11. Pensions

A. Defined benefit plans

The Company operates a number of funded defined benefit pension plans in the UK 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.

The defined benefit pension plans operated by the Company are closed to new entrants.

The principal assumptions used in the actuarial valuations of the defined benefit pension plans were as follows:

	As at 2 January 2010 % per annum	As at 3 January 2009 % per annum
Salary increases	**4.50%**	4.00%
Increase to pensions in payment	**3.50%**	3.00%
Increase to deferred pensions	**3.50%**	3.00%
Long-term rate of return on plan assets	**6.31%**	6.31%
Discount rate	**5.75%**	6.50%
Inflation rate	**3.50%**	3.00%

The current life expectancies underlying the value of accrued liabilities were as follows:

		As at 2 January 2010	As at 3 January 2009
Current pensioners (at age 65)	– male	**21.5 years**	21.5 years
	– female	**24.5 years**	24.5 years
Future pensioners (at age 65)	– male	**22.5 years**	22.5 years
	– female	**25.5 years**	25.5 years

The fair value of the plan assets and the expected rates of return were as follows:

	As at 2 January 2010		As at 3 January 2009		As at 29 December 2007	
	Long-term expected rate of return % per annum	**Fair value $ million**	Long-term expected rate of return % per annum	Fair value $ million	Long-term expected rate of return % per annum	Fair value $ million
Equities	**7.80%**	**108.9**	8.00%	100.9	7.95%	160.0
Bonds	**5.00%**	**139.1**	5.15%	106.8	5.25% – 5.75%	153.7
Other assets	**4.20%**	**–**	4.30%	0.6	4.85%	1.2
		248.0		208.3		314.9

The actual return on plan assets was 7.7% (2008: loss of 5.1%).

The net pension liability may be analysed as follows:

	As at 2 January 2010 $ million	As at 3 January 2009 $ million
Present value of plan liabilities:		
– Funded	**251.4**	193.0
– Unfunded	**0.1**	0.1
	251.5	193.1
Fair value of plan assets	**(248.0)**	(208.3)
Deficit/(surplus) in the plans	**3.5**	(15.2)
Unrecognised surplus	**8.6**	20.7
Net pension liability	**12.1**	5.5

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Pensions (continued)

A. Defined benefit plans (continued)

Changes in the present value of the benefit obligation were as follows:

	Year ended 2 January 2010 $ million	Year ended 3 January 2009 $ million
At the beginning of the period	**193.1**	290.6
Current service cost	**0.5**	0.9
Interest cost	**13.4**	15.7
Net actuarial loss/(gain)	**36.4**	(22.4)
	243.4	284.8
Employees' contributions	**0.1**	0.1
Benefits paid	**(11.9)**	(13.5)
Foreign currency translation	**19.9**	(78.3)
At the end of the period	**251.5**	193.1

Changes in the fair value of plan assets were as follows:

	Year ended 2 January 2010 $ million	Year ended 3 January 2009 $ million
At the beginning of the period	**208.3**	314.9
Expected return on plan assets	**13.1**	16.1
Net actuarial gain/(loss)	**2.9**	(32.1)
	224.3	298.9
Employer's contributions	**12.6**	5.6
Employees' contributions	**–**	0.1
Benefits paid	**(11.9)**	(13.5)
Foreign currency translation	**23.0**	(82.8)
At the end of the period	**248.0**	208.3

Plan assets do not include any of the Company's or the Group's own financial instruments, nor any property or other assets used by the Company or 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 the yield on long-term bonds and 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 Company's 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.

Actuarial gains and losses recognised in relation to the defined benefit plans were as follows:

	Year ended 2 January 2010 $ million	Year ended 3 January 2009 $ million	Year ended 29 December 2007 $ million	Year ended 30 December 2006 $ million	Year ended 31 December 2005 $ million
At the end of the period					
Present value of the benefit obligation	**251.5**	193.1	290.6	302.4	276.9
Fair value of plan assets	**(248.0)**	(208.3)	(314.9)	(300.6)	(260.8)
Deficit/(surplus) in the plan	**3.5**	(15.2)	(24.3)	1.8	16.1
Recognised in the period					
Net actuarial gain/(loss) on plan assets	**2.9**	(32.1)	0.6	(3.3)	21.5
Net actuarial (loss)/gain on benefit obligation	**(36.4)**	22.4	20.1	12.9	(32.4)
	(33.5)	(9.7)	20.7	9.6	(10.9)

As at 2 January 2010, the cumulative net actuarial loss recognised in the statement of total recognised gains and losses amounted to $49.0 million (3 January 2009: $15.5 million).

The Company expects to contribute approximately $12.5 million to the defined benefit pension plans in 2010.

B. Defined contribution schemes

The Company makes contributions to the personal pension arrangements of employees who are not eligible, or chose not, to participate in its deferred benefit plans. Contributions payable by the Company to these arrangements amounted to $0.1 million (2008: $nil). At the balance sheet date, the Group had not paid over to the plans contributions due amounting to $0.1 million (3 January 2009: $nil). All amounts due for the period were paid over subsequent to the balance sheet date.

12. Share-based incentives

A. Background

The Company operates a number of share-based compensation arrangements to provide incentives to the Group's senior executives 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.

Although the Company's ordinary shares are denominated in US dollars, they are quoted in sterling on the London Stock Exchange.

The information provided below relates only to 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 awards in May 2005. Awards granted under these schemes were subject to a performance condition that the rate of increase in the Group's earnings per share must exceed the growth in the UK Retail Prices Index by an average of 2% per annum over any three-year period after the options were granted. The final unvested options under these schemes vested during 2007.

Options continue to be granted from time to time under the Company's Sharesave Scheme, which is restricted to employees who are resident for tax purposes in the UK. It offers eligible employees the option to buy ordinary shares in Tomkins plc after a period of three, five or seven years, funded from the proceeds of a savings contract to which employees may contribute up to £250 per month.