

Group strategy

- Maximisation of shareholder value through long-term sustainable growth
- Strategic approach with four key elements:

Managing the cost base

At the start of 2008, the Group faced continuing headwinds in a number of its end markets. As a result, management launched Project Eagle, which was an acceleration of our existing restructuring initiatives to address our cost base, improve our competitiveness and increase our operating margins. Project Eagle is a three-year programme that builds on our existing initiatives and should provide the opportunity to capture approximately \$100 million of annual performance improvements by the end of 2010. This initiative remains on track, with a number of projects completed in 2008 such as the closure of Moncks Corner, South Carolina, further rationalisation of the Lasco Bathware business in the US and the closure of Hart & Cooley's production facility at Tucson, Arizona. A total of eight facilities were closed under these initiatives, mainly in North America, with headcount reduced by around 3,500.

Market conditions throughout 2008 continued to deteriorate. As a result, management has initiated more extensive restructuring initiatives, Project Cheetah, which will more fundamentally refocus the Group's manufacturing in low-cost regions and within its most efficient facilities. Under these initiatives, we are considering closing 15 plants, of which four are in Europe, affecting approximately 2,500 employees with whom we are consulting as appropriate. The total expected cash costs of the Project Eagle and Project Cheetah initiatives are \$140 million, with \$120 million of these costs to be incurred in 2009 and the remainder in 2010. Non-cash costs are expected to be around \$40 million, substantially all of which is expected to be incurred in 2009. These initiatives are expected to achieve annual cash benefits of approximately \$150 million by 2011.

Rigorous expense management throughout the Group remains a high priority.

Managing the balance sheet

We continue to focus on cash flow and capital allocation, which resulted in good operating cash flow generation in 2008 of \$442.8 million. Our 2008 capital expenditure of \$193.8 million was \$42.7 million lower than 2007. Working capital was reduced by \$68.9 million during 2008.

Driving top-line growth

Technological innovation is a key element of our growth strategy and we are focused on developing efficient, 'green' products which achieve fuel and energy savings and reduce emissions. In I&A, we expanded development of our electro-mechanical drive systems and two speed variable vane oil pumps. We introduced our RTPMS product into new markets, including India.

We are also focused on expanding our service and distribution capabilities, particularly in the developing regions of the world by capitalising on Gates' global footprint and strong product development capabilities. Gates E&S completed its first year of operations and continued to expand with new service centres in Kuwait, the UAE and Saudi Arabia, combined with achieving new contract wins throughout the Middle East and Asia. Gates E&S provides service, maintenance and hose monitoring capabilities principally to the oil and gas sector. A.E. Hydraulic, a distributor of hose and fluid transfer products in Singapore, was acquired in early 2008 and has performed well, achieving strong sales growth and margins.

Within Building Products, we expanded our 'green' product offering which enabled us to outperform the US non-residential construction market. Our acquisition of Trion added indoor air quality capabilities to our air quality range, as well as facilities in China, whilst the acquisition of Rolastar provided us with a leading position in the Indian off-site ducting manufacturing market. In 2008, we entered into a joint venture based in the UAE that will provide access to the Middle East non-residential construction market.

Should the opportunities arise, we are well positioned to take advantage of the current downturn in the economy by acquiring strategic bolt-on businesses to assist in our growth strategy.

Reshaping the portfolio

During 2008, we completed the sale of Stant and Standard-Thomson. We have now substantially completed the divestment of our non-core businesses, totalling 22 since 2002.

In January 2008, we purchased 60% of Rolastar, which expanded our air distribution capabilities in India, that we commenced in 2006. In the third quarter of 2008, we signed a joint venture agreement with a leading contractor in the non-residential construction market in the UAE and production is expected to start in the first quarter of 2009. The acquisition of Trion, a leader in the manufacture of commercial, industrial and residential indoor air quality products, was completed in June 2008 and expands our 'green' and energy-efficient product capabilities. Trion also has two facilities in China, extending Air Systems Components' geographic coverage to eight countries.

The acquisitions and new joint venture agreement we completed in 2008 further our objective of global expansion in higher growth markets, adding manufacturing, distribution and service capabilities in India, the Middle East, China and Singapore.