

## Notes to the financial statements (continued)

## 35. Share-based incentives

## A. Background

The Company operates a number of share-based compensation arrangements to provide incentives to the Group's senior executives and other eligible employees. Details of the schemes in respect of which options and awards are outstanding are set out in the Remuneration Committee report.

Although the Company's ordinary shares are now denominated in US dollars, they continue to be quoted in sterling on the London Stock Exchange.

## B. Share options

Following a review by the Board in 2004, it was decided that the Company's executive share option schemes would not be renewed when they lapsed for the purposes of new awards in May 2005. Awards granted under these schemes were subject to a performance condition that the rate of increase in the Group's earnings per share must exceed the growth in the UK Retail Prices Index by an average of 2% per annum over any three-year period after the options were granted. The final unvested options under these schemes vested during 2007.

Options were granted to James Nicol in 2002 as part of the incentive package to attract him to the Company. The Ongoing Option, which was subject to the performance condition that the rate of increase of the Company's earnings per share must be equal to or greater than the rate of increase of the UK Retail Prices Index plus 9% over any three-year period after the option was granted, vested in 2006.

Options continue to be granted from time to time under the Company's Sharesave scheme, which is restricted to employees who are resident for tax purposes in the UK. It offers eligible employees the option to buy ordinary shares in Tomkins plc after a period of three, five or seven years funded from the proceeds of a savings contract to which employees may contribute up to £250 per month.

In 2008, the compensation expense recognised in respect of share options was \$0.3 million (2007: \$2.8 million; 2006: \$5.0 million).

Changes in the total number of share options outstanding during the period were as follows:

	Year ended 3 January 2009		Year ended 29 December 2007	
	Options Number	Weighted average exercise price Pence	Options Number	Weighted average exercise price Pence
Outstanding at the beginning of the period	19,602,926	242.71	20,495,555	243.10
Granted during the period	803,274	140.20	272,695	211.40
Forfeited during the period	(533,617)	205.95	(368,573)	233.12
Exercised during the period	(45,000)	170.50	(485,751)	241.19
Lapsed during the period	(1,696,000)	251.56	(311,000)	254.93
Outstanding at the end of the period	18,131,583	238.60	19,602,926	242.71
Exercisable at the end of the period	16,341,128	244.64	18,082,128	245.11

On the dates on which options were exercised during 2008, the weighted average market price of the Company's ordinary shares was 184.00p per share (2007: 277.83p per share).

The fair value of options granted under the Sharesave scheme was measured at their respective grant dates using the Black-Scholes option pricing formula based on the following assumptions:

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Weighted average fair value	37.99p	73.81p	106.61p
Weighted average assumptions:			
– Share price	176.75p	264.25p	336.75p
– Exercise price	140.20p	211.40p	269.40p
– Expected volatility	24.59%	25.40%	28.94%
– Expected life	4.57 years	4.66 years	4.55 years
– Risk-free interest rate	4.55%	5.23%	4.50%
– Expected dividends	13.89p	13.89p	13.00p

## Group financial statements

Expected volatility was determined based on the historical volatility of the market price of the Company's ordinary shares over the shorter of the expected life of the options and the period since the beginning of the Group's financial year ended 30 April 2002 when, following a period of significant demerger activity, the Group was refocused on its remaining core businesses. Adjustments have been made to the expected life used in the model to reflect the effects of non-transferability, exercise restrictions and behavioural considerations.

The weighted average contractual life of share options outstanding at the end of the period was as follows:

	As at 3 January 2009		As at 29 December 2007		As at 30 December 2006	
	Outstanding Number	Weighted average remaining contractual life Years	Outstanding Number	Weighted average remaining contractual life Years	Outstanding Number	Weighted average remaining contractual life Years
Range of exercise prices:						
– 100p to 150p	723,947	4.23	–	–	–	–
– 151p to 200p	3,454,072	2.99	3,519,072	3.94	3,563,072	4.98
– 201p to 250p	7,773,617	4.61	9,244,600	5.39	9,641,668	6.59
– 251p to 300p	5,164,719	4.35	5,821,026	5.01	6,272,587	6.41
– 301p and higher	1,015,228	3.10	1,018,228	4.11	1,018,228	5.11
	<b>18,131,583</b>		<b>19,602,926</b>		<b>20,495,555</b>	

### C. Other awards

The Group's principal ongoing share-based compensation arrangements are the Annual Bonus Incentive Plan and the Performance Share Plan. Both are restricted to the Group's senior executives.

ABIP provides an award of bonus shares and deferred shares based on the profit of the business for which the participants have responsibility. Bonus shares are restricted and vest after a period of three years. Dividends are paid on the bonus shares. Deferred shares vest after a period of three years conditional on the participant's continued employment with the Group. Dividends are not paid on the deferred shares until they have vested. During 2008, awards were granted over 1,789,628 ordinary shares (2007: 1,727,352 ordinary shares; 2006: 1,643,031 ordinary shares) under the ABIP.

PSP provides awards of shares which vest after a period of three years conditional on the Group's total shareholder return relative to its cost of equity over the vesting period and the participant's continued employment with the Group. During 2008, awards were granted over 7,115,194 ordinary shares under the PSP (2007: 5,852,671 ordinary shares; 2006: 7,866,573 ordinary shares).

The fair value of awards made under the ABIP is measured based on the market price of the Company's ordinary shares on the date of the award. Where the awards do not attract dividends during the vesting period, the market price is reduced by the present value of the dividends expected to be paid during the expected life of the awards. The weighted average fair value of awards made under these schemes during the period was 125.66p (2007: 211.93p; 2006: 266.60p).

The fair value of awards made under the PSP was measured at their respective grant dates using a Monte-Carlo valuation model based on the following assumptions:

	Year ended 3 January 2009	Year ended 29 December 2007	Year ended 30 December 2006
Weighted average fair value	43.92p	66.45p	87.19p
Weighted average assumptions:			
– Expected volatility	36.41%	27.67%	23.01%
– Expected life	3.00 years	3.00 years	2.78 years
– Risk-free interest rate	4.71%	4.88%	4.75%
– Dividend yield	8.84%	5.00%	4.73%

Expected volatility was determined based on the historical volatility of the market price of the Company's ordinary shares over the expected life of the awards.

In 2008, the compensation expense recognised in respect of other awards was \$11.2 million (2007: \$13.2 million; 2006: \$9.5 million).