PRINCIPAL RISKS AND UNCERTAINTIES

Tomkins operates globally in a variety of markets and is affected by a number of risks inherent in its activities.

Business risk can be considered either as downside risk (the risk that something can go wrong and result in a financial loss or exposure) or volatility risk (the risk associated with uncertainty, meaning there may be an opportunity for financial gain as well as the potential for loss).

We outline below the risks and uncertainties that the Board believes have the greatest potential to affect the Group's results or financial position. We have not listed these risks in any order of priority. Details of the Group's risk management procedures are set out under the heading 'Internal control' on page 48.

Additional risks not currently known to us, or risks that currently we do not regard as significant, could also have a material adverse effect on our results or financial position. Our analysis of our principal risks and uncertainties should, therefore, be read in conjunction with the cautionary statement regarding forward-looking statements set out on the inside front cover.

When applying the Group's accounting policies, management must make assumptions and estimates about the future that may differ from actual outcomes. We discuss the key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amount of the Group's assets and liabilities in note 3 to the consolidated financial statements.

	Risk	Description and potential impact	Mitigation strategy
Our strategy	Risks associated with acquisitions and disposals	One of our strategic objectives is to reshape our portfolio by making strategic bolt-on acquisitions of complementary businesses to expand our product portfolio and geographic presence and by disposing of non-core businesses. Acquisitions and disposals, particularly investments in emerging markets, involve legal, economic and political risks. We also encounter risks in the selection of appropriate investment and disposal targets, execution of the transactions, integration of acquired businesses and a risk that we may not generate the anticipated returns and savings from our acquisitions and disposals.	All investment and divestment projects are subject to a detailed project proposal process. The Board identifies divestment targets, timing and values in the context of the existing market conditions and the Group's portfolio. A rigorous, prescribed due diligence process is undertaken by an experienced team on all potential acquisitions. We prepare and execute formal integration plans to maximise the synergies arising on acquisitions.
	Risks inherent in operating in emerging economies	We continue to expand our activities in the high-growth potential emerging markets of Eastern Europe, Asia, the Middle East and South and Central America. We face inherent risks in operating in these markets that include, but are not limited to, economic and political instability, restrictive or complex laws and regulations, volatility in currency exchange rates, protection of intellectual property and strong competition from companies that are already established in these markets. If we are unable to assess adequately these risks and develop and execute appropriate mitigating strategies, we may have to decline growth opportunities which may adversely impact the Group's sales, profitability and cash flows.	We focus on the financial performance of our operations in emerging markets and closely monitor their social, political, commercial and regulatory environments to ensure that we are able to respond rapidly to protect our people and our businesses.
Our funding	Risks arising from restrictions on the availability of credit	During 2009, due largely to the efforts of national governments, credit has become more readily available to companies, such as Tomkins, that have investment grade credit ratings. However, many companies continue to find it difficult to obtain or renew borrowing facilities on commercially-acceptable terms.	Our policy is to reduce financing risk by diversifying our funding sources and by staggering the maturity of our borrowings. We aim to retain sufficient liquidity to maintain our financial flexibility and to preserve our investment grade credit ratings. We monitor our credit ratings closely and maintain a regular dialogue with the ratings agencies.

	Risk	Description and potential impact	Mitigation strategy
Our funding	Risks arising from restrictions on the availability of credit (continued)	We finance our business principally through equity and bank and other borrowings. We currently have considerable headroom under our committed borrowing facilities and there is no immediate need for us to renew or replace any of our facilities. We are mindful, however, that, if our access to credit was once again to become restricted, we may have to accept less favourable terms when we come to renew or replace our facilities. Failure to obtain sufficient funding to meet our liquidity requirements may result in our losing business opportunities or in the curtailment of capital spending, research and development and other important strategic programmes. Restrictions on the availability of credit may also restrict the reshaping of our portfolio because reduced access to credit may adversely impact the ability of both ourselves and potential buyers to finance the acquisition of businesses.	We monitor borrowing facilities against forecast requirements and take timely action to put in place, renew or replace credit lines. During 2009, for example, we took early action to extend our committed borrowing facilities by putting in place a $450 million forward-start multi-currency revolving credit facility that will provide us with sufficient borrowing capacity when the existing £400 million facility expires in August 2010. We mitigate credit risk by operating strict credit control procedures. Before accepting any new customer, we assess the customer's creditworthiness and establish an applicable credit limit. Credit limits are reviewed on a regular basis.
		If we were unable to replace or renew our borrowing facilities as they expire, there may be a threat to the Group's status as a going concern. If we were able to obtain funding only on less favourable terms, there may be an adverse impact on the Group's profitability and cash flows. Restrictions on the availability of credit may cause some of our customers to be slower in settling the amounts that they owe to us, thereby reducing our own liquidity or, indeed, may cause them to be unable to pay the amounts that they owe to us. Restrictions on the availability of credit also increase the risk that some of our suppliers may fail, which could cause disruption in the supply of critical inputs to our manufacturing processes. If there were any interruption in the supply of our products to any of our customers, we may lose sales to those customers and there would be the risk that some of them would migrate to other suppliers.	Before accepting a new supplier, we operate a detailed approval process which includes an assessment of the potential supplier's financial strength. Where possible, we aim not to source critical inputs from a single supplier and we regularly update our assessment of the financial strength of our critical suppliers.
Our markets	Risks associated with the economic downturn and uncertainty about the timing of the recovery	Demand for our products is driven directly or indirectly by consumer demand and preferences. Our markets tend to be cyclical and the recent decline in asset prices, limitations on the availability of credit and economic uncertainty have eroded market confidence and driven down consumer spending in a number of our end markets. Despite recent signs of improvement in global economies, it is not yet clear whether the worst of the economic crisis is over and, even if it is, growth in many of our end markets is likely to be slow, adversely affecting the demand for our products, placing pressure on our prices and margins and resulting in further customer consolidation. We expect these pressures will continue to be particularly acute in our residential, commercial construction and automotive OE markets.	Our businesses responded aggressively to the deteriorating economic conditions, through plant rationalisations, cost base reduction initiatives and strategic sourcing programmes. Our businesses have also progressed initiatives to move into complementary markets, to extend their service offerings and to develop green products and technologies, in an effort to counteract reduced demand in their more traditional end markets.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

	Risk	Description and potential impact	Mitigation strategy
Our markets	Risks associated with the major US automotive manufacturers	In 2009, the Group derived 9% of its sales from General Motors, Ford and Chrysler. For some time, the global automotive industry has been characterised by overcapacity and fierce competition. In recent years, the Detroit Three have seen a decline in their market share of vehicle sales, particularly in North America, due to Asian and European automobile manufacturers increasing their presence and the preference of customers for fuel-efficient vehicles. North American vehicle production declined sharply from 15.1 million in 2007 to 12.6 million in 2008 and to 8.6 million in 2009. As a consequence, the Detroit Three have suffered financial hardship and have been the subject of considerable uncertainty (GM and Chrysler went through bankruptcy and bail out by the US government in 2009). Production capacity of the Detroit Three in North America has been severely cut back and any recovery in sales may take some years as they replace their vehicle platforms. North American vehicle production is expected to recover only slightly to 10.0-10.5 million units in 2010. Although, in recent years, the proportion of the Group's sales derived from the major US automotive manufacturers has progressively declined, they remain important to our success. Any further prolonged reduction in their activity levels may adversely affect the Group's sales and profitability and may cause the impairment of certain of the Group's productive assets that are used to supply these customers.	We constantly monitor our financial exposure to the major US automotive manufacturers and have developed a number of initiatives to minimise the impact on our businesses in the event of a collapse of one or more of these customers. We continue to follow a disciplined approach to investment in technology and production in support of the more competitive vehicle platforms that are being developed by our customers, particularly those delivering improved fuel efficiency and reduced emissions. Our businesses place emphasis not only on expansion within our existing markets, but also into complementary and other new markets in order to diversify further our customer base.
	Risk of increased competition from low-cost producers	Many of our end markets are highly competitive and competitive pressures have increased during the economic downturn as more suppliers have shown a willingness to sacrifice margin in order to maintain market share. Additionally, customers continue to expand their sourcing of products by looking to regions that enjoy economic advantages such as lower labour costs, cheaper raw materials or export subsidies. If we are unable to continue to provide technologically superior or better quality products or to match the prices of low-cost suppliers, there is a risk that customers will switch to those suppliers, causing the Group to lose market share with the consequent reductions in sales and margins.	We respond to competitive pressures through investment in low-cost regions, lean initiatives and enhancing our sourcing strategies. We are also rationalising our customer base to target those customers who value the quality, innovation and service that differentiate us from many of our low-cost competitors.

	Risk	Description and potential impact	Mitigation strategy
Our products	Risks associated with the cost and availability of production inputs	Steel, aluminium, rubber and rubber-based materials are some of the key inputs needed in many of our products. Energy is another significant part of the Group's costs, affecting both production and distribution costs. If prices of these and other inputs increase and we are unable to pass these increases on to customers, there is a risk that our margins may not be sustained and profitability may be adversely affected. During 2009, we have seen both significant increases and declines in the prices of many inputs. If such price volatility were to continue, it may hinder accurate forecasting and costing and make it difficult to pass cost increases on to customers. Our businesses compete globally for key production inputs. The availability of certain raw materials, energy or other key inputs may be disrupted by any number of geopolitical factors. Such disruptions may require additional capital or operating expenditure by the Group or forced reductions in its production volumes. Financial distress of key suppliers as a result of increasing prices, declining demand and a lack of available financing may lead to disruption in the supply of inputs which may negatively affect the Group's production and profitability.	We manage these risks through a combination of multiple-source and geographically diverse procurement policies, strategic customer pricing reviews, specific business continuity plans and expanded investment in low-cost countries.
	Risk of product liability claims	Due to the nature of our products, we face an inherent risk of product liability claims if failure results in any claim for injury or consequential loss. Litigation is inherently unpredictable and these claims, regardless of their outcome, may be costly, divert management attention and adversely affect our reputation. Supplier consolidation and the increase in low-cost country sourcing may increase the likelihood of receiving defective materials, thereby increasing the risk of product failure and resulting liability claims.	We seek to minimise these risks by using thorough screening procedures for new suppliers, implementing rigorous quality programmes in our plants, particularly for inbound materials, and by ceasing to produce products that are particularly likely to attract litigation.
Our people	Risk that our human resources strategies may not be effective	We believe that our future success depends in large measure on our ability to retain and develop our people. If we are unable to identify, attract and retain excellent non-management, management and executive talent, we may not be able to implement effectively our business strategies, or we may experience delays in the development and production of, or face difficulty in selling, our products and services.	We use formalised succession planning, 360 degree performance reviews, management internships and competitive compensation schemes that align the interests of our managers with those of our shareholders. Specific management training is provided through Tomkins College, the Group's executive development programme presented in partnership with the highly regarded Indiana University School of Business.