning 0870 242 4244.

SHARE DEALING

A telephone and internet dealing service has been arranged through Lloyds TSB Registrars which provides a simple way of selling Tomkins ordinary shares. Commission is 0.5% with a minimum charge of £20 for telephone dealing and £17.50 for internet dealing. For telephone sales call 0870 850 0852 between 8.30 am and 4.30 pm, Monday to Friday, and for internet sales log on to www.shareview.co.uk/dealing. You will need your shareholder reference number shown on your share certificate or tax voucher. A weekly postal dealing service is also available and a form together with terms and conditions can be obtained by calling 0870 242 4244; commission is 1% with a minimum charge of £10.

GLOBAL INVEST DIRECT

A simple dealing service is available to US residents only for buying and selling Tomkins ADRs. Details can be obtained from JPMorgan Chase Bank, N.A., PO Box 3408, South Hackensack, NJ 07606-3408, or by telephoning 1 800 428 4237 or emailing adr@jpmorgan.com.

WORLD WIDE WEB

The Company's website address is shown on the back cover of this Report. All Tomkins' recent results announcements and press releases are accessible, together with the latest full Annual Report and Summary Annual Report. In addition, callers may obtain direct access to the websites of many Tomkins operating companies.

SHARE PRICE INFORMATION

The price of Tomkins' ordinary shares is available on the Company's website. The Financial Times Cityline Service also provides share price information. This telephone service is available on 0906 843 4244 and calls within the UK

are charged at 60 pence per minute at all times. In addition, the share price is listed in most national daily newspapers and on Teletext.

REGISTRAR

Administrative enquiries concerning shareholdings in Tomkins plc, such as loss of a share certificate, dividend payment instructions, or a change of address, should be notified direct to the registrar, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA, telephone 0870 600 3953. Your correspondence should refer to Tomkins plc, quoting the reference 0398, and state the registered name and address of the shareholder.

Every effort is made to prevent multiple mailing of documents to shareholders. If you have received more than one copy of this Report and would like to amalgamate your holdings, please complete the enclosed Shareholder Register Multiple Accounts form and return it to the registrar at the address on the form.

ELECTRONIC COMMUNICATION

The registrar operates a share register internet enquiry service to provide shareholders with details of their shareholdings. To register for the service please go to www.shareview.co.uk. You will need your shareholder reference (which can be found on your share certificate or tax voucher) and you will be asked to select your own PIN. A user ID will then be posted to you. Once registered, shareholders may elect to receive future shareholder information and Company documents in electronic format. The main benefits of this system are speed and ease of use while saving money for your Company and reducing the demand on natural resources. A visit to www.shareview.co.uk will also provide you with more details of the service and practical help and information on other share registration matters. Further details can be found on the Electronic Communications letter enclosed with this Report.

ELECTRONIC PROXY VOTING

Shareholders may register their voting instructions for the forthcoming Annual General Meeting via the internet. If you have registered for the registrar's shareview service described above, you may submit your voting instructions by logging on to your shareview portfolio and accessing the Company Meetings – Tomkins site. If you have not registered with shareview, you may still register your vote electronically by going to www.sharevote.co.uk. You will be required to key in the three security numbers printed on your form of proxy to access the voting site.

US LISTING

Tomkins' ordinary shares are listed on the New York Stock Exchange in the form of ADRs. Each ADR represents four Tomkins ordinary shares. Tomkins is subject to the regulations of the Securities and Exchange Commission (SEC) in the USA as they apply to foreign companies and files with the SEC its Annual Report on Form 20-F and other information as required. ADR holders are not members of the Company but may instruct JPMorgan Chase Bank, N.A., which administers the Tomkins ADR programme, as to the exercise of voting rights pertaining to the number of ordinary shares represented by their ADRs.

TRADING SYMBOLS

Tomkins' London Stock Exchange SEDOL number is 0896265 and its trading symbol is TOMK. The Company's trading symbol for its American Depositary Receipts is TKS.

DIRECTORS' REPORT AND ACCOUNTS – COMPANIES HOUSE

In accordance with the requirements of the Registrar of Companies in England and Wales (the "registrar") and following the passing of the resolution to be proposed at the 2006 Annual General Meeting to receive the financial statements, a copy of the Annual Report omitting photographic representations and with such further modifications as may be necessary to comply with such requirements will be lodged with the registrar in accordance with the Companies Act 1985 (as amended). After being so lodged, further copies of the full Annual Report or the Summary Annual Report in the form sent to shareholders will be available from the Company Secretary upon request.

Notice is hereby given that the eightieth Annual General Meeting of the Company will be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on Monday 22 May 2006 at 11.00 am to transact the following business:

1. To receive the Directors' report and financial statements for the year ended 31 December 2005 together with the independent auditors' report.
2. To approve the Remuneration Committee report for the year ended 31 December 2005.
3. To declare a final dividend of 8.16p per ordinary share for the year ended 31 December 2005.
4. To re-appoint as a Director Mr R D Gillingwater.
5. To re-appoint as a Director Mr D D S Robertson.
6. To re-appoint as a Director Mr D H Richardson.
7. To re-appoint as a Director Mr K Lever.
8. To re-appoint Deloitte & Touche LLP as independent auditors.
9. To authorise the Directors to determine the independent auditors' remuneration.

To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

10. THAT the Directors be and they are hereby authorised in accordance with, and subject to the terms of, article 5 of the Company's Articles of Association to allot relevant securities up to an aggregate nominal amount of £12,881,003.

To consider and, if thought fit, pass the following resolutions which will be proposed as special resolutions:

11. THAT the Directors be and they are hereby authorised in accordance with, and subject to the terms of, article 6 of the Company's Articles of Association to allot shares for cash for the purposes of paragraph (ii) of article 6 up to an aggregate nominal amount of £1,936,297.
12. THAT the Company be and is hereby generally and unconditionally authorised, in substitution for any authority to purchase ordinary shares of 5p each in the capital of the Company previously conferred (save to the extent the same has been exercised), to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 5p each in the capital of the Company ("Shares") provided that:
 - a) the maximum number of Shares hereby authorised to be acquired is 77,451,900 Shares or, if lower, such number of Shares as is equal to 10 per cent of the issued ordinary share capital of the Company at the close of business on Friday 19 May 2006;
 - b) the maximum price which may be paid for any Share is an amount equal to 105 per cent of the average of the middle market quotations for a Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Share is contracted to be purchased and the minimum price which may be paid for any such Share shall be the nominal value of that Share; and
 - c) this authority shall expire on 30 June 2007 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2007, but a contract of purchase may be made before such expiry which will or may be executed wholly or partly thereafter, and a purchase of Shares may be made in pursuance of any such contract.

To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

13. a) the establishment of The Tomkins 2006 Performance Share Plan, a summary of the principal provisions of which is set out in the Appendix to the letter from the Chairman of the Company to shareholders dated 20 April 2006, be and it is approved and the Directors be and they are authorised to do all acts and things necessary to establish and carry it into effect; and

- b) the Directors be and they are authorised to vote and be counted in the quorum on any matter connected with the plan (except that no director may vote or be counted in the quorum in respect of his own participation) and any prohibition on voting contained in the Articles of Association of the Company be and is relaxed accordingly.

By Order of the Board

N C PORTER
Secretary

Registered Office:
East Putney House
84 Upper Richmond Road
London SW15 2ST

20 April 2006

NOTES:

1. Any shareholder entitled to attend and vote at this Meeting may appoint a proxy to attend and vote on his/her behalf. A proxy need not be a member of the Company. A white form of proxy for use by ordinary shareholders and/or a green form of proxy for use by convertible cumulative preference shareholders is/are enclosed. To be valid, proxy forms must reach the Company's registrar by 11.00 am on 20 May 2006.
2. Only those shareholders registered in the register of members of the Company as at 11.00 am on 20 May 2006 shall be entitled to attend and/or vote at this Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 11.00 am on 20 May 2006 shall be disregarded in determining the rights of any person to attend and/or vote at this Meeting.
3. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for this Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by 11.00 am on 20 May 2006. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

4. Copies of the service contracts of executive Directors, the letters of appointment of non-executive Directors and the register of Directors' interests and the interests of their connected persons in the share capital of the Company will be available for inspection during usual business hours on any weekday (public holidays excepted) at East Putney House, 84 Upper Richmond Road, London SW15 2ST from the date of this Notice until the time of the Meeting and at The Queen Elizabeth II Conference Centre from 15 minutes before the Meeting until it ends.

INVESTOR INFORMATION

SHARE PRICE INFORMATION

The price range of a Tomkins ordinary share and ADR during the year ended 31 December 2005 was:

	Ordinary shares of 5p each pence		American Depository Receipts US dollars	
	high	low	high	low
1st quarter	290.00	258.75	22.48	19.24
2nd quarter	276.25	242.00	21.32	18.31
3rd quarter	289.25	263.75	21.57	18.56
4th quarter	302.50	260.50	21.29	18.60

ANALYSIS OF ORDINARY SHAREHOLDINGS AT 13 FEBRUARY 2006

	Number of shareholders	Number of shares (000)	% of share capital
By type:			
Individuals	19,371	59,799	7.72
Banks, insurance companies, pension funds and other corporates	4,399	714,720	92.28
	23,770	774,519	100.00
By size:			
1-500	5,514	1,328	0.17
501-2,500	11,533	15,129	1.95
2,501-5,000	3,507	12,538	1.62
5,001-20,000	2,268	20,696	2.67
20,001-50,000	360	11,512	1.49
50,001-100,000	136	9,842	1.27
100,001-500,000	237	55,305	7.14
above 500,000	215	648,169	83.69
	23,770	774,519	100.00

FINANCIAL CALENDAR

2006

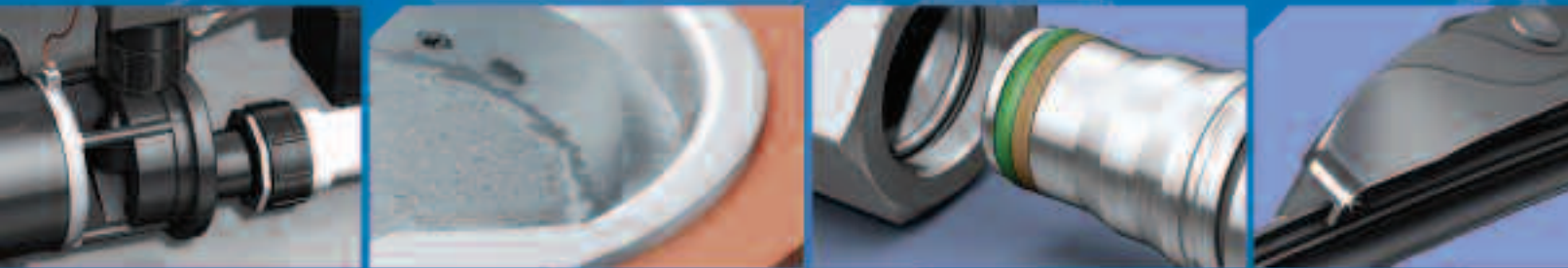
1st quarter results announcement – quarter to 1 April 2006	3 May 2006
Annual General Meeting – 2006	22 May 2006
Final dividend payment – year ended 31 December 2005	31 May 2006
2nd quarter and interim results announcement – quarter to 1 July 2006	August 2006
3rd quarter results announcement – quarter to 30 September 2006	October 2006
Interim dividend payment – six months ending 1 July 2006	November 2006
Year end	30 December 2006

2007

Preliminary announcement – year ending 30 December 2006	February 2007
1st quarter results announcement	May 2007
Annual General Meeting – 2007	May 2007
Final dividend payment – year ending 30 December 2006	May 2007

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WEBSITE

For further information on Tomkins please access our website at:

www.tomkins.co.uk

CORPORATE OFFICE & REGISTERED OFFICE

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Tomkins