

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Critical accounting estimates (continued)

H. 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 2 January 2010, the Group's provision for warranty claims amounted to \$11.3 million. Further provision may be necessary within the next financial year if actual claims experience differs from management's estimates.

I. Taxation

The Group is subject to income tax in most of the jurisdictions in which it operates. Management is required to exercise significant judgement in determining the Group's provision for income taxes.

Estimation is required of taxable profit in order to determine the Group's current tax liability. Management's judgement is required in relation to uncertain tax positions whereby additional current tax may become payable in the future following the audit by the tax authorities of previously-filed tax returns. As at 2 January 2010, the Group holds a provision for uncertain tax positions amounting to \$79.5 million. It is possible that the final outcome of these uncertain tax positions may differ from management's estimates.

Estimation is also required of temporary differences between the carrying amount of assets and liabilities and their tax base. Deferred tax liabilities are recognised for all taxable temporary differences but, where there exist deductible temporary differences, management's judgement is required as to whether a deferred tax asset should be recognised based on the availability of future taxable profits. As at 2 January 2010, the Group recognised net deferred tax assets amounting to \$57.6 million, including \$21.7 million in respect of tax losses and tax credits. Deferred tax assets of \$783.7 million were not recognised in respect of tax losses and tax credits carried forward. It is possible that the deferred tax assets actually recoverable may differ from the amounts recognised if actual taxable profits differ from management's estimates.

As at 2 January 2010, deferred tax liabilities were not recognised on retained profits of foreign subsidiaries and associates amounting to \$3,225.7 million because the Group is able to control the remittance of those profits to the UK and it is probable that they will not be remitted in the foreseeable future. Income tax may be payable on these amounts if circumstances change and either their remittance can no longer be controlled by the Group or they are actually remitted to the UK.

4. Segment information

A. Background

The Group's operating segments are identified by grouping together businesses that manufacture similar products, as this is the basis on which information is provided to the Board for the purposes of allocating resources within the Group and assessing the performance of the Group's businesses.

The Group's business segments are described in note 1.

During 2009, the Group substantially completed its long-term programme of disposing of or exiting its non-core businesses and changes were made to the Group's internal reporting structure to assist the Board in focusing on the performance of the Group's ongoing businesses. Distinction is now drawn 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 following changes were made:

- the Stant and Standard-Thomson businesses that were sold in 2008 were removed from the Fluid Systems segment and are now presented as a separate segment named Caps & Thermostats;
- the remainder of the Fluid Systems segment was renamed Sensors & Valves;
- the Dearborn Mid-West business that was sold in 2007 was removed from the Other Industrial & Automotive segment and is now presented as a separate segment named Materials Handling;
- the Air Systems Components segment was renamed Air Distribution;
- the Philips Doors and Windows business that was closed during 2009 was removed from the Other Building Products segment and is now presented as a separate segment named Doors & Windows;
- the Lasco Fittings business that was sold in 2007 was removed from the Other Building Products segment and is now presented as a separate segment named Fittings; and
- the remainder of the Other Building Products segment was renamed Bathware.

Also during 2009, the Group's Water Pumps business was transferred from Other Industrial & Automotive to Power Transmission.

Comparative information for 2008 and 2007 has been re-presented to reflect these changes.

B. Measure of segment profit or loss

The Board uses adjusted operating profit to measure the profitability of each segment. Adjusted operating profit is, therefore, the measure of segment profit or loss presented in the Group's segment disclosures.

Adjusted operating profit represents operating profit before specific items that are considered to hinder comparison of the trading performance of the Group's businesses either year on year or with other businesses.

During the periods under review, the items excluded from operating profit in arriving at adjusted operating profit were as follows:

- the amortisation of intangible assets arising on acquisitions;
- impairments, comprising impairments of goodwill and intangible assets arising on acquisitions and material impairments of other assets;
- restructuring costs;
- the net gain or loss on disposals and on the exit of businesses; and
- in 2009, the gain recognised on amendments to certain post-employment benefit plans in North America.

C. Sales and adjusted operating profit – continuing operations

	Sales			Adjusted operating profit/(loss)		
	Year ended 2 January 2010 \$ million	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 2 January 2010 \$ million	Restated* Year ended 3 January 2009 \$ million	Restated* Year ended 29 December 2007 \$ million
Ongoing segments						
Industrial & Automotive:						
– Power Transmission	1,763.4	2,125.2	2,078.6	212.4	228.1	267.9
– Fluid Power	588.7	832.3	769.1	(11.8)	46.2	71.0
– Sensors & Valves	313.6	421.0	413.5	0.1	29.6	31.8
– Other Industrial & Automotive	463.4	602.1	717.5	25.4	45.5	74.1
	3,129.1	3,980.6	3,978.7	226.1	349.4	444.8
Building Products:						
– Air Distribution	874.2	1,112.3	1,083.6	77.8	104.2	102.5
– Bathware	140.3	208.2	275.5	(8.7)	(11.8)	5.8
	1,014.5	1,320.5	1,359.1	69.1	92.4	108.3
Corporate	–	–	–	(32.3)	(37.0)	(53.7)
Total ongoing	4,143.6	5,301.1	5,337.8	262.9	404.8	499.4
Exited segments						
Industrial & Automotive:						
– Caps & Thermostats	–	80.2	170.3	–	10.3	23.2
– Materials Handling	–	–	163.7	–	–	9.4
	–	80.2	334.0	–	10.3	32.6
Building Products:						
– Doors & Windows	36.5	134.6	200.5	(13.1)	(12.2)	(3.7)
– Fittings	–	–	13.8	–	–	1.9
	36.5	134.6	214.3	(13.1)	(12.2)	(1.8)
Total exited	36.5	214.8	548.3	(13.1)	(1.9)	30.8
Total continuing operations	4,180.1	5,515.9	5,886.1	249.8	402.9	530.2

* See note 2

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Segment information (continued)

C. Sales and adjusted operating profit – continuing operations (continued)

	Sales			Adjusted operating profit/(loss)		
	Year ended 2 January 2010 \$ million	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 2 January 2010 \$ million	Restated* Year ended 3 January 2009 \$ million	Restated* Year ended 29 December 2007 \$ million
By origin						
US	2,172.9	2,947.6	3,457.0	105.3	181.4	300.8
UK	297.0	399.6	408.1	4.7	(5.0)	7.1
Rest of Europe	603.5	787.2	733.9	29.4	55.9	66.1
Rest of the world	1,106.7	1,381.5	1,287.1	110.4	170.6	156.2
	4,180.1	5,515.9	5,886.1	249.8	402.9	530.2
By destination						
US	2,358.9	3,178.7	3,712.5			
UK	87.3	129.0	149.4			
Rest of Europe	665.8	864.9	809.7			
Rest of the world	1,068.1	1,343.3	1,214.5			
	4,180.1	5,515.9	5,886.1			

* See note 2

Inter-segment sales were not significant.

Reconciliation of adjusted operating profit to profit/(loss) before tax:

	Year ended 2 January 2010 \$ million	Restated* Year ended 3 January 2009 \$ million	Restated* Year ended 29 December 2007 \$ million
Adjusted operating profit	249.8	402.9	530.2
Amortisation of intangible assets arising on acquisitions	(11.2)	(10.6)	(7.2)
Impairments (see note 5)	(73.0)	(342.4)	(0.8)
Restructuring costs (see note 6)	(144.1)	(26.0)	(27.6)
Net gain on disposals and on the exit of businesses (see note 6)	0.2	43.0	91.4
Gain on amendment of post-employment benefits (see note 7)	63.0	–	–
Operating profit	84.7	66.9	586.0
Net finance costs	(46.3)	(75.0)	(60.9)
Profit/(loss) before tax	38.4	(8.1)	525.1

* See note 2

Segmental analysis of the sales and adjusted operating profit of discontinued operations is presented in note 13.

D. Segment assets

The Board does not review, and is not regularly provided with, an analysis of the Group's total assets by operating segment. In order to comply with the requirements of IFRS 8, an analysis is provided below of the Group's operating assets, goodwill and other intangible assets by operating segment:

	As at 2 January 2010 \$ million	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
Ongoing segments			
Industrial & Automotive:			
– Power Transmission	1,192.2	1,216.4	1,730.7
– Fluid Power	589.9	594.5	601.6
– Sensors & Valves	202.8	236.3	312.2
– Other Industrial & Automotive	310.9	344.3	398.7
	2,295.8	2,391.5	3,043.2
Building Products:			
– Air Distribution	645.5	753.2	771.9
– Bathware	69.2	86.6	105.2
	714.7	839.8	877.1
Corporate	23.8	33.7	27.8
Total ongoing	3,034.3	3,265.0	3,948.1
Exited segments			
Industrial & Automotive:			
– Caps & Thermostats	–	–	94.2
Building Products:			
– Doors & Windows	3.4	24.2	45.8
Total exited	3.4	24.2	140.0
	3,037.7	3,289.2	4,088.1

Reconciliation of assets analysed by operating segment to total assets:

	As at 2 January 2010 \$ million	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
Segment assets	3,037.7	3,289.2	4,088.1
Cash and cash equivalents	445.0	291.9	295.9
Collateralised cash	2.1	3.8	5.8
Derivatives hedging translational exposures	56.9	73.4	6.2
Deferred tax assets	82.9	64.8	47.4
Income tax recoverable	49.0	47.6	29.5
Total assets	3,673.6	3,770.7	4,472.9

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Segment information (continued)

E. Non-current assets

The geographic analysis of long-lived assets (goodwill and other intangible assets, and property, plant and equipment) and investments in associates was as follows:

	As at 2 January 2010 \$ million	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
By location			
US	862.9	957.3	1,047.0
UK	65.6	70.1	131.0
Rest of Europe	175.2	192.6	233.3
Rest of the world	553.7	492.3	773.9
	1,657.4	1,712.3	2,185.2

Capital expenditure, depreciation and amortisation in respect of long-lived assets was as follows:

	Year ended 2 January 2010			Year ended 3 January 2009			Year ended 29 December 2007		
	Capital expenditure \$ million	Depreciation \$ million	Amortisation \$ million	Capital expenditure \$ million	Depreciation \$ million	Amortisation \$ million	Capital expenditure \$ million	Depreciation \$ million	Amortisation \$ million
Continuing operations									
Ongoing segments									
Industrial & Automotive:									
– Power Transmission	50.3	74.3	7.5	91.6	96.1	7.8	93.1	103.1	6.7
– Fluid Power	36.4	25.5	8.2	35.8	27.3	8.8	38.2	26.4	6.9
– Sensors & Valves	5.7	23.8	1.2	19.5	26.1	1.2	36.6	26.4	0.5
– Other Industrial & Automotive	13.3	15.2	1.2	12.2	15.8	1.1	26.1	17.5	1.0
	105.7	138.8	18.1	159.1	165.3	18.9	194.0	173.4	15.1
Building Products:									
– Air Distribution	13.6	24.7	7.2	28.4	26.3	6.6	23.5	26.0	4.7
– Bathware	3.5	8.3	0.1	2.2	9.6	0.2	6.7	9.3	0.1
	17.1	33.0	7.3	30.6	35.9	6.8	30.2	35.3	4.8
Corporate	0.1	0.2	0.2	0.2	0.1	0.3	0.3	0.4	0.4
Total ongoing	122.9	172.0	25.6	189.9	201.3	26.0	224.5	209.1	20.3
Exited segments									
Industrial & Automotive:									
– Caps & Thermostats	–	–	–	2.8	–	–	5.3	3.4	0.3
– Materials Handling	–	–	–	–	–	–	0.2	–	–
	–	–	–	2.8	–	–	5.5	3.4	0.3
Building Products:									
– Doors & Windows	0.1	0.2	–	1.1	1.8	–	1.9	3.4	–
– Fittings	–	–	–	–	–	–	0.2	–	–
	0.1	0.2	–	1.1	1.8	–	2.1	3.4	–
Total exited	0.1	0.2	–	3.9	1.8	–	7.6	6.8	0.3
Total continuing operations	123.0	172.2	25.6	193.8	203.1	26.0	232.1	215.9	20.6
Discontinued operations									
Industrial & Automotive:									
– Wiper Systems	–	–	–	–	–	–	4.4	–	–
Total Group	123.0	172.2	25.6	193.8	203.1	26.0	236.5	215.9	20.6

The Board regularly reviews the Group's capital expenditure, which represents cash outflows on additions to property, plant and equipment and non-integral computer software included within other intangible assets.