GROUP STRATEGY

→ Maximising shareholder value through long-term sustainable growth.

→ Four key elements:

DRIVING TOP-LINE GROWTH

Our growth strategy is focused on three key initiatives which we execute both organically and through bolt-on acquisitions: (i) leveraging the global Gates brand and footprint by growing our service and distribution capabilities in the global industrial and automotive aftermarket end markets; (ii) expanding our presence in higher-growth emerging markets; and (iii) developing energy efficient, 'green' products which reduce emissions.

In July 2009, we acquired Hydrolink, a fluid engineering services provider to the oil and gas and marine sectors in the Middle East. Hydrolink expands our range of hydraulic hose applications and services. Annualised sales within the Gates Engineering & Services business (which is part of Fluid Power) are now approximately $100 million, and this area is a focus for further growth.

We recently completed the construction of a facility in Changzhou, China for Fluid Power, which became operational in early 2010. In Izmir, Turkey we started construction of our new Power Transmission facility, due to be completed and operational in the second quarter of 2010. We also opened a new service centre in Turkey and a new sales office in Houston for our Gates Engineering & Services business. A service centre in China will be opened in early 2010.

In November 2009, the European legislation for tyre pressure monitoring systems ('TPMS') on certain vehicles was finalised. This legislation mandates tyre pressure monitoring on new models introduced into the European market from 2012 and certain vehicles sold from 2014. Schrader Electronics, which has a market leading position in remote TPMS, continues to work with European manufacturers to prepare for this change, which is expected to double the market size for this product. We expect this to benefit the Schrader business from 2011 onwards. We also completed the construction of a new facility in India for our Schrader business, aimed at expanding our capacity to meet increasing demand from emerging markets and the replacement market.

During the year, we were involved with a number of projects to improve the energy efficiency of buildings, both within the public and private sectors. We commenced work with a major US retail chain to fit Energy Recovery Ventilators to over 200 stores, which is expected to save around 20% of their total heating and cooling costs. We completed the first phase of the Dubai Metro project, worth over $1 million, and in Australia, supplied a major tunnel project with industrial tunnel fire dampers, worth over $3 million. In total, we won over $25 million of infrastructure-related contracts to commence in 2010, including a project in Australia worth around $10 million, and a further $4 million contract to supply nuclear facilities with Ruskin's damper products.

MANAGING THE COST BASE

During 2009, we substantially completed our restructuring initiatives, Project Eagle and Project Cheetah, by closing 25 facilities during the year and reducing headcount under these initiatives by 4,300. We incurred net cash costs of $69.3 million and restructuring charges of $144.1 million. We expect further net cash costs of around $65 million and restructuring charges of around $12 million in 2010 in relation to the previously announced closure of another three facilities. We expect that, along with the recent disposal of the Group's non-core businesses, our restructuring initiatives will help us to achieve double-digit margins in the medium term.

Rigorous expense management throughout the Group remains a high priority.

MANAGING THE BALANCE SHEET

We manage the Group's balance sheet with two main objectives: (i) to maximise shareholder value whilst retaining flexibility to take advantage of opportunities that arise to grow the business; and (ii) to maintain an investment-grade credit rating.

In 2009, we extended the maturity of our committed bank funding, with a $450 million forward-start facility that expires in May 2012. Our existing facility of £400 million expires in August 2010. The facility is used periodically, mainly for working capital purposes. During the year, the maximum amount drawn down on the facility was $136.7 million, and the facility was undrawn at the end of 2009.

In 2009, we reduced net debt by $268.9 million to $207.5 million. Our trading cash flow of $422.0 million was after net restructuring cash costs of $69.3 million and net capital expenditure of $110.1 million. The Group has been successful in reducing inventory by $214.6 million this year, with overall working capital reduced by $244.0 million. Working capital management is a key focus for the Group, and we anticipate a further small improvement in working capital in 2010.

The Group made certain amendments to its North American pension and post-retirement healthcare plans, which gave rise to a $63.0 million decrease in the associated deficits.

Our strong balance sheet and available cash provides us with the flexibility to make bolt-on acquisitions to enhance growth and provide returns to shareholders. We continue to develop acquisition opportunities within our areas of strategic focus, and to invest organically in research and development, new facilities and service centres. We will continue to evaluate the most efficient use of our cash resources, and to allocate these in the way which maximises return to shareholders.

RESHAPING THE PORTFOLIO

We continue to focus on expanding our engineering services capabilities, and in the second half of this year, we completed the acquisition of Hydrolink, which extends our capabilities in the oil and gas market.

Within Building Products, we acquired the remaining 40% of Rolastar, an Indian ducting manufacturer, having acquired the initial 60% in February 2008. Our associate in the UAE, Ruskin Titus Gulf, became operational and was awarded several large infrastructure projects.

In February 2010, we acquired Koch Filter, a manufacturer of air filters for the non-residential filtration replacement market with revenues of approximately $40 million. Koch Filter builds on our filtration capabilities, which were established with the acquisition of Trion in 2008, and builds on our green product strategy and investment in capital light businesses, with a focus on the replacement market.

We continue to look for opportunities, both organic and acquisitions, to expand our Gates and Air Distribution businesses in new regions and new products.

During the third quarter, the closure of Philips Doors and Windows was completed.