

# Notes to the financial statements

## 1. Nature of operations

Tomkins plc and its subsidiaries comprise a global engineering and manufacturing business. The Group is organised for management reporting purposes into two principal business groups: Industrial & Automotive and Building Products.

Industrial & Automotive manufactures a wide range of systems and components for car, truck and industrial equipment manufacturing markets, and industrial and automotive aftermarkets throughout the world. Industrial & Automotive is comprised of four operating segments: Power Transmission, Fluid Power, Fluid Systems and Other Industrial & Automotive.

Building Products is comprised of two operating segments: Air Systems Components and Other Building Products. Air Systems Components supplies the industrial and residential heating, ventilation and air conditioning market, mainly in North America. Other Building Products manufactures a variety of products for the building and construction industries, mainly in North America.

## 2. Transition to reporting in US dollars

Over recent years, the focus of the Group's acquisition activity has been overseas and there has been a reduction in the relative importance of its UK operations. The Group's principal operations are based in the US and the majority of the Group's profit is generated in US dollars. Against this background, the Directors consider that the Company's functional currency changed from sterling to the US dollar at the beginning of 2008.

Consistent with the change in the Company's functional currency, the Group changed its presentation currency from sterling to the US dollar with effect from the beginning of 2008. Comparative figures for 2007 and 2006 have been re-presented in US dollars.

The change of the Group's presentation currency and that of the Company's functional currency were accounted for in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates".

On the change of the Group's presentation currency, comparative figures previously reported in sterling were translated into US dollars as follows:

- income and expenses were translated at the average exchange rate for the relevant period;
- assets and liabilities were translated at the closing exchange rate on the relevant balance sheet date; and
- equity items were translated at historical exchange rates.

The exchange rates used were as follows:

	2007 £1=\$	2006 £1=\$	2005 £1=\$	2004 £1=\$
Average rate	2.00	1.83	1.82	1.83
Closing rate	1.99	1.96	1.72	1.92

As a result of the change of the Group's presentation currency, a currency translation difference of \$338.8 million was recognised in equity as at 29 December 2007 which represented the difference between the Group's assets and liabilities translated from sterling into US dollars at the closing exchange rate on that date of £1=\$1.99 and the equity items recognised in the consolidated financial statements that were translated from sterling into US dollars at historical exchange rates.

The currency translation difference arose as follows:

	\$ million
Ordinary share capital	(22.6)
Share premium account	(112.4)
Own shares	3.4
Capital redemption reserve	(202.9)
Currency translation reserve	17.7
Minority interests	(22.0)
	<b>(338.8)</b>

The change of the Company's functional currency was accounted for prospectively from the beginning of 2008. Accordingly, the assets, liabilities and equity items of the Company as at 29 December 2007 were translated from sterling into US dollars at the closing exchange rate on that date of £1=\$1.99.

As a consequence of applying the closing exchange rate rather than historical exchange rates to the equity items of the Company, \$334.5 million of the currency translation difference arising on the change of the Group's presentation currency was transferred from the cumulative currency translation reserve back to the equity items of the Company that are recognised as equity items in the consolidated financial statements.

The currency translation difference transferred may be analysed as follows:

	\$ million
Ordinary share capital	22.6
Share premium account	112.4
Own shares	(3.4)
Capital redemption reserve	202.9
	<b>334.5</b>