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.

E. 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 arising at entity level are recognised in profit or loss.

On consolidation, the results of foreign operations are translated into the Group's presentation currency at the average exchange rate for the period and their assets and liabilities are translated into the Group's presentation currency at the exchange rate ruling on the balance sheet date. Currency translation differences arising on consolidation are recognised in other comprehensive income and taken to the currency translation reserve.

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

In the cash flow statement, the cash flows of foreign operations are translated into the Group's presentation currency at the average exchange rate for the period.

F. 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 and, where there are contractual acceptance provisions, the customer has accepted the goods (or the right to reject them has lapsed), the sale price is fixed or determinable and the collectability of revenue is reasonably assured.

Where a customer has the right to return unwanted goods, future returns are estimated based on historical returns profiles. Settlement discounts that may apply to unpaid invoices are estimated based on the settlement histories of the relevant customers. Rebates that may apply to issued invoices are estimated based on expected total qualifying sales to the relevant customers.

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

Dividend income is recognised when payment is received.

G. Restructuring initiatives

Restructuring initiatives comprise expenses incurred in major projects undertaken to rationalise and improve the cost competitiveness of the Group and consequential gains and losses arising on the disposal or exit of businesses or on the disposal of assets.

H. Borrowing costs

Borrowing costs directly attributable to the construction of a production, distribution or administration facility are capitalised as part of the cost of the facility if, at the outset of construction, the facility was expected to take more than 12 months to get ready for its intended use and construction commenced on or after 4 January 2009.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

I. Goodwill

Business combinations are accounted for using the purchase method.

Goodwill arises on the acquisition of interests in subsidiaries and associates. Goodwill represents any excess of the cost of acquisition over the interest acquired by the Group in the fair value of the entity's identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill in respect of an acquired subsidiary is recognised as an intangible asset and is allocated to the CGU or group of CGUs that are expected to benefit from the synergies of the acquisition. Goodwill is not amortised but tested at least annually for impairment and carried at cost less any recognised impairment.

Goodwill in respect of an acquired interest in an associate is subsumed within investments in associates.

Where the interest acquired by the Group in the fair value of the entity's assets, liabilities and contingent liabilities exceeds the cost of acquisition, the excess is recognised immediately as a gain in profit or loss.

J. 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 profit or loss over its expected useful life, which is in the range 2 to 15 years.

(ii) Product development costs
All research expenditure is charged to profit or loss in the period in which it is incurred.

Development expenditure is charged to profit or loss in the period in which it is incurred unless it relates to the development of a new or significantly improved product, 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 profit or loss over the expected life of the resulting product.

2. Principal accounting policies (continued)

J. Other intangible assets (continued)

(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 profit or loss over its expected useful life, which is in the range 3 to 5 years.

K. 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 profit or loss over the expected useful life of the asset concerned, which is in the following ranges:

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

L. 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 profit or loss while the capital element is applied to reduce the outstanding liability.

Operating lease payments, and any incentives receivable, are recognised in profit or loss on a straight-line basis over the term of the lease.

M. Impairment of long-lived assets

Goodwill, other intangible assets and property, plant and equipment are tested for impairment whenever events or circumstances indicate that their carrying amounts might be impaired. Additionally, goodwill and any capitalised development expenditure relating to a product that is not yet in full production are subject to an annual impairment test.

An asset is impaired to the extent that its carrying amount exceeds its recoverable amount, which represents the higher of the asset's value in use and its fair value less costs to sell. An asset's value in use represents the present value of the future cash flows expected to be derived from the continued use of the asset. Fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount is determined for the CGU to which the asset belongs. An asset's CGU is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill does not generate cash flows independently of other assets and is, therefore, tested for impairment at the level of the CGU or group of CGUs to which it is allocated.

Where appropriate, impairment of long-lived assets other than goodwill is recognised before goodwill is tested for impairment. When goodwill is tested for impairment and the carrying amount of the CGU or group of CGUs to which the goodwill has been allocated exceeds its recoverable amount, the impairment is allocated first to reduce the carrying amount of the goodwill and then to the other long-lived assets belonging to the CGU or group of CGUs pro-rata on the basis of their carrying amounts.

Impairments are recognised in profit or loss. Impairments recognised in previous periods for long-lived assets 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 been recognised in previous periods. Impairments recognised in respect of goodwill are not reversed.

N. 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.

O. Grants

Grants received relating to property, plant and equipment are treated as deferred income and recognised in profit or loss in equal instalments over the expected useful life of the asset concerned. Other grants received are recognised in profit or loss 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 in profit or loss in the period in which they are received.

P. Financial instruments

(i) Investments
Listed investments are classified as available-for-sale and are measured at fair value. Changes in their fair values are recognised in other comprehensive income and taken to the available-for-sale reserve, except to the extent that they represent an other than temporary impairment in which case the impairment is recognised in profit or loss. In the event that such an investment is sold, the realised gain or loss is transferred from other comprehensive income to profit or loss.

(ii) Trade receivables
Trade receivables represent the amount of sales of goods to customers for which payment has not been received, less an allowance for doubtful accounts that is estimated based on factors such as the credit rating of the customer, historical trends, the current economic environment and other information.

(iii) 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.

(iv) Trade payables
Trade payables represent the amount of invoices received from suppliers for purchases of goods and services for which payment has not been made.

(v) 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.

(vi) 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 purposes.

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 profit or loss 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 or is so adjusted but that adjustment is not recognised in profit or loss. Provided the conditions specified by IAS 39 ‘Financial Instruments: Recognition and Measurement’ 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 change in its fair value attributable to the hedged risk and the resulting gain or loss is recognised in profit or loss 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, the change in the fair value of the hedging instrument attributable to the hedged risk is recognised in other comprehensive income rather than in profit or loss. When the hedged item in a cash flow hedge is recognised in the financial statements, the accumulated gain or loss recognised in other comprehensive income is either transferred to profit or loss or, if the hedged item results in a non-financial asset, is recognised as an adjustment to the asset’s initial carrying amount. In the event that a foreign operation that is designated as a hedged item in a net investment hedge is sold, the accumulated currency translation gain or loss on the hedging instrument that is recognised in other comprehensive income is transferred to profit or loss and included in the gain or loss on disposal of the foreign operation.

Derivative financial instruments are classified as current assets or liabilities unless they are in a designated hedging relationship and the hedged item is classified as a non-current asset or liability.

Derivative financial instruments that are not in a designated hedging relationship are classed as trading.

(vii) Contracts to buy or sell non-financial items
From time to time, the Group enters into forward contracts to fix the price of energy and raw materials purchased for use in its manufacturing operations. Such contracts fall outside the scope of IAS 39, provided that they were entered into and continue to be held for the purpose of receipt or delivery in accordance with the Group’s expected purchase, sale or usage requirements. Where these conditions are not met, the contracts are classified and accounted for in the same way as derivative financial instruments.

(viii) 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 profit or loss.

(ix) Preference shares
Prior to their redemption in July 2007, the Company’s US dollar denominated 5.56% convertible cumulative preference shares were classified as non-current liabilities. Dividends payable on the preference shares were included in interest payable.

(x) Own shares
Own shares represent the Company’s ordinary shares that are held by the Company in treasury, by its subsidiaries 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 equity. Gains or losses on the sale or transfer of own shares are recognised directly in equity.

2. Principal accounting policies (continued)

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 profit or loss 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 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 profit or loss 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 any 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 profit or loss 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, where available, or on government bonds. Gains or losses on curtailments or settlements are recognised in profit or loss 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 the actuarial assumptions, are recognised in other comprehensive income 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, 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 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. The net total for all plans in surplus is classified as a non-current asset. The net total for all plans in deficit is classified as a non-current liability.

R. Share-based incentives

Share-based incentives are provided to employees under the Group's share option, bonus and other share award schemes. All existing schemes are classified as equity-settled. 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 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 reduce the compensation expense 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 Group or by a participating employee, the compensation expense that would have been recognised over the remainder of the vesting period is recognised immediately in profit or loss.

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.

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

Provision is made for the cost of product recalls if management considers it probable that it will be necessary to recall a specific product and the amount can be reasonably estimated.

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

Provision is made for claims for compensation for injuries sustained by the Group's employees while at work. The provision represents management's best estimate of the liability for claims made but not yet fully settled and for incidents which have occurred but have not yet been reported to the Group. The Group's liability for claims made but not yet fully settled is calculated on an actuarial basis by a third party administrator. Historical data trends are used to estimate the liability for unreported incidents.

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 that are recognised in the period for accounting purposes but 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, and the possible disallowance of tax credits and penalties. 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 in the foreseeable future against which the deductible temporary differences may 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.

Current tax assets and current tax liabilities are offset when there is a legally enforceable right to set off the amounts and management intends to settle on a net basis. Deferred tax assets and deferred tax liabilities are offset where there is a legally enforceable right to offset current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Current and deferred tax is recognised in profit or loss unless it relates to an item that is recognised in the same or a different period outside profit or loss, in which case it too is recognised outside profit or loss, either in other comprehensive income or directly in equity.

U. Assets held for sale and discontinued operations

An asset is classified as held for sale if its carrying amount will be recovered by sale rather than by continuing use in the business, the asset is available for immediate sale in its present condition, management is committed to, and has initiated, a plan to sell the asset which, when initiated, was expected to result in a completed sale within 12 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 geographic area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographic 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 AGM. Dividends on ordinary shares are recognised as an appropriation of shareholders' equity.

W. Accounting pronouncements not yet adopted

Recently-issued accounting pronouncements that may be relevant to the Group's operations but have not yet been adopted are outlined below. With the exception of the revisions to IFRS 3 and IAS 27, management does not expect that the adoption of these pronouncements will have a material impact on the Group's results or financial position.

IFRS 3 Revised 'Business Combinations' and IAS 27 Revised 'Consolidated and Separate Financial Statements'
In January 2008, the IASB issued revised versions of IFRS 3 and IAS 27 that contain a number of changes that will affect the accounting for future business combinations and the accounting in the event of the loss of control over a subsidiary.

Where a business combination involves a minority interest, the Group will be able to choose for each business combination whether to measure the minority interest at fair value or, as at present, at the minority's share of the fair value of the net assets of the acquired entity. In step acquisitions, previously held interests will be remeasured at fair value and any gain or loss arising will be recognised in profit or loss. On the loss of control of a subsidiary, any retained interest will be remeasured at fair value and any gain or loss will be reflected in the gain or loss on loss of control. Other significant changes are that acquisition costs will be expensed and adjustments to contingent consideration will be recognised in profit or loss.

IFRS 3 Revised and IAS 27 Revised are effective for annual periods commencing on or after 1 July 2009.

The financial effect of IFRS 3 Revised and IAS 27 Revised will be dependent on the circumstances surrounding the future transactions to which they will apply, that are at present unknown.

2. Principal accounting policies (continued)

W. Accounting pronouncements not yet adopted (continued)

IFRS 9 'Financial Instruments'
In November 2009, the IASB issued IFRS 9 which represents the first phase of its replacement of IAS 39 and introduces new requirements for the classification and measurement of financial assets and removes the need to separately account for certain embedded derivatives.

IFRS 9 is effective for annual periods commencing on or after 1 January 2013. Early adoption is permitted, but the standard has not yet been endorsed for use in the European Union.

Amendments to IFRS 2 'Share-based Payment – Group Cash-settled Share-based Payment Transactions'
In June 2009, the IASB amended IFRS 2 to incorporate the guidance previously included in IFRIC 8 'Scope of IFRS 2' and IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions', which the Group adopted in 2007. The amendments to IFRS 2 are effective for annual periods beginning on or after 1 January 2010, but have not yet been endorsed for use in the European Union.

Amendments to IAS 24 'Related Party Disclosures'
In November 2009, the IASB amended IAS 24 to simplify the definition of a related party, clarify its intended meaning and eliminate a number of inconsistencies. The amendments are effective for annual periods beginning on or after 1 January 2011, but have not yet been endorsed for use in the European Union.

'Improvements to IFRSs 2009'
In April 2009, the IASB published its second annual improvements standard which contains minor amendments to standards that address a number of issues, including: disclosure of non-current assets or disposal groups classified as held for sale or as discontinued operations; disclosure of information about segment assets; the unit of accounting for goodwill impairment tests; the measurement of the fair value of an intangible asset acquired in a business combination; and the classification of leases of land and buildings.

Most of the amendments are effective for annual periods beginning on or after 1 January 2010, but have not yet been endorsed for use in the European Union.

IFRIC 19 'Extinguishing Liabilities with Equity Instruments'
In November 2009, IFRIC 19 was issued to clarify the required accounting where a debtor fully or partly extinguishes a liability by issuing equity instruments to the creditor. IFRIC 19 is effective for annual periods beginning on or after 1 July 2010, but has not yet been endorsed for use in the European Union.

Amendments to IFRIC 14 'IAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'
In November 2009, the IASB amended IFRIC 14 to remedy an unintended consequence of the pronouncement whereby entities were in some circumstances not permitted to recognise as an asset prepayments of minimum funding contributions. The amendments are effective for annual periods beginning on or after 1 January 2011, but have not yet been endorsed for use in the European Union.

3. Critical accounting estimates

A. Background

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 presented below.

B. Post-employment benefits

The Group operates pension plans throughout the world, covering the majority of its employees. Pension benefits are provided by way of both defined contribution plans and defined benefit plans. The Group's defined benefit pension plans are closed to new entrants. 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 post-employment benefits in accordance with IAS 19 'Employee Benefits', whereby the cost of defined benefit plans is determined based on actuarial valuations of the plans that are carried out annually at the Group's balance sheet date. The actuarial valuations are dependent on assumptions about the future that are made by management on the advice of independent qualified actuaries. If actual experience differs from these assumptions, there could be a material change in the amounts recognised by the Group in respect of defined benefit plans in the next financial year.

As at 2 January 2010, the present value of the benefit obligation was $1,258.1 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 at the balance sheet date. As at 2 January 2010, the fair value of the plan assets was $924.5 million. The plan assets consist largely of listed securities and their fair values are subject to fluctuation in response to changes in market conditions.