

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies

#### A. Basis of preparation

The financial statements of Tomkins plc have been prepared on a going concern basis in accordance with applicable law and United Kingdom accounting standards ('UK GAAP') and, except as described under the heading 'Financial instruments', under the historical cost convention.

Except as noted below, the Company's principal accounting policies are unchanged compared with the year ended 3 January 2009.

At the beginning of the current period, the Company adopted the following pronouncements that are relevant to its operations, none of which had any significant impact on its results or financial position:

- Amendments to FRS 8 'Related Party Disclosures'
- Amendment to FRS 20 'Share-based Payment – Vesting Conditions and Cancellations'
- 'Improvements to Financial Reporting Standards 2008'

Retrospective application of the amendment to FRS 20 had the effect of decreasing profit for the period by \$0.1 million to \$322.3 million in 2008, and there was a corresponding increase in the credit to equity in relation to share-based incentives (there were no tax effects).

The Company is exempt from applying FRS 29 (IFRS 7) 'Financial Instruments: Disclosures' because the required disclosures are provided in the consolidated financial statements of the Company and its subsidiaries.

#### B. Accounting period

The Company's annual financial statements are drawn up to the Saturday nearest 31 December. These financial statements cover the 52-week period from 4 January 2009 to 2 January 2010 ('2009') with comparative figures for the 53-week period from 30 December 2007 to 3 January 2009 ('2008').

#### 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 the Company'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 profit and loss account.

#### E. Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment. Plant, equipment and vehicles are depreciated on a straight-line basis over their expected useful lives, which are in the range 2 to 20 years.

#### F. Financial instruments

##### (i) Bank and other loans

Bank and other loans are initially measured at fair value, net of directly attributable transaction costs, if any, and are subsequently measured at amortised cost using the effective interest rate method.

##### (ii) 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 purposes.

Derivative financial instruments are recognised as assets and liabilities measured at their fair value at the balance sheet date. Changes in their fair value 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 not normally adjusted to reflect fair value changes arising from the hedged risk. Provided the conditions specified by FRS 26 (IAS 39) 'Financial Instruments: Recognition and Measurement' are met, hedge accounting may be used to mitigate such volatility.

Management has designated certain hedging relationships as fair value hedges whereby the carrying amount of the hedged asset or liability is adjusted by the change 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.

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.

##### (iii) Financial guarantee contracts

Financial guarantees issued by the Company to third parties in respect of the obligations of certain of its subsidiaries are measured at fair value on initial recognition. Over the term of the guarantee, the initial fair value is recognised as revenue. Subsequent to initial recognition, guarantees are measured at the higher of their initial fair value less amounts recognised as revenue and the best estimate of the amount that the Company will be required to pay to settle the obligation.

##### (iv) Embedded derivatives

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.

##### (v) Own shares

Own shares represent the Company's ordinary shares that are held by the Company in treasury or by sponsored ESOP trusts in relation to the Group's employee share schemes. Own shares are measured at cost and are presented as a deduction from shareholders' funds. Gains or losses on the sale or transfer of own shares are recognised directly in reserves.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. Principal accounting policies (continued)

#### G. Retirement benefits

Retirement benefits comprise pension benefits provided to employees in the UK.

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 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. Plan assets are measured at their fair value at the balance sheet date. Benefit obligations are measured on an actuarial basis using the projected unit credit method.

The cost of defined benefit plans recognised in the profit and loss account 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 or 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. The past service cost is the change in the benefit obligation that results from changes in the benefits payable in respect of employee service in prior periods. The past service cost may be either positive or negative and is recognised in the profit and loss account 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, of future 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 at the balance sheet date by reference to market yields on high-quality corporate bonds. 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 included in other 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, 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 certain 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, measured using either the Black-Scholes option-pricing formula or the Monte Carlo valuation model. Fair value is determined at the date of grant and reflects market performance conditions and all non-vesting conditions. Fair value is not subsequently remeasured unless the conditions on which the award was granted are modified.

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 a service condition or a non-market performance condition. In the event of a cancellation, whether by the Company or by a participating employee, the compensation expense that would have been recognised over the remainder of the vesting period is recognised immediately in the profit and loss account.

When the Company grants rights over its own shares to the employees of a subsidiary, it recognises the compensation expense recognised by the subsidiary, less any amounts charged to the subsidiary, as a capital contribution to the subsidiary.

#### 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 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 AGM. Dividends on ordinary shares are recognised as an appropriation of shareholders' funds.