Key governance principles

The Board promotes the highest standards of corporate governance within the Company through its support and application of the Principles of Good Governance set out in section 1 of the Combined Code. A summary of the Company's system of applying the principles and the manner in which the provisions in section 1 have been complied with are set out below. Section 1 of the Combined Code sets out the main and supporting Principles of Good Governance for companies which are split into the following areas:

1. Directors
2. Remuneration
3. Accountability and audit
4. Shareholder relations

Each of these areas is addressed in turn.

1. Directors

A. The Board

The Company is controlled through its Board of Directors whose main roles are to:

– create value for shareholders;

– provide leadership of the Company;

– approve the Company's strategic objectives;

– ensure that the necessary financial and other resources are made available to the management to enable them to meet those objectives; and

– operate within a framework of effective controls which enables the assessment and management of principal business risks.

The Board, which has reserved certain specific matters to itself for decision (set out in a Schedule of Reserved Matters), is responsible for approving overall Group strategy and financial policy, acquisition and divestment policy and major capital expenditure projects. It also appoints and removes members of the Board and Board Committees, reviews recommendations of the Audit Committee, Remuneration Committee and Nomination Committee, and the appointment of the independent auditor. It also reviews the financial performance and operation of each of the Company's businesses. The Company has granted qualifying third-party indemnities to the Directors that remain in force at the time of this report.

The Board sets the standards and values of the Company and much of this has been embodied in the Company's Code of Conduct and Ethics and Human Rights Policy which can be found on the Company's website, www.tomkins.co.uk. The Code of Conduct and Ethics applies to all Directors, officers and employees, including the principal executive, financial and accounting officers, as required by section 406 of Sarbanes-Oxley, the related rules of the SEC and the rules of the NYSE. The Code of Conduct and Ethics contains provisions (Reporting of Violations) under which employees can report violations of company policy or any applicable law, rule or regulation, including those of the SEC. US employees have the added protection of section 806 of Sarbanes-Oxley, which prohibits the discrimination by a company or others against an employee where such violations are reported. The current procedure, which is set out in Tomkins' Code of Conduct and Ethics, provides for information to be given anonymously or by named employees under conditions of confidentiality. Those employees who come forward and give their name are assured that they will receive the full protection of section 806 of Sarbanes-Oxley and no retaliation will take place. This is of particular importance since 48% of the Company's employees are based in the US. Furthermore, the Company ensures that the principles are applied in other jurisdictions, subject to compliance with local employment and other laws.

The Board has delegated to the CEO responsibility for the day-to-day management of the Group subject to certain financial limits above which Board approval is required. The delegated authority includes such matters as operations, acquisitions and divestitures, investments, capital expenditure, borrowing facilities and foreign currency transactions.

The Board comprises a Non-Executive Chairman, five additional Non-Executive Directors and two Executive Directors who, together with their different financial, commercial, technical and operational expertise and cultures, bring with them a wide range of experience to the Company.

The Board has determined that the Non-Executive Directors, Richard Gillingwater, John McDonough, Leo Quinn, David Richardson and Struan Robertson, are independent, as they are independent of the Company's executive management and free from any material business or other relationship with the Company (either directly or as a partner, shareholder or officer of an organisation that has a relationship with the Company). Accordingly, the Board believes that there are no such relationships that could materially interfere with the exercise of its independent judgement.

Non-Executive Directors are normally appointed for a minimum period of two years which is renewable by agreement with the Board and is subject to approval by shareholders at the AGM. The terms and conditions of appointment of Non-Executive Directors are available for inspection at the Company's registered office during normal business hours on weekdays and will also be available for inspection at the place of the AGM from 15 minutes before the meeting until it ends. The Combined Code recommends the appointment of a senior independent Non-Executive Director, and Richard Gillingwater fulfilled this role in 2008. The roles of Non-Executive Directors are to:

- scrutinise the performance of management in meeting the agreed objectives;
- help develop proposals on strategy; and
- monitor the reporting of performance, including satisfying themselves as to the integrity of financial information and that financial controls and systems of risk management put in place by the Company are robust and effective.

They meet together from time to time in the absence of management and the Chairman normally presides over such meetings.

On appointment, Non-Executive Directors receive a range of information about the Company by way of an induction programme which aims to provide an understanding of the Company as a whole, including its strategy, structure, geographic spread of operations, financial position, markets, products, technologies and people, as well as their legal responsibilities as Directors and, where appropriate, any training that is necessary for them to carry out their duties effectively. The Board and its Committees receive, in a timely manner, detailed information concerning the matters to be discussed at meetings to enable them to make informed decisions. The Directors have access to the advice and services of the Company Secretary (whose removal may be effected only with the approval of the Board) and can obtain independent professional advice at the Company's expense in furtherance of their duties, if required.

The Board ordinarily meets not less than five times a year and will hold additional meetings when circumstances require. During the year ended 3 January 2009, the Board met on five occasions. Between meetings, the Chairman and CEO update the Non-Executive Directors on current matters and there is frequent contact to progress the affairs of the Company. With the encouragement of the CEO, the Non-Executive Directors have regular contact with senior management through their presentations at Board meetings, at strategic reviews and on other occasions.

Attendance by each individual Director at Board and principal Committee meetings held during 2008

Meetings held in 2008	Board 5	Audit Committee 4	Remuneration Committee 5	Nomination Committee* 3	Corporate Social Responsibility Committee 4
Meetings attended:					
David Newlands	5	n/a	4	3	n/a
Richard Gillingwater	5	4	5	3	n/a
John McDonough	5	3	5	3	4
James Nicol	5	n/a	n/a	n/a	4
Leo Quinn	5	3	5	3	n/a
David Richardson	5	4	n/a	3	n/a
Struan Robertson	5	n/a	n/a	3	4
John Zimmerman	5	n/a	n/a	n/a	n/a

*By written resolution

Notes
n/a = not applicable (where a Director is not a member of a Committee).

Key governance principles (continued)

1. Directors (continued)

A. The Board (continued)

All of the Directors served throughout the year. John McDonough and Leo Quinn were unable to attend one Audit Committee meeting and David Newlands was unable to attend one Remuneration Committee meeting. The remaining Directors attended all Board and relevant Committee meetings in 2008. During the year, other Directors have attended meetings of the Audit Committee, Remuneration Committee, Nomination Committee and Corporate Social Responsibility Committee by invitation. These details are not included in the table above. On the rare occasion when a Director cannot attend a meeting, he will normally make his views on the agenda items known prior to the meeting to the Chairman or, in respect of Committee meetings, to the Chairman of the respective Committee.

Directors' membership of Committees

	Audit	Nomination	Remuneration	Corporate Social Responsibility	Disclosure	General Purposes
David Newlands		C	M		C	
James Nicol				M	M	C
John Zimmerman					M	M
Richard Gillingwater	M	M	M			
John McDonough	M	M	C	M		
Leo Quinn	M	M	M			
David Richardson	C	M				
Struan Robertson		M		C		

C – Chairman M – Member

At the Company's forthcoming AGM, and in accordance with the Company's Articles of Association, Richard Gillingwater and Struan Robertson will retire from the Board by virtue of length of service and will seek reappointment.

B. Chairman and CEO

There is a clear division of responsibility between the Chairman and the CEO, with neither having unfettered powers of decision with respect to substantial matters. The Chairman is responsible for running the Board and ensures that all Directors receive sufficient relevant information on financial, business and corporate matters to enable them to participate effectively in Board decisions. In advance of each meeting, the Board is provided with comprehensive briefing papers on items under consideration.

The Chairman, David Newlands, is also Chairman of KESA Electricals plc and PayPoint plc. Whilst these are important appointments, the Board believes that the Chairman continues to be able to carry out his duties and responsibilities effectively for the Company. In view of this, as set out in the Remuneration Committee report, the Board renewed David Newlands' letter of appointment for a further three years from 18 February 2009. This was felt to be appropriate in order to take advantage of his knowledge of the Company, his experience of earlier recessions, his experience in chairing Tomkins during the current period of unprecedented economic turmoil and finally his guidance in relation to the refinancing of the Company's banking facilities.

The CEO's primary role is the running of the Company's businesses and the development and implementation of strategy. The Non-Executive Directors have the opportunity to meet with the Chairman and with the Chief Executive periodically, either together or separately, to consider and discuss a wide range of matters affecting the Company, its business, strategy and other matters.

C. Board Committees

The Board has established a number of committees and receives reports of their proceedings. Each committee has its own delegated authority as defined in its terms of reference which are reviewed periodically by the Board. The Board is satisfied that its committees have written terms of reference which conform with best corporate governance practice. The terms of reference for all Board committees can be found under 'Governance' in the 'Responsibilities' area of the Company's website, www.tomkins.co.uk, or a copy can be obtained by application to the Company Secretary at the Company's registered office.

The Board appoints the chairmen and members of all Board committees upon the recommendation of the Nomination Committee. The Company Secretary is Secretary to all Board committees. The principal committees, their membership and a brief description of their duties are set out below.

Audit Committee

Details of the Audit Committee and its work can be found on pages 50 and 51.

Nomination Committee

The Nomination Committee makes recommendations to the Board on all proposed appointments of Directors through a formal and transparent procedure. The Committee meets as and when required.

In accordance with the Company's Articles of Association, Directors are subject to reappointment at the AGM immediately following the date of their appointment and thereafter they have to seek reappointment no more than three years from the date they were last reappointed. The Committee recommends to the Board the names of the Directors who are to seek reappointment at the AGM in accordance with the Company's Articles of Association. The Companies Act 2006 imposed new duties on Directors to avoid a conflict of interests, particularly in relation to third-party arrangements and, during the year, the Board delegated to the Nomination Committee the duty of looking at new appointees and examining any possible sources of potential conflict. This duty was incorporated into the Nomination Committee's terms of reference in July 2008. The Committee and the Board are aware of and support the principles set out in section A.4 of the Combined Code relating to appointments to the Board.

Corporate Social Responsibility Committee

The Corporate Social Responsibility Committee meets at least three times a year. The Committee is chaired by an independent Non-Executive Director and its membership also includes the CEO. Its principal role is to determine, on behalf of the Board, the framework or broad policy and objectives on CSR and, in particular, in the areas of health, safety and the environment and propose any amendments to existing policies for approval by the Board. It also reviews management's performance in the achievement of HSE objectives and reviews HSE reports produced by business units for compliance with all local health, safety and environmental codes of practice, legislation and relevant industry practice.

More details of the work of the Corporate Social Responsibility Committee can be found in the Corporate Responsibility Report to shareholders available on the Company's website, www.tomkins.co.uk.

Remuneration Committee

Details of the Remuneration Committee and its work can be found on pages 52 to 60.

Disclosure Committee

The Disclosure Committee meets as and when required for the purpose of, inter alia, reviewing and approving for release all price-sensitive information relating to the Company and compliance with the Disclosure and Transparency Rules of the UKLA.

General Purposes Committee

The General Purposes Committee meets as and when required. It comprises Executive Directors and senior executives and the quorum requires the presence of at least one Executive Director. The Committee deals principally with day-to-day matters of a routine nature and matters delegated to it by the Board.

D. Board, Committee and Chairman evaluations

Under the direction of the Senior Independent Director, Richard Gillingwater, evaluations of the effectiveness of the Board, its Committees and Chairman were conducted during the year. The evaluation processes followed the same approach as the previous year which drew on the experiences of the previous evaluations of the Board and its Committees and concentrated on six key elements:

- the optimum mix of skills and knowledge amongst the Directors;
- clarity of goals and processes;
- tailoring the evaluation to the specific circumstances of Tomkins;
- the culture of candour that encourages constructive evaluation;
- regular reviews of assessment criteria; and
- full disclosure of procedures and criteria to the Board.

Board and Committees

A Board performance evaluation took place during the year, and a report was prepared and considered by the Board. The vast majority of questions were answered with positive comments and with scores indicating a high degree of satisfaction with the Board, Committees and Chairman and there was a very strong conclusion that we have a well-functioning Board and Committees.

There were some suggestions for improvement, including the allocation of more time on the Company's longer-term objectives and planning, with particular reference to the sufficiency of the number of Board meetings in the current macroeconomic climate. Executive and senior management succession planning and talent development within the Company was another area which came under scrutiny, with particular reference to the positions of the Chairman, and the CEO and his immediate reports. Other areas considered were the effectiveness of Board activities in terms of considering certain financial and structural issues in a proactive way and improvement of budgetary control. In relation to strategic planning and objectives, there were suggestions for improvement in simple KPIs to measure business performance as well as financial performance, KPIs for CSR matters being of particular use. Suggestions for improving specific Non-Executive Director contributions to the Board included more location visits.

Key governance principles (continued)

1. Directors (continued)

D. Board, Committee and Chairman evaluations (continued)

Board and Committees (continued)

In relation to the Committees, the scores were high. It was noted that the Audit Committee is well served by staff functions and it was thought that both internal and external audit had worked well, though there was a request for more discussion and understanding of the principal risks and uncertainties faced by the Company and mitigation actions. In relation to the Remuneration Committee, it was suggested that more work on major remuneration developments was needed. The strong commitment to the CSR initiative was commended, together with the quality of review and effectiveness of the process and it was recommended that the CSR Committee continue to support the environmental and community aspects of the CSR initiative.

Chairman

For the evaluation of the Chairman, the questionnaire sought views across a broad range of his responsibilities. There was considerable positive feedback from Directors on the role of the Chairman and his effective leadership of the Board, his interaction with the CEO, his excellent relationship with members of the Board, the high regard in which he is held by senior management and, in particular, his efforts to ensure a clear distinction between the role of the Board and that of management.

The Senior Independent Director discussed various matters raised with the Chairman and the Non-Executive Directors as appropriate and arrangements were made to address the matters raised by the respective evaluations.

2. Remuneration

See the Remuneration Committee report on pages 52 to 60.

3. Accountability and audit

A. Financial reporting

In the Directors' report, the Board seeks to provide a detailed understanding of each business of the Group, together with a balanced and understandable assessment of the Group's position and prospects.

B. Internal control

Further information on the internal control environment within which the Group operates may be found in the Directors' statement on internal control on pages 48 and 49.

C. 'Whistleblower' reporting procedures

Under section 301 of Sarbanes-Oxley, all SEC-registered companies, including non-US companies such as Tomkins, acting through the Audit Committee of the Board, must provide a procedure for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls or auditing matters. The Audit Committee and the Board have established a procedure for the confidential and anonymous submission by employees of concerns regarding these matters.

4. Shareholder relations

The Company places a high degree of importance on maintaining good relationships and communications with both institutional and private investors and ensures that shareholders are kept informed of significant Company developments.

To assist members of the Board to gain an understanding of the views of institutional shareholders, at each of its meetings the Board receives an Investor Relations Report which covers a wide range of matters including a commentary on the perception of the Company and views expressed by the investment community, media reports, share price performance and analysis. Analysts' reports and estimates are also made available to all Directors. The announcement of interim management statements, half-year and full-year results provides opportunities for the Company to answer questions from institutional shareholders covering a wide range of topics. The Chairman, CEO, Finance Director and Investor Relations staff hold an ongoing dialogue with institutional shareholders to ensure the mutual understanding of objectives. The CEO and other senior executives participate in industry conferences which are attended by existing and potential shareholders. The Company exercises care to ensure that all price-sensitive information is released to all shareholders at the same time, as required by the Listing Rules of the UKLA and consistent with the SEC Regulation FD in the US.

The Company's website provides shareholders and potential investors with information about the Company, including annual and half-yearly reports, recent announcements, investor presentations, share price information, Group policies, corporate responsibility and governance matters. Shareholders are also able to put questions to the Company via its website.

Shareholders also have the opportunity to attend the AGM to put questions to the Board. Full details of the 2009 AGM are in the Notice of Meeting. It has been the Company's practice to send the Notice of Meeting and related papers to shareholders at least 20 working days before the AGM and to propose separate resolutions on each substantially separate issue.

The Board notes that section 2 of the Combined Code seeks to encourage more active participation by institutional shareholders, including entering into a dialogue with companies and making considered use of their votes – principles which the Company supports.

Substantial shareholdings

Voting rights notified under the Disclosure and Transparency Rules of the UKLA at 24 February 2009 are set out in the table below.

	No. of shares	% of total voting rights
Schroders plc	88,316,340	10.02
Sprucegrove Investment Management Limited	43,969,223	4.99
Invesco Ltd (through AiM Trimark, Powershares etc.)	43,431,651	4.93
Aberdeen Asset Management PLC	42,965,662	4.87
Tradewinds Global Investors, LLC	39,043,040	4.43
Legal & General Group plc	35,075,908	3.98

Shareholder rights

The Company's issued share capital is comprised of ordinary shares of 9 cents each and deferred shares of £1 each. The Company's authorised share capital previously included convertible cumulative preference shares of $50 each and convertible cumulative redeemable preference shares of $50 each, both of which were convertible into ordinary shares. No preference shares were in issue at the beginning of 2008, and the authority for them was removed at the AGM on 1 May 2008. See also notes 38 and 39 to the Group's consolidated financial statements.

Significant agreements and change of control

The Group has issued bonds totalling £400 million. The terms of the bonds entitle the holders to require redemption where there is a change of control of the Company combined with a ratings downgrade. In addition, under the Group's £400 million credit facility, the lenders are entitled, on a change of control, to require prepayment of amounts outstanding.

In addition, the service agreement of James Nicol entitles him to the payment of one year's salary, the value of certain benefits and certain additional bonus entitlements where his employment is terminated (either by the Company or by himself) within three months after a change of control.

Compliance statement

Except where indicated, the Company complied throughout the year ended 3 January 2009 with all the provisions set out in section 1 of the Combined Code. The certifications of the CEO and Finance Director required under sections 302 and 906 of Sarbanes-Oxley, and the related rules of the SEC, will be filed as exhibits to the Company's Form 20-F. Pursuant to section 303A of the listing standards of the NYSE, the Foreign Private Issuer Annual Written Affirmation was sent to the NYSE in June 2008, affirming without qualification that Tomkins has complied with the requirements laid down by the NYSE with such exceptions as are permitted for Foreign Private Issuers, as described below.

A general summary of the significant ways in which the Company's corporate governance differs from that followed by domestic US companies under the NYSE's listing standards, as required by section 303A.11 is as follows:

Compensation of the CEO

Under 303A.05(b), the compensation committee must have a written charter that addresses the committee's purpose and responsibilities which, inter alia, has responsibility to 'review and approve corporate goals and objectives relevant to CEO compensation, evaluate the CEO's performance in light of those goals and objectives, and, either as a committee or together with the other independent directors (as directed by the board), determine and approve the CEO's compensation level based on this evaluation.'

The Remuneration Committee of Tomkins, has been delegated by the Board the authority to '…review and determine the total individual remuneration packages of each Executive Director for approval by the Board.'

Re-appointment of independent external auditors

The Company's practice, in accordance with UK company law and the Combined Code in relation to the appointment and termination of the external auditor, is that a recommendation is made by the Audit Committee to the Board, which will then make a recommendation to shareholders in general meeting. This differs from the procedure in the US, where the external auditor is accountable to the audit committee, which has the authority to appoint or dismiss the external auditors without reference to shareholders.

Corporate governance guidelines

It is not the Company's practice for the Nomination Committee to have responsibility for developing corporate governance principles, this being a matter for the entire Board. This is a common approach amongst UK listed companies. The evaluation of the Board, its Committees and Directors, is overseen by the Senior Independent Director.