NOTES TO THE FINANCIAL STATEMENTS

1. Nature of operations

Tomkins plc and its subsidiaries comprise a global engineering and manufacturing business. As explained in note 4, during 2009, the Group's internal management reports were restructured to distinguish between those of the Group's continuing operations that are ongoing and those that have been exited but do not meet the conditions to be classified as discontinued operations.

The Group is organised for management reporting purposes into two principal 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. Industrial & Automotive is comprised of four ongoing operating segments: Power Transmission, Fluid Power, Sensors & Valves and Other Industrial & Automotive.

Building Products is comprised of two ongoing operating segments: Air Distribution and Bathware. Air Distribution supplies the industrial and residential heating, ventilation and air conditioning market, mainly in North America. Bathware manufactures baths and whirlpools for the residential, and hotel and resort development markets, mainly in North America.

2. Principal accounting policies

A. Basis of preparation

The consolidated financial statements on pages 64 to 134 have been prepared on a going concern basis in accordance with International Financial Reporting Standards adopted for use in the European Union and, except as described under the heading 'Financial instruments', under the historical cost convention.

From the Group's perspective, there are no applicable differences between IFRS adopted for use in the European Union and IFRS as issued by the IASB and, therefore, the financial statements also comply with IFRS as issued by the IASB.

At the beginning of 2009, the Group adopted the following accounting pronouncements that are relevant to its operations, none of which had any significant impact on its results or financial position:

- IAS 1 Revised (2007) 'Presentation of Financial Statements'.
- IAS 23 Revised (2007) 'Borrowing Costs'.
- Amendments to IFRS 2 'Share-based Payment – Vesting Conditions and Cancellations'.
- Amendments to IFRS 7 'Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments'.
- 'Improvements to IFRSs 2008', except where adoption of an improvement is not permitted without also adopting IAS 27 Revised (2008) 'Consolidated and Separate Financial Statements'.
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'.

Retrospective application of the amendment to IFRS 2 had the effect of increasing administrative expenses by $0.5 million to $513.3 million in 2008 and by $0.3 million to $500.9 million in 2007, and there was a corresponding increase in the credit to equity in relation to share-based incentives (there were no tax effects). In 2008, the loss per share from continuing operations was increased by 0.05 cents to 7.34 cents. In 2007, basic earnings per share from continuing operations were reduced by 0.04 cents to 33.72 cents and diluted earnings per share from continuing operations were reduced by 0.03 cents to 33.34 cents. Prior year balance sheets were not affected by this change of accounting policy.

B. Accounting period

The Group'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') and the 52-week period from 31 December 2006 to 29 December 2007 ('2007').

C. Basis of consolidation

The consolidated financial statements include the results, cash flows and assets and liabilities of the Company and its subsidiaries, 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 profits or losses arising from intra-Group transactions, are eliminated on consolidation.

D. 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 entity are not recognised, except to the extent that the Group has incurred obligations on behalf of the entity. Profits or 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.