

**“We focus on driving top-line growth, managing the cost base and the balance sheet and reshaping our portfolio of businesses.”**



**John Zimmerman**  
Finance Director

## **Review of financial performance and position**

### **Group overview**

Sales from continuing operations for the year were £2,941.9 million (2006: £3,133.8 million) and adjusted operating profit was £264.7 million (2006: £295.8 million). The operating margin was 9.0% for the year (2006: 9.4%).

Operating cash flow in 2007 was higher at £220.8 million (2006: £219.0 million), as a result of reduced capital expenditure and lower restructuring and working capital cash outflows. Net debt amounted to £296.8 million (2006: £403.0 million, excluding preference shares).

Approximately 59% of the Group's sales arise in the US. The US dollar weakened further against sterling during the year and, together with exchange losses on other currencies, lowered the reported Group sales by 6.1% or £191.9 million and adjusted operating profit by 6.5% or £19.3 million. Financial information has been translated into sterling at an average rate of £1=\$2.00 for the year (2006: £1=\$1.83) and a year end rate of £1=\$1.99 (2006: £1=\$1.96).

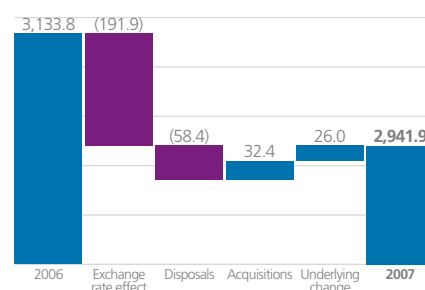
The ability to procure lower-cost materials and to re-source materials used in our products is an ongoing priority, particularly with the challenging cost environment for raw materials that has existed for the past three years. We have established functions in both China and India to source low-cost materials for businesses across the Group. We continued to expand our presence in the high growth regions of China, India, Eastern Europe and the Middle East. It is our aim to both manufacture for these growing local markets and to supply some of our traditional markets from this lower-cost manufacturing base. Sales to Asia, Latin America and Eastern Europe in 2007 were approximately 12.4% of total sales for the Group.

During the third quarter of 2007, we acquired UK-based Swindon Silicon Systems as a bolt-on acquisition to Schrader Electronics. We also entered into a joint venture with Caryaire, a leading Indian manufacturer and distributor of HVAC products, and increased our interest in Schrader Engineered Products (Kunshan) Co Ltd. in China from 60% to 100%. Consideration paid for these acquisitions was £10.0 million, and goodwill of £3.1 million has been recognised. Subsequent to the year end, we have acquired a controlling interest in Rolastar, an Indian duct profile manufacturer, further bolstering our presence in the high-growth HVAC market.

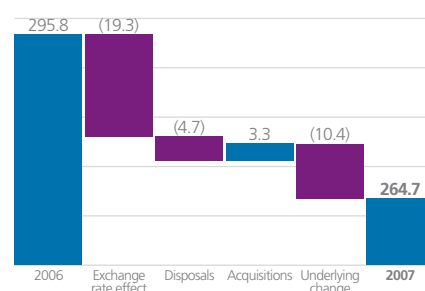
Three businesses, Lasco Fittings, Trico and Dearborn Mid-West, were identified as non-core businesses in December 2006, with Trico, which constituted the Group's Wiper Systems segment, being classified as a discontinued operation in 2006 and 2007. We are pleased to report that all three businesses have been sold during 2007. In the second quarter, we announced the intended sale of two further businesses, Stant Manufacturing Inc. and Standard-Thomson Corporation, and we continue to actively seek buyers. We continuously review our portfolio of businesses and may, in due course, further reshape the Tomkins portfolio.

The Board has decided that it will consider utilising an on-market share repurchase programme for between 5% and 10% of the issued share capital of the Company. Tomkins will remain flexible in relation to the timing and amount of the share repurchases, taking into account Tomkins' share price, balance sheet and cash flow, and any opportunities which might arise to make strategic bolt-on acquisitions.

### Group sales bridge



### Group adjusted operating profit bridge



## Underlying movements from 2006 to 2007 (unaudited)

### Continuing operations

|                                    | 2006<br>£ million | Exchange<br>rate effect<br>£ million | Disposals<br>£ million | Like-for-like<br>basis<br>£ million | Acquisitions<br>£ million | Underlying<br>change<br>£ million | Underlying<br>change<br>% | 2007<br>£ million |
|------------------------------------|-------------------|--------------------------------------|------------------------|-------------------------------------|---------------------------|-----------------------------------|---------------------------|-------------------|
| <b>Group</b>                       |                   |                                      |                        |                                     |                           |                                   |                           |                   |
| Revenue                            | 3,133.8           | (191.9)                              | (58.4)                 | 2,883.5                             | 32.4                      | 26.0                              | 0.9%                      | <b>2,941.9</b>    |
| Adjusted operating profit          | 295.8             | (19.3)                               | (4.7)                  | 271.5                               | 3.3                       | (10.4)                            | (3.8)%                    | <b>264.7</b>      |
| <b>Industrial &amp; Automotive</b> |                   |                                      |                        |                                     |                           |                                   |                           |                   |
| Revenue                            | 2,172.8           | (114.1)                              | (13.3)                 | 2,045.4                             | 11.8                      | 98.3                              | 4.8%                      | <b>2,155.5</b>    |
| Adjusted operating profit          | 240.7             | (13.5)                               | (0.3)                  | 226.9                               | 2.3                       | 9.0                               | 4.0%                      | <b>238.2</b>      |
| <b>Building Products</b>           |                   |                                      |                        |                                     |                           |                                   |                           |                   |
| Revenue                            | 961.0             | (77.8)                               | (45.1)                 | 838.1                               | 20.6                      | (72.3)                            | (8.6)%                    | <b>786.4</b>      |
| Adjusted operating profit          | 83.8              | (7.0)                                | (4.4)                  | 72.4                                | 1.0                       | (20.2)                            | (27.9)%                   | <b>53.2</b>       |
| <b>Central costs</b>               |                   |                                      |                        |                                     |                           |                                   |                           |                   |
| Adjusted operating profit          | (28.7)            | 1.2                                  | –                      | (27.5)                              | –                         | 0.8                               | (2.9)%                    | <b>(26.7)</b>     |

**“Industrial & Automotive generated a solid operating margin of 11.1%.”**

## Industrial & Automotive

### Results from continuing operations

|                                 | 2007            | 2006     |
|---------------------------------|-----------------|----------|
| Sales:                          |                 |          |
| – Power Transmission            | <b>1,031.2m</b> | 1,009.6m |
| – Fluid Power                   | <b>374.0m</b>   | 383.8m   |
| – Fluid Systems                 | <b>291.8m</b>   | 244.0m   |
| – Other Industrial & Automotive | <b>458.5m</b>   | 535.4m   |
| Total sales                     | <b>2,155.5m</b> | 2,172.8m |
| Adjusted operating profit       | <b>238.2m</b>   | 240.7m   |
| Operating margin                | <b>11.1%</b>    | 11.1%    |
| Employees (average)             | <b>21,296</b>   | 20,888   |

Sales in Industrial & Automotive were £2,155.5 million (2006: £2,172.8 million) and adjusted operating profit was £238.2 million (2006: £240.7 million).

#### Power Transmission

Power Transmission had another solid year with strong underlying organic growth in most industrial and automotive original equipment and replacement markets. This growth was offset by the weakness in the North American automotive original equipment market. During 2007, we opened a new Power Transmission facility in Chennai, India supplying local customers with belts and tensioners for the industrial and automotive sectors. We were awarded record automotive OE programmes of \$186 million in 2007, with customers such as Audi, Nissan, Hyundai and Chery. 70% of these programmes were outside of North America. The integration of Stackpole into Gates is progressing well with Stackpole returning to profitability in 2007.

#### Fluid Power

Fluid Power, which serves primarily the industrial original equipment and replacement markets, produced good results in most of its geographic markets, although the North American business was negatively impacted by the continued weakness in US residential construction. Fluid Power capitalised on the strong growth of many of its end markets including agriculture, oil and gas and mining. The relocation of manufacturing from the St. Neots facility in the UK to Karvina in the Czech Republic is expected to be completed in early 2008 and will position Fluid Power for improved performance and a stronger competitive position in Europe. In order to support the high-growth hydraulic market in India, we increased the manufacturing capacity at our Fluid Power facility in Chandigarh, India and established a manufacturing capacity in China in order to grow our business in Asia.

## Fluid Systems

Fluid Systems had a strong year primarily due to the successful ramp-up of RTPMS at Schrader Electronics. The business had contract wins for its snap-in RTPMS with Mahindra & Mahindra, Mitsubishi and General Motors. The business was also awarded a fuel level-sensing programme from a German OEM. Sales of RTPMS retrofit kits to the aftermarket started to come through in the second quarter of 2007 and the business saw good growth over the balance of the year. During the fourth quarter, Schrader Electronics acquired Swindon Silicon Systems for £6.0 million, thereby accelerating Schrader's product development capability based on ASIC technology with a view to expanding the product offering into new industrial applications.

## Other Industrial & Automotive

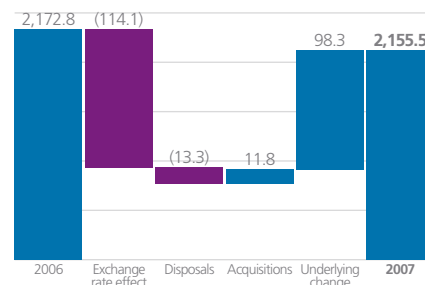
Other Industrial & Automotive includes the Dexter Axle, Plews and Ideal businesses. The Gates Fleximak and Gates Winhere water pump businesses, which are also part of this Group and were acquired in 2006, made a positive contribution in 2007 and demonstrate the successful expansion of the Gates platform into new markets in the year. The Dexter Axle business was impacted by weaker volumes in the manufactured housing and recreational vehicle markets in 2007. The Ideal Clamp business continues to expand its small but growing presence in Europe and China.

## Key operating efficiency indicators

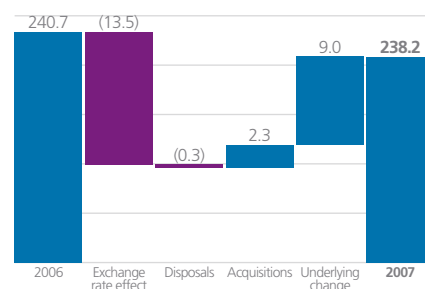
Refer to the definitions of these metrics in the glossary on page 159

|   | 2007         | 2006  |
|---|--------------|-------|
| Return on average net operating assets            | <b>27.7%</b> | 28.5% |
| EBITDA margin                                     | <b>15.4%</b> | 15.3% |
| Net capital expenditure : depreciation            | <b>1.0</b>   | 1.0   |
| Average operating working capital as a % of sales | <b>19.4%</b> | 21.0% |

## Industrial & Automotive revenue bridge

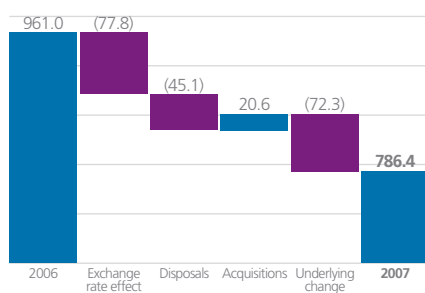


## Industrial & Automotive adjusted operating profit bridge

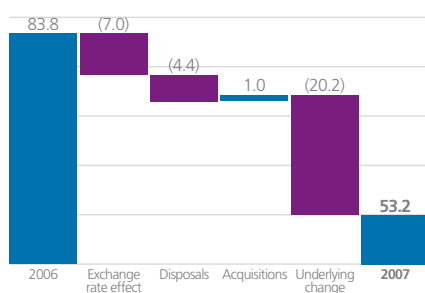


**“Good performance in non-residential and infrastructure end markets was offset by the continuing weakness in the US residential construction market.”**

## Building Products revenue bridge



## Building Products adjusted operating profit bridge



## Building Products

### Results from continuing operations

|                           | 2007          | 2006   |
|---------------------------|---------------|--------|
| Sales:                    |               |        |
| – Air Systems Components  | <b>541.6m</b> | 583.9m |
| – Other Building Products | <b>244.8m</b> | 377.1m |
| Total sales               | <b>786.4m</b> | 961.0m |
| Adjusted operating profit | <b>53.2m</b>  | 83.8m  |
| Operating margin          | <b>6.8%</b>   | 8.7%   |
| Employees (average)       | <b>12,444</b> | 13,247 |

Sales decreased by 18.2% to £786.4 million (2006: £961.0 million) and adjusted operating profit was £53.2 million (2006: £83.8 million).

### Air Systems Components

Air Systems Components had strong performance in the commercial construction market, taking market share with its focus on developing products for energy efficient or “green” buildings and focusing on growing segments such as public buildings and offices. The residential segment of Air Systems Components was impacted by lower volumes in the US residential housing market, but the business was able to minimise the impact of this downturn by controlling costs and driving operational efficiencies. 2007 saw good progress in expanding the Air Systems Components offering outside of the US into the rapidly growing Indian HVAC market. The business formed a joint venture with Caryaire, a manufacturer and distributor of HVAC products, and in January 2008 acquired a controlling stake in Rolastar, a duct profile manufacturer, both in India.

### Other Building Products

Both the Lasco Bathware business and the Philips Doors and Windows business were impacted by the continuing weakness in the US residential housing market, combined with softer manufactured housing and recreational vehicle markets. Management reacted quickly to mitigate the impact on profits by closing two Bathware facilities and two Philips facilities in addition to reducing capacity, headcount and lowering expenses. Management will continue to manage the cost base and capacity during this cyclical downturn, whilst positioning the business for an eventual recovery in its end markets.

## Key operating efficiency indicators

| Refer to the definitions of these metrics in the glossary on page 159 | 2007         | 2006  |
|---|--------------|-------|
| Return on average net operating assets                                | <b>27.7%</b> | 40.3% |
| EBITDA margin   | <b>9.3%</b>  | 11.3% |
| Net capital expenditure : depreciation                                | <b>0.8</b>   | 0.9   |
| Average operating working capital as a % of sales                     | <b>10.6%</b> | 9.9%  |

## Other financial items

### Research and development

Applied research and development is important to the Group's manufacturing businesses and there are development centres in Japan, Europe and the US that focus on the introduction of new and improved products, the application of technology to reduce unit and operating costs and to improve services to customers. The Group's expenditure on research and development was £49.4 million (2006: £46.8 million) and £0.2 million was capitalised (2006: £0.3 million).

### Restructuring initiatives

Restructuring initiatives include major projects undertaken to rationalise and improve the cost competitiveness of the Group. They comprise expenses incurred in the course of strategic cost management and restructuring projects and gains and losses arising on the exit and disposal of businesses and properties as a result of the initiatives. Adjusted operating profit excludes restructuring initiatives in order to present a more consistent measure of underlying year-on-year performance.

Restructuring costs were £13.8 million (2006: £13.0 million). These costs principally related to the rationalisation of production facilities in the Lasco Bathware and Philips Products businesses in the US, the outsourcing of information technology services and initiatives within Fluid Power and Air Systems Components that began in 2006. In 2006 the costs related to the transfer of Fluid Power's facility at St. Neots, UK to new facilities in the Czech Republic, the closure of Stackpole's pump components facility and rationalisation of production facilities within Air Systems Components.

During 2007, the Group recognised a gain of £32.6 million on the disposal of Lasco Fittings Inc. and a gain of £6.7 million on the disposal of Dearborn Mid-West. In addition a gain of £7.7 million was recognised on the disposal of corporate property.

In 2008, restructuring costs for projects in progress are likely to be in the order of £20 million.

### Net finance costs

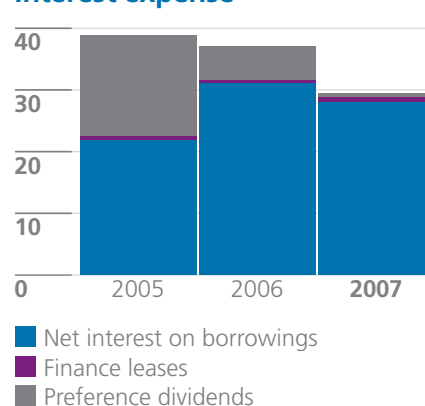
Net finance costs decreased from £38.5 million in 2006 to £30.4 million in 2007. This includes the net finance cost recognised in relation to the post-employment benefits liability of £0.5 million (2006: £3.6 million). The movement in financing costs during the year is due to a lower average net debt, partially offset by higher average interest rates, and a reduction of £4.8 million in the dividend paid on the preference shares that were redeemed in July 2007.

### Discontinued operations

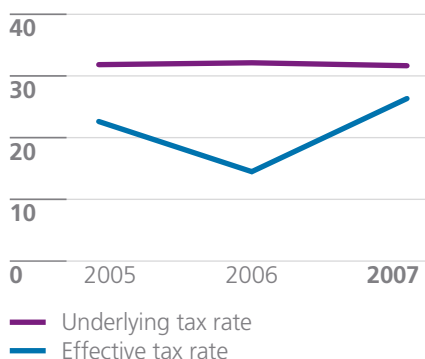
The loss for the year from discontinued operations was £33.3 million (2006: £11.6 million). Discontinued operations comprise Trico, the Group's Wiper Systems business, which was sold on 29 June 2007 for US\$104.1 million (£51.9 million).

The Group recognised a loss of £29.8 million on this disposal (including an impairment loss of £17.2 million that was recognised in the first quarter of 2007).

### Interest expense



## Tax rates



## Taxation

The overall objective of the Group tax function is to plan and manage the tax affairs of the Group efficiently within the various local tax jurisdictions in which we operate, so as to achieve the lowest tax cash cost consistent with compliance with the local tax regulations.

The tax charge attributable to continuing operations of £69.9 million for 2007 (2006: £35.8 million) represents an effective tax rate of 26.6% (2006: 14.6%) applied to profit before tax from continuing operations of £262.6 million (2006: 244.7 million).

During 2007, the effective tax rate was impacted by non-recurring tax benefits of £12.9 million. Prior to these adjustments the total tax charge for 2007 would have been £82.8 million representing an effective tax rate of 31.5% applied to profit before tax from continuing operations.

In 2006 the effective tax rate was impacted by the release of provisions for uncertain tax positions of £50.6 million. This followed the successful resolution of outstanding tax issues in the US, the change in certain tax laws and the change in views on the likely outcome of challenges of the various tax authorities. In addition during 2006 there were other non-recurring tax charges of £7.2 million included in arriving at the overall charge for the Group. Prior to these adjustments the total tax charge for 2006 would have been £79.2 million representing an effective tax rate of 32.4% applied to profit before tax from continuing operations.

We will continue to plan the Group's tax affairs efficiently to minimise the tax cash cost but a gradual increase over time is likely as countries around the world increase their focus on taxation as a means of raising revenue for their local economies.

The effective tax rate for 2008 is expected to be around 31%.

## Cash flow

Funding for sustaining investment and investment for organic growth is met initially from internally generated cash flow (cash flow after interest, tax and preference dividends). The net cash flow available for equity holders after organic investment, together with debt finance available within the debt capacity of the Group, will determine the funding available for acquisitions and distributions. The debt capacity of the Group is determined by our objective to maintain a stable capital structure and the Group's investment grade debt rating.

Operating cash flow in 2007 was slightly improved at £220.8 million (2006: £219.0 million). Net income from acquisitions and disposals in the year was £101.0 million (2006: expenditure of £104.5 million) and primarily relates to the sales of Trico, Lasco Fittings and Dearborn Mid-West. These funds were used to repay drawings under the Group's revolving credit facility.

On 24 July 2007 the Group exercised its right to redeem all of the remaining preference shares. Dividends payable during 2007 were £0.6 million (2006: £5.4 million), and 2,600,973 shares were converted during the year into 25,411,499 ordinary shares. 24,165 preference shares were redeemed in cash for £0.6 million on 24 July 2007.

Ordinary dividend payments were higher at £122.0 million (2006: £115.3 million) due to the increase in the number of ordinary shares following the conversion of preference shares. The net debt movement was affected by a negative foreign currency movement of £13.3 million due to the continued weakening of the US dollar and other currencies. Overall, net debt amounted to £296.8 million. The components of net debt are set out in note 16 on page 98.

The table below shows the movement in net debt for the year:

|  | 2007<br>£ million | 2006<br>£ million |
|--|-------------------|-------------------|
| <b>Opening net debt (excluding preference shares)</b>  | <b>(403.0)</b>    | (334.5)           |
| Cash generated from operations                         | 319.2             | 331.5             |
| Gross capital expenditure                              | (118.2)           | (126.6)           |
| Disposal of property, plant and equipment              | 19.8              | 14.1              |
| <b>Operating cash flow</b>                             | <b>220.8</b>      | 219.0             |
| Tax  | (43.1)            | (77.7)            |
| Interest and preference dividends                      | (28.0)            | (36.3)            |
| Other movements  | (4.8)             | (4.8)             |
| <b>Free cash flow to equity shareholders</b>           | <b>144.9</b>      | 100.2             |
| Ordinary dividends                                     | (122.0)           | (115.3)           |
| <b>Cash flow after interest, tax and dividends</b>     | <b>22.9</b>       | (15.1)            |
| Acquisitions and disposals                             | 101.0             | (104.5)           |
| Ordinary share movements                               | (2.6)             | 10.1              |
| Redemption of convertible cumulative preference shares | (0.6)             | –                 |
| Foreign currency movements                             | (13.3)            | 41.6              |
| <b>Cash movement in net debt</b>                       | <b>107.4</b>      | (67.9)            |
| Non-cash movements                                     | (1.2)             | (0.6)             |
| <b>Total movement in net debt</b>                      | <b>106.2</b>      | (68.5)            |
| <b>Closing net debt (excluding preference shares)</b>  | <b>(296.8)</b>    | (403.0)           |

A reconciliation of the table above to the consolidated cash flow statement is included on page 97.

### Earnings per share

The profit for the period attributable to equity shareholders is £146.9 million (2006: £186.1 million) and the diluted earnings per share from continuing operations is 20.45p (2006: 22.98p).

### Funding, distribution policy and dividends

The Board has recommended a final dividend of 8.57 pence per ordinary share, which together with the interim dividend of 5.32 pence paid on 15 November 2007, maintains the dividend at 13.89 pence per share.

The dividend earnings cover was 1.2 times and cash cover was 1.2 times. Cash cover is based on free cash flow to equity shareholders compared to ordinary dividends paid. Additional indicators of shareholder return can be found on page 158.

### Selected key financial performance indicators

We monitor our financial performance and strength by measuring a number of key performance indicators. In addition to the key operating efficiency indicators on pages 31 and 32, the Board believes that the following measures provide a useful overview of the Group's performance. Management use additional indicators to assess the performance of individual business units.

| Selected key financial performance indicators     |                |          |         |
|---|----------------|----------|---------|
|   | 2007           | 2006     | 2005    |
| Return on average net operating assets            | <b>25.2%</b>   | 28.5%    | 31.5%   |
| Weighted average cost of capital                  | <b>8.1%</b>    | 8.1%     | 7.6%    |
| Average operating working capital as a % of sales | <b>15.9%</b>   | 15.9%    | 14.8%   |
| Operating margin                                  | <b>9.0%</b>    | 9.4%     | 10.2%   |
| EBITDA margin                                     | <b>12.9%</b>   | 13.1%    | 13.9%   |
| Net capital expenditure : depreciation            | <b>0.8</b>     | 1.0      | 1.1     |
| Capital expenditure as a % of sales               | <b>3.9%</b>    | 3.9%     | 4.6%    |
| Interest cover (times)                            | <b>11.1</b>    | 9.8      | 14.7    |
| Cash conversion                                   | <b>89.5%</b>   | 80.1%    | 66.2%   |
| Cash flow after interest, tax and dividends       | <b>£22.9m</b>  | £(15.1)m | £4.0m   |
| Net debt (excluding preference shares)            | <b>£296.8m</b> | £403.0m  | £334.5m |

*Refer to the definitions of these metrics in the glossary on page 159*

The return on average net operating assets declined during 2007 from 28.5% to 25.2% due to reduced operating profit.

We assess the ability of the Group to convert sales into profit before tax and interest by analysing the operating and EBITDA margins. Ongoing challenging markets, particularly within our Building Products group, have impacted on returns over the past two years, but lean initiatives and strong growth in emerging markets have allowed management to protect the margins to some degree. The operating margin has fallen from 9.4% in 2006 to 9.0% in 2007, and the EBITDA margin has decreased slightly from 13.1% to 12.9%.

#### Capital expenditure

The Group's capital allocation strategy is monitored using a measure of net capital expenditure to depreciation (providing an insight into the utilisation versus replacement of capital expenditure) and capital expenditure as a percentage of sales (assessing the extent to which sales are used to fund the expansion and replacement of the capital assets that produce the sales). 2007 saw the net capital expenditure to depreciation ratio fall below 1.0, largely due to a focus on sustaining capital through restructuring and lean initiatives. 3.9% of continuing sales were spent on capital expenditure during 2007 which is consistent with 2006.

#### Cash flow

We assess the cash flow performance of each of our businesses and the Group based on the percentage of profit from operations (before gains/losses on disposal and exit of businesses) converted to operating cash flow (cash conversion). Cash flow after interest, tax and dividends indicates the after-tax cash available to the Group after internal investment (excluding acquisitions), finance costs and dividends paid to equity shareholders. During 2007, both of these metrics have shown strong improvements, demonstrating management's continued focus on cash management. Cash conversion increased from 80.1% in 2006 to 89.5% in 2007, while cash flow after interest, tax and dividends improved from an outflow of £15.1 million in 2006 to an inflow of £22.9 million in 2007. Trends in cash flow metrics are used to assess the allocation of capital over the long term.

**“It is our policy to retain sufficient liquidity throughout the capital expenditure cycle to maintain our financial flexibility and to preserve our investment grade credit rating.”**

### **Treasury management**

#### **Treasury responsibilities and philosophy**

The primary responsibilities of the central treasury function are to procure the Group’s capital resources, maintain an efficient capital structure, and manage the Group’s liquidity, foreign exchange, interest rate, insurance and pensions risks on a Group-wide basis.

The central treasury function operates within strict policies and guidelines approved by the Board. Compliance with these policies and guidelines is monitored through the regular reporting of treasury activities.

A key element of our treasury philosophy is that funding, interest rate and currency risk decisions and the location of cash and debt balances are determined independently from each other. For example, the Group’s debt requirements are met by raising funds in the most favourable markets, with the desired currency profile of net debt being achieved by entering into foreign exchange contracts where necessary. Similarly, the desired interest rate maturity of net debt is achieved by taking account of all debt and cash balances together with any foreign exchange transactions used to manage the currency profile of net debt. We operate systems to ensure that all relevant assets and liabilities are taken into account on a Group-wide basis when making these decisions. This portfolio approach to financial risk management enables our activities in these areas to be carried out effectively and efficiently and with a high degree of visibility.

#### **Borrowing facilities**

Borrowing facilities are monitored against forecast requirements and timely action is taken to put in place, renew or replace credit lines. Our policy is to reduce financing risk by diversifying our funding sources and by staggering the maturity of our borrowings.

It is our policy to retain sufficient liquidity throughout the capital expenditure cycle to maintain our financial flexibility and to preserve our investment grade credit rating. We do not anticipate any material long-term deterioration in our overall liquidity position in the foreseeable future.

Two bonds have been drawn under the Group’s Euro Medium Term Note (“EMTN”) Programme. Our initial £150 million bond has a 10-year maturity and is due in December 2011. In September 2003, we issued a further £250 million bond with a 12-year maturity. Our committed bank borrowing facility is a multi-currency revolving credit facility of £400 million, which matures in August 2010.

Details of our committed and uncommitted borrowing facilities are set out below:

### Headroom under committed and uncommitted credit facilities

| As at 29 December 2007                            | Facility<br>£ million | Drawings<br>£ million | Headroom<br>£ million |
|---|-----------------------|-----------------------|-----------------------|
| Bond issues                                       | 400.0                 | (400.0)               | –                     |
| Multi-currency revolving credit facility          | 400.0                 | (18.0)                | 382.0                 |
| Finance leases                                    | 4.8                   | (4.8)                 | –                     |
| <b>Total committed facilities</b>                 | <b>804.8</b>          | <b>(422.8)</b>        | <b>382.0</b>          |
| Uncommitted credit facilities                     | 254.7                 | (22.5)                | 232.2                 |
| Bonds, standby letters of credit, bank guarantees | –                     | (92.4)                | (92.4)                |
| <b>Total uncommitted facilities</b>               | <b>254.7</b>          | <b>(114.9)</b>        | <b>139.8</b>          |
| <b>Total headroom</b>                             | <b>1,059.5</b>        | <b>(537.7)</b>        | <b>521.8</b>          |
| Less uncommitted facilities                       |                       |                       | (254.7)               |
| <b>Total committed (minimum) headroom</b>         |                       |                       | <b>267.1</b>          |
| <b>Cash balances</b>                              |                       |                       | <b>151.2</b>          |

### Credit rating

In December 2001, we established long-term credit ratings with Moody's and Standard & Poor's. Our current ratings are Baa3 Stable and BBB Stable respectively. They cover our EMTN Programme and the two bonds issued thereunder. We also have a short-term rating of P-3 with Moody's. Our aim is to manage the Group's capital structure to maintain investment grade credit ratings.

### Levels of borrowing and seasonality

During 2007, our gross borrowings (excluding convertible cumulative preference shares) and our net borrowings decreased with gross debt of £448.2 million and net debt of £296.8 million on 29 December 2007 (2006: £583.3 million and £403.0 million respectively). The peak level of net debt during the year was £426.5 million. Cash flows during the year are detailed in the table on page 35 and in note 16 to the financial statements. As the majority of the Group's debt is denominated in currencies other than sterling, reported net debt also increased by £12.1 million, largely as a result of the strengthening of the Canadian dollar during the period.

Our weighted average cost of net debt at 29 December 2007 was 7.7% (2006: 7.0%).

We operate in a wide range of markets and geographic locations and as a result the seasonality of our borrowing requirements is low. Underlying cyclicality before capital expenditure is driven principally by the timing of our ordinary dividends and interest payments.

### **Funding requirements for investment commitments and authorisations**

Our present policy is to fund new investments first from existing cash resources and then from borrowings sourced centrally. It is our intention to maintain surplus undrawn borrowing facilities sufficient to enable our investment grade credit ratings to be maintained and to enable us to manage the Group's liquidity through the operating and investment cycle. We maintain a regular dialogue with the rating agencies, and the potential impact on our credit rating is taken into consideration when making capital allocation decisions.

### **Maximising returns on cash balances**

Our central treasury function is responsible for maximising the return on surplus cash balances within liquidity and counterparty credit constraints imposed by our Board-approved liquid funds policy. This is done, where practical, by controlling directly all surplus cash balances and pooling arrangements on an ongoing basis and by reviewing the efficiency of all other cash balances across the Group on a weekly basis.

Our policy is to apply funds from one part of the Group to meet the obligations of another part wherever possible, to ensure maximum efficiency of the Group's funds. No material restrictions apply that limit the application of this policy. It is anticipated that surplus cash in excess of that required for operating purposes held in operating companies will be repatriated or reinvested in new investments during 2008.

At 29 December 2007, our total cash and investments were £151.2 million (including collateralised cash and before interest accruals), of which £138.2 million was interest earning. Of the total cash and investments balance, £37.4 million was invested in short-term deposits by our treasury department, £4.4 million of cash was held in our captive insurance company, Tomkins Insurance Limited, £32.1 million of cash was held in our Asian Unitta companies and £77.3 million of cash was held in centrally controlled pooling arrangements and with local operating companies. At 29 December 2007, £57.0 million of our cash balance was under the direct control of Group treasury.

Interest earned on bank deposits during 2007 was £4.2 million (2006: £4.8 million).

### **Foreign currency translation exposures**

The majority of the Group's activities are transacted in US dollars but the reporting currency of the Group is sterling. This gives rise to potential currency translation exposures in the balance sheet, income statement and cash flow. The currency profile of the Group's net borrowings is actively managed to align with the currencies in which the Group's assets are denominated, thereby hedging the foreign currency translation exposure arising from the Group's overseas investments. The proportion of overseas investments effectively funded by shareholders' equity is not hedged.

We do not hedge foreign currency profit and loss translation exposures and the reported results may therefore be affected by currency fluctuations.

The impact on reported earnings per share is partly offset to the extent that interest arises on foreign currency net borrowings.

Interest payments on foreign currency net borrowings are funded with cash flows generated by the corresponding foreign currency investments. The main potential impact of a movement in the US dollar/sterling exchange rate is the effect on dividends. The majority of the Group's cash flow is generated in US dollars from the cash flows generated by overseas investments.

Information on our use of derivatives and financial instruments is given in note 31 to the financial statements, and the year end and average exchange rates for selected currencies are set out in note 49.

### **Foreign currency transaction exposures**

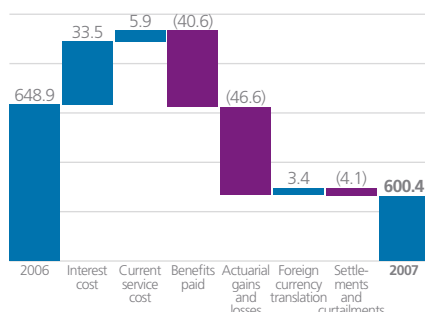
The foreign currency transaction exposures in the business are protected with forward currency purchases and sales. These are put in place when foreign currency trading transactions are committed or when there is a high likelihood of such transactions arising. All foreign exchange contracts are carried out by our central treasury function, except in cases where this is prohibited by local regulations. In these cases, local transactions are reported to central treasury on a systematic basis.

Our principal net currency transaction exposures arising during 2007 included US dollar to sterling (£48.4 million), euro to sterling (£26.5 million) and euro to Polish zloty (£27.4 million).

### **Interest rate risk management**

Our central treasury function manages the Group's interest rate profile within the policy established by the Board. This is achieved by considering the portfolio of all of our interest-bearing assets and liabilities across the Group. Our net desired interest rate profile in each currency is then managed by entering into interest rate swaps, options and forward rate agreements. At 29 December 2007, the interest rate maturity profile of our Canadian dollar, euro and sterling net debt was less than three months and £32.6 million of our US dollar net debt was fixed until December 2009.

### Defined pension plan liabilities



### Borrowing covenants

We are subject to covenants, representations and warranties commonly associated with investment grade borrowings on our committed 2010 £400 million multi-currency revolving credit facility, our £150 million 2011 bond and our £250 million 2015 bond.

We are subject to two financial covenants under our committed £400 million multi-currency revolving credit facility. The ratio of net debt to consolidated EBITDA must not exceed 2.5 times and the ratio of consolidated profit from operations to consolidated net interest charge must not be less than 3.0 times. Throughout 2007, we have been comfortably within these limits. These financial covenants are calculated by applying UK GAAP extant as at 31 December 2002 and are therefore unaffected by the subsequent transition to IFRS.

### Pensions

Pension costs charged to profit from operations in 2007 for defined benefit plans were £4.0 million (2006: £7.4 million) for continuing operations.

The Group operates retirement plans covering most employees. A proportion of these are defined benefit plans funded by contributions from both employers and employees, at rates determined by independent actuaries through regular valuations, except where legislation prevents pre-funding. The remainder are money purchase plans funded by contributions from both employers and employees. The funds are held independently of the Group's finances and are administered by trustees.

### Risk management

Management of the Group's defined benefit pension risks is the responsibility of our Group treasury function.

A primary objective is to identify and manage the risk of both the assets and liabilities of the defined benefit pension plans and we continue to work with the trustees of our pension plans to improve the management of our defined benefit pension risks.

As part of this risk management process, we continue to hedge the interest rate risk inherent in £269.7 million of the total US dollar projected benefit obligation of £310.0 million of our US defined benefit pension plans. This is achieved by investing £91.1 million in fixed income assets and through the use of US dollar denominated interest rate swaps with a combined average duration of 12.7 years. During the year, the hedging arrangement was effective.

As at 29 December 2007, the value of the Group's defined benefit pension liabilities was £600.4 million (2006: £648.9 million). The graph above shows the attribution of the decrease in the liabilities during the year of £48.5 million.

## Funding policy

The Group remains committed to funding pensions responsibly. In the UK, this means satisfying the funding agreements made with the trustees of the schemes in order to eliminate deficits over a reasonable period of time. In the US, the funding objective has previously been to remain above the ERISA required minimum funding levels. Accordingly, most of the US plans have been funded on the basis of reaching or exceeding a 90% funded level on a current liability basis.

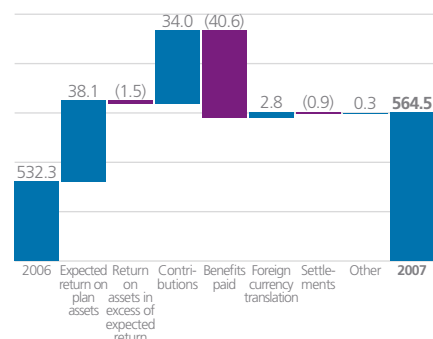
The Pension Protection Act of 2007 will impact the rate at which the deficit of the US plans is eliminated, with deficits generally required to be eliminated over a period of seven years from the 2008 plan year. In future, Tomkins will adapt its funding policy to meet the requirements of the Pension Protection Act.

Tomkins recognises its responsibility to fund defined benefit pension plan deficits and views these deficits as being debt-like in nature. Accordingly, where beneficial, Tomkins plc issues guarantees in respect of certain UK defined benefit pension plan deficits in order to improve the credit standing of these plans. This also has the effect of minimising the cost of the Pension Protection Fund's risk-based levy.

Cash contributions to the defined benefit pension plans in 2007 were £34.0 million (2006: £33.3 million). In 2008, the cash contributions to the defined benefit pension plans are expected to be significantly lower than in 2007 due to the higher funding levels that currently exist in our US plans. The market value of the related assets was £564.5 million (2006: £532.3 million), resulting in net defined benefit pension liabilities before the effect of the asset ceiling and before tax of £35.9 million (2006: £116.6 million).

The graph above shows the attribution of the increase in the market value of assets during the year of £32.2 million.

## Fair value of plan assets



### Actuarial assumptions

Actuarial assumptions are reviewed on a regular basis and updated where appropriate. Tomkins believes that all defined benefit pension plans reflect appropriate mortality assumptions.

Of our total defined benefit pension plan liabilities of £600.4 million, £469.7 million relates to benefits that are deferred or currently being drawn, £8.2 million relates to benefits for active participants that have been frozen in respect of future service or pay-related accruals, and a further £12.9 million relates to plans with benefits based on length of service rather than changes in salary scale. Therefore, £490.8 million of liabilities are not sensitive to changes in salary scale. The majority of defined benefit pension plans are closed to new entrants and therefore the impact of changes in salary scale is limited. £109.6 million, or 18.3%, of the total defined benefit pension plans liabilities are sensitive to salary scale. The table below shows the estimated sensitivity of the liabilities of the defined benefit pension plans to changes in the mortality and salary scale. The impact of changes in the discount rate and expected return on assets is shown in note 33 to the financial statements.

| Assumption      | Assumption change  | Impact on     | Estimated impact |
|-----------------|--------------------|---------------|------------------|
| Life expectancy | Increase by 1 year | Liabilities   | Increase by 2.0% |
|                 |                    | Service cost  | Increase by 1.5% |
|                 |                    | Interest cost | Increase by 2.1% |
| Salary scale    | Increase by 0.5%   | Liabilities   | Increase by 0.6% |

### Investment policy

Investment of assets within the defined benefit pension plans is the responsibility of independent trustee boards over which Tomkins has varying degrees of influence based on national regulations. In order to clarify its preferences regarding the investment of assets by the trustee boards, Tomkins plc has set out a statement of its investment preferences. This has been communicated to the North American Retirement Board, which oversees our largest defined benefit pension plans, and to the Retirement Board of our Canadian defined benefit pension plans.

The statement of investment preferences is based on an underlying philosophy that assets should first be used to hedge risks implicit in the associated pension liabilities and, to the extent that assets are not invested for this purpose, it is the preference of Tomkins plc that the assets are invested in investment grade bonds and/or a broad-based local equity index.

The performance of assets and liabilities in defined benefit pension plans is measured and reported to Tomkins' Board and used as the basis for dialogue between Tomkins and trustee boards.

## Principal risks and uncertainties

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

This document contains certain forward-looking statements, which involve risk and uncertainty as they relate to future events and circumstances. Tomkins operates globally in varied markets and is affected by a number of risks inherent in its activities, not all of which are within its control. This section highlights specific areas where we are particularly sensitive to business risk. Our financial condition or results of operations could be materially adversely affected by any of these risks. Additional risks not currently known to us, or risks that we currently regard as immaterial, could also have a material adverse effect on our financial condition or the results of operations.

As part of the Performance Management Framework of the Group, each business considers strategic, operational, commercial, and financial risks and identifies risk mitigation actions. Business unit managers maintain Risk Profiles, including mitigation strategies, which are updated at least annually. Periodically, each business unit is subject to a review, facilitated by the office of the Group's Chief Risk and Control Officer, to validate the business unit's Risk Profile. A review of risks and exposures in each business is also performed quarterly as part of the Business Review process.

At the Group level, the Chief Risk and Control Officer performs a quarterly risk assessment, with the likelihood of the identified risks occurring and their potential financial impact considered by the Group's senior management. Mitigating actions are identified for each risk and the effects of these actions are also reviewed and monitored quarterly for the most significant risks. At least annually, the risk assessment and management's response plans are independently considered by the Group Internal Audit (IA) function. The Group Risk Profile and management's responses to those risks are then formally presented to the Audit Committee of the Board of Directors accompanied by IA's evaluation of risk response.

The principal risks and uncertainties faced by the Group, which could cause the Group's actual results to vary materially from historic and expected results, are set out below:

- Operating in global markets subjects the Group to risks associated with changes in economic conditions. The current economic malaise centred on US credit markets may spread globally, dampen demand, increase price pressure, reduce margins and accelerate customer consolidation. These pricing pressures and declining demand risks are particularly acute in our housing, commercial construction and automotive markets. As discussed more fully elsewhere in this document, the Group's businesses have responded aggressively to mitigate these risks, principally through plant rationalisations, lean and other cost base reduction initiatives, strategic sourcing programmes,

**“During the year we created the position of Chief Risk and Control Officer for the Group.”**

and development of non-traditional market and adjacent space expansion plans. However, a prolonged dampening of demand could have an adverse effect on the Group's financial results.

- The Group's businesses compete globally for key manufacturing inputs and they may be adversely affected should the availability of certain raw materials, energy or other key components be disrupted by rising demand from rapidly developing economies. The purchasing policies and practices of the Group's businesses seek to address this risk through multiple source strategies, joint procurement initiatives where practicable, and expanded geographic diversity in buying.
- Elsewhere in this document the Group's recent activities and plans with regard to restructuring, rationalisation, investments and acquisitions are discussed. These represent important steps in the implementation of our plans for each business to expand in attractive markets and improve its competitive position through improved manufacturing efficiencies and reductions in its cost base. However, generating the expected returns from these activities and investment decisions, particularly those involving relocations to low-cost countries with elevated risk of political instability, and investment in non-traditional markets, involve higher levels of execution risk. Poor or failed implementation of these plans could have a significant adverse impact on the Group's results. The Group replies to this risk with a thorough Investment Project Proposal (IPP) process which involves, among other things, return sensitivity modelling and specific project risk identification and action plans. Major project and IPP progress is also monitored quarterly as part of the regular Business Reviews. With regard to acquisitions, a rigorous, prescribed due diligence approach with an experienced team, combined with formal 100 day integration plans, is employed.
- The automotive industry is affected by macro-economic conditions driven by changing consumer demand and preferences. The Group's exposure to the continuing fortunes of General Motors, Ford and Chrysler and the penetration challenges presented by the new US domestic manufacturers may result in lost market share and/or lower profitability. This risk has been addressed through the continuous monitoring of our financial exposure to these customers, ongoing but focused/disciplined investment in support of these customers' more competitive platforms, particularly those addressing green concerns through fuel efficiency and emissions, and our emphasis on Industrial and Aftermarket expansion to diversify our customer base.
- The inability to sustain margins due to increasing costs of raw materials, energy and other inputs which we are unable to pass on to customers, represents another significant risk to the Group. Management's response to this risk involves, among other things, the aforementioned lean and strategic manufacturing initiatives, multiple source and geographically diverse procurement policies, strategic customer pricing reviews, and expanded investment in low-cost countries, the latter principally to counter the competitive threat from low-cost producers in Central and Eastern Asia.

- If the Group is unable to timely identify, attract and retain excellent management and executive talent, it may not be able to effectively implement its business strategy, or it may experience delays in the development of, or face difficulty in selling, its products and services. Tomkins believes its future success depends in large measure on its ability to retain and develop its existing management talent. To that end we employ a number of tactics such as formalised succession planning, management internships, competitive compensation schemes which align manager and shareholder interests, periodic 360 degree performance evaluations, and bespoke management training through Tomkins College, the Group's executive development programme presented in league with the highly regarded Indiana University School of Business in the US. These initiatives, along with the successful execution of the Group's strategic plan, are viewed as the main attractions for external management talent.
- The nature of the Group's products mean that we face an inherent risk of product liability claims if failure results in any claim for injury or consequential loss. Fewer suppliers due to vendor consolidation and a less qualified offshore supplier base increase the likelihood of receiving inbound defective materials. This increases the risk of product failure and resultant liability claims. The businesses in the Group seek to mitigate this risk by employing thorough qualification procedures for new suppliers, implementing rigorous quality programmes in our plants, particularly for inbound materials, and making strategic exits from particularly litigious markets.
- Exposure to the US dollar presents significant risk to the Group. Translation of much of the Group's businesses, which employ the US dollar as the functional currency, impacts the perception of the Group's underlying financial strength as the dollar weakens against sterling, the Group's reporting currency. Additionally, genuine economic risk is heightened on cross-border transactions denominated in US dollars as the world's major currencies strengthen against it. The Group closely monitors all cross-border positions and hedges as appropriate on all currency exposures to address the latter risk and will be adopting the US dollar as its reporting currency and will redenominate its share capital in 2008 to address the translation issue. Operationally, the Group has a number of initiatives in place to capitalise on its substantial US manufacturing base and the export opportunity presented by the recent weak US dollar.
- Tomkins operates in highly competitive markets and the failure to deliver products within acceptable timeframes could have an adverse effect on the business. Customer driven reductions in lead times, carrier consolidation, reduced capacity from driver shortages, fuel availability/cost, and longer supply chains concomitant sourcing from low-cost countries all may impact service levels resulting in lost share or missed opportunities. Additionally, short lead time horizons in many of our businesses exposed to the US consumer can impair forecasting accuracy. This may result in the inability to predict abrupt changes in our US driven end markets. The Group's businesses continue to monitor order backlog, intake and lead indicators, while optimising inventory stocking levels, refining forecasting techniques and maintaining close customer contact to mitigate these risks.

### Supplier payment policy

Tomkins requires its operating companies to determine terms and conditions of payment for the supply of capital and revenue items just as keenly as they negotiate prices and other commercial matters. Suppliers are made clearly aware of the agreed terms and how any disputes are to be settled and payment is made in accordance with those terms. The number of days' credit taken by the Company and the Group for trade purchases is analysed as follows:

|                       | 2007<br>Days | 2006<br>Days |
|-----------------------|--------------|--------------|
| Company               | 30           | 30           |
| Group (range of days) | 16 – 132     | 9 – 180      |
| Group (average days)  | 59           | 53           |

### Reporting in US dollars

The Group's principal operations are based in the US and the majority of the Group's profits is generated in US dollars. When reported in sterling, the Group's results are therefore exposed to fluctuations in the value of the US dollar. Furthermore, because the Company's ordinary shares are denominated in sterling, the legal form of shareholders' investment in the Company no longer reflects its economic substance as an interest in an income stream that is now generated principally in US dollars.

In order to reduce the effect of currency fluctuations on the Group's reported results in the future, we have decided to present the Group's financial statements in US dollars with effect from the beginning of the 2008 financial year. In addition, subject to approval by shareholders at the 2008 Annual General Meeting, we intend to redenominate the ordinary share capital of the Company in US dollars. Subsequent to the redenomination, dividends would be declared and paid in US dollars, although unless they elect otherwise, UK shareholders would continue to receive dividends in sterling. As a result, the legal form and economic substance of shareholders' investment in the Company would be more closely aligned.

### Reporting under US GAAP

In recent years, we have filed with the SEC financial statements prepared in accordance with US GAAP in order to satisfy the reporting requirements associated with the listing of the Company's ADRs on the New York Stock Exchange. We presented those financial statements in the Annual Report alongside the equivalent financial statements prepared in accordance with IFRS.

In November 2007, the SEC announced changes to its rules that permit foreign private issuers to file financial statements prepared in accordance with IFRS without reconciliation to US GAAP. We will make immediate use of the new rules and in respect of the 2007 financial year will file with the SEC financial statements prepared in accordance with IFRS. We therefore no longer prepare financial statements in accordance with US GAAP.

### Quarterly reporting

Following changes in the rules of the UK Listing Authority, Tomkins will in future publish Interim Management Statements during the first and second half of the financial year. The Interim Management Statements will describe the Group's performance during the relevant period and its financial position at the end of the period and will highlight the effect of any material events or transactions that have taken place. The Board believes that this change is consistent with its aim to reduce, where possible, the complexity of the Group's financial reporting and focus on those matters that are of significance to investors.

Tomkins will continue to publish a half-yearly report that includes condensed financial statements prepared in accordance with IAS 34 "Interim Financial Statements".