

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35. 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.

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

B. Share options

Options are 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.

Vested options are still outstanding under the Company's executive share option schemes which lapsed for the purpose of new awards in 2005. The final unvested options under these schemes vested during 2007.

In 2009, the compensation expense recognised in respect of share options was \$1.0 million (2008: \$0.8 million; 2007: \$3.1 million).

Changes in the total number of share options outstanding during the period were as follows:

	Year ended 2 January 2010		Year ended 3 January 2009	
	Options Number	Weighted average exercise price Pence	Options Number	Weighted average exercise price Pence
Outstanding at the beginning of the period	18,131,583	238.60	19,602,926	242.71
Granted during the period	2,228,492	96.00	803,274	140.20
Cancelled during the period	(634,716)	157.70	(391,195)	206.68
Forfeited during the period	(34,770)	202.88	(98,587)	198.79
Exercised during the period	(45,000)	170.50	(45,000)	170.50
Lapsed during the period	(2,397,288)	232.61	(1,739,835)	250.65
Outstanding at the end of the period	17,248,301	224.24	18,131,583	238.60
Exercisable at the end of the period	14,544,405	245.19	16,341,128	244.64

* See note 2

On the date on which options were exercised during 2009, the market price of the Company's ordinary shares was 178.90p per share (2008: 184.00p per share).

The fair value of options granted under the Sharesave Scheme was measured at their respective grant dates using the Black-Scholes option pricing formula based on the following assumptions:

	Year ended 2 January 2010	Year ended 3 January 2009	Year ended 29 December 2007
Weighted average fair value	68.34p	37.99p	73.81p
Weighted average assumptions:			
– Share price	161.75p	176.75p	264.25p
– Exercise price	96.00p	140.20p	211.40p
– Expected volatility	33.44%	24.59%	25.40%
– Expected life	4.47 years	4.57 years	4.66 years
– Risk-free interest rate	3.76%	4.55%	5.23%
– Expected dividends	6.25p	13.89p	13.89p

Expected volatility was determined based on the historical volatility of the market price of the Company's ordinary shares over the expected life of the options. Adjustments have been made to the expected life used in the model to reflect the effects of non-transferability, exercise restrictions and behavioural considerations.

The weighted average contractual life of share options outstanding at the end of the period was as follows:

	As at 2 January 2010		As at 3 January 2009		As at 29 December 2007	
	Outstanding Number	Weighted average remaining contractual life Years	Outstanding Number	Weighted average remaining contractual life Years	Outstanding Number	Weighted average remaining contractual life Years
Range of exercise prices:						
– Less than 100p	2,186,005	4.13	–	–	–	–
– 100p to 150p	287,096	3.21	723,947	4.23	–	–
– 151p to 200p	3,242,072	2.06	3,454,072	2.99	3,519,072	3.94
– 201p to 250p	5,909,124	4.08	7,773,617	4.61	9,244,600	5.39
– 251p to 300p	4,608,776	3.31	5,164,719	4.35	5,821,026	5.01
– 301p and higher	1,015,228	2.11	1,015,228	3.10	1,018,228	4.11
	17,248,301		18,131,583		19,602,926	

C. Other awards

The Group's principal ongoing share-based compensation arrangements are the ABIP and the PSP. Both are restricted to the Group's senior executives. In 2009, the IBP was introduced as a temporary, one-year substitute for the ABIP.

The ABIP provides awards of Restricted Award Shares and Deferred Award Shares based on the 'bonusable profit' of the business for which the participants have responsibility. Restricted Award Shares normally vest after a period of three years. Dividends are paid on the Restricted Award Shares. Deferred Award Shares normally vest after a period of three years, conditional on the participant's continued employment with the Group. Dividends are not paid on the Deferred Award Shares until they have vested. During 2009, awards were granted over 999,108 ordinary shares (2008: 1,789,628 ordinary shares; 2007: 1,727,352 ordinary shares) under the ABIP in relation to bonuses earned in 2008. The IBP differs from the ABIP only in that awards made under the plan are based on the trading cash flow of the business for which the participants have responsibility and on the attainment of strategic achievement milestones that are set for each of the participants. Awards over shares under the IBP are expected to be made in March 2010. In 2009, an accrual of \$2.0 million was recognised in respect of the Restricted Award Shares to be awarded under the IBP.

The PSP provides awards of shares which vest after a period of three years, conditional on the Group's total shareholder return relative to its cost of equity over the vesting period and the participant's continued employment with the Group. During 2009, awards were granted over 6,864,193 ordinary shares under the PSP (2008: 7,115,194 ordinary shares; 2007: 5,852,671 ordinary shares).

The fair value of awards made under the ABIP is measured based on the market price of the Company's ordinary shares on the date of the award. Where the awards do not attract dividends during the vesting period, the market price is reduced by the present value of the dividends expected to be paid during the expected life of the awards. The weighted average fair value of awards made under these schemes during the period was 130.46p (2008: 125.66p; 2007: 211.93p).

The fair value of awards made under the PSP was measured at their respective grant dates using a Monte Carlo valuation model based on the following assumptions:

	Year ended 2 January 2010	Year ended 3 January 2009	Year ended 29 December 2007
Weighted average fair value	41.92p	43.92p	66.45p
Weighted average assumptions:			
– Expected volatility	45.36%	36.41%	27.67%
– Expected life	3.00 years	3.00 years	3.00 years
– Risk-free interest rate	2.00%	4.71%	4.88%
– Dividend yield	4.87%	8.84%	5.00%

Expected volatility was determined based on the historical volatility of the market price of the Company's ordinary shares over the expected life of the awards.

In 2009, the compensation expense recognised in respect of other awards was \$10.3 million (2008: \$11.2 million; 2007: \$13.2 million).