

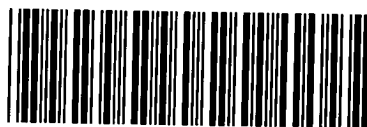
# **Air Products PLC**

**Annual report and financial statements**

**For the year ended 30 September 2018**

**Registered number 103881**

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## **Annual report and financial statements**

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## Strategic Report

This Strategic report has been prepared in accordance with the Companies Act 2006.

### Principal activities

The principal activity of the company continues to be the manufacture and sale of industrial gases and related products for their production and use.

### Business review and results

The company continues to strive for operational and administrative excellence to meet the demands of the marketplace for quality, responsiveness and overall value.

The profit for the financial year is £87,466,000 (2017: £84,561,000).

During FY18, the company's core industrial gas business continued to perform strongly, recording high levels of profitability and cash flow. The company continued to work on the construction of 6 air separation units for the Jazan Gas Projects Company to be used in a greenfield refinery and gasification project being developed by Saudi Aramco in Jazan, Saudi Arabia. In FY18, the company recognised revenue of £235,300,000 in relation to this construction contract. The targeted project completion and on-stream is November 2019.

### Principal risks and uncertainties

Competitive pressure in the UK is a continuing risk for the company. To manage this risk, the company strives to provide value-added products to its customers and maintain strong relationships with both customers and suppliers.

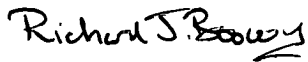
The company's business is affected by fluctuations in the price of key raw materials, although purchasing policies, contracts and practices seek to mitigate, where practical, such risks.

### Environment

The company recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to mitigate any adverse impact that might be caused by its activities. Initiatives aimed at minimising the company's impact on the environment include safe disposal of waste, recycling and reducing energy consumption.

**Strategic Report** (continued)

By order of the board and signed on its behalf by:

  
R. Boocock  
*Director*

Hersham Place Technology Park  
Molesey Road  
Walton-on-Thames  
Surrey  
KT12 4RZ

23 February 2019

## **Directors' report** (Registered number 103881)

The directors present their annual report and the audited financial statements for the year ended 30 September 2018.

### **Proposed dividend**

The directors do not recommend the payment of a dividend (2017: £nil).

### **Directors**

The directors who held office during the year were as follows:

T. Hulbert (resigned on 14<sup>th</sup> September 2018)  
R. Boocock  
C. Stinner  
G. Weigard  
D. Leney (appointed on 17<sup>th</sup> October 2018)

All directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

### **Employees**

The company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings and company notices.

**The company's policy towards the employment of disabled people has been to give full and fair consideration to applications from disabled people and to make every reasonable endeavour to accommodate the continued employment of people who become disabled while employed by the company. Disabled persons are treated according to the same standards as other employees in respect of training, career development and promotion.**

The Board would like to take this opportunity to express their appreciation for the hard work and loyalty shown by all employees during the past year. Securing and maintaining the understanding and commitment of all employees to the objectives of the various businesses remains paramount to the successful future development of the company.

### **Overseas Branches**

The company has two overseas branches in Saudi Arabia. One to manage the onshore scope of the Jazan Gas Projects Company construction contract. In FY18 Air Products Plc set up a Technology Centre to deliver the latest technology from Air Products, focused on providing improvement in energy efficiency, reliability and operational excellence to serve our regional customers. Subsequently, a second branch was established for this entity.

### **Political contributions**

The company made no political contributions during the year.

## **Directors' report** *(continued)*

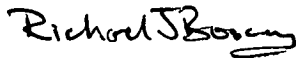
### **Disclosure of information to auditor**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

### **Auditor**

In accordance with section 512 of the Companies Act 2006, the auditor will not be deemed to be reappointed and KPMG LLP will therefore not continue in office.

By order of the board and signed on its behalf by:



R. Boocock  
*Director*

Hersham Place Technology Park  
Molesey Road  
Walton-on-Thames  
Surrey  
KT12 4RZ

23 February 2019

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AIR PRODUCTS PLC

## Opinion

We have audited the financial statements of Air Products PLC ("the company") for the year ended 30 September 2018 which comprise the Profit and Loss Account, Balance Sheet, Other Comprehensive Income, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Other matter

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and appropriateness of the going concern basis of preparation of the financial statements. These depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

## Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.



### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

**The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

*Malcolm Footer*

**Malcolm Footer (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL

23... February 2019

**Profit and Loss Account**  
*for the year ended 30 September 2018*

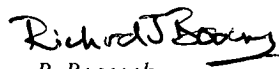
	<i>Note</i>	2018	2017
		£000	£000
<b>Turnover</b>	2	487,201	867,157
Cost of sales		(329,526)	(715,804)
<b>Gross profit</b>		<u>157,675</u>	<u>151,353</u>
Distribution costs		(53,889)	(49,142)
Administrative expenses	3	(11,841)	(14,309)
Impairment of fixed assets	11	-	2,210
<b>Operating profit</b>		<u>91,945</u>	<u>90,112</u>
Gain on sale of tangible fixed assets	3	449	637
Income from other fixed asset investments	6	7,035	350
Other interest receivable and similar income	7	4,211	2,517
Interest payable and similar charges	8	(155)	(158)
Other finance income	9	4,356	6,100
<b>Profit on ordinary activities before taxation</b>		<u>107,841</u>	<u>99,558</u>
Tax on profit on ordinary activities	10	(20,375)	(14,997)
<b>Profit for the financial year</b>		<u><u>87,466</u></u>	<u><u>84,561</u></u>

Notes from page 13 to 40 form part of these financial statements.

**Balance Sheet**  
*at 30 September 2018*

	Note	2018	2017
		£000	£000
<b>Fixed assets</b>			
Tangible assets	11	102,176	98,210
Intangible fixed assets	12	478	533
Investments	13	30,120	9,358
		<b>132,774</b>	<b>108,101</b>
<b>Current assets</b>			
Stocks	15	4,945	55,440
Debtors (including £6,337 (2017: £5,538) due after more than one year)	14/16/20	516,576	509,326
Deferred tax asset (including £32,722 (2017: £57,184) due after more than one year)	21	40,271	65,389
Pension Assets	27	90,672	8,325
Cash at bank and in hand		14,603	31,885
		<b>667,067</b>	<b>670,365</b>
<b>Creditors: amounts falling due within one year</b>	17/20	<b>(160,802)</b>	<b>(265,047)</b>
<b>Net current assets</b>		<b>506,265</b>	<b>405,318</b>
<b>Total assets less current liabilities</b>		<b>639,039</b>	<b>513,419</b>
<b>Creditors: amounts falling due after more than one year</b>	19/20	<b>(15,030)</b>	<b>(30,160)</b>
<b>Net assets</b>		<b>624,009</b>	<b>483,259</b>
<b>Provisions</b>	18	<b>(55,902)</b>	<b>(61,607)</b>
<b>Net assets including provisions</b>		<b>568,107</b>	<b>421,652</b>
<b>Capital and reserves</b>			
Called up share capital	22	458,816	458,816
Other reserves	23	11,000	11,000
Profit and loss account	24	98,291	(48,164)
<b>Shareholders' funds</b>		<b>568,107</b>	<b>421,652</b>

These financial statements were approved by the board of directors on the 23 February 2019 and were signed on its behalf by:

  
R. Boocock  
Director

Registered number 103881

Notes from page 13 to 40 form part of these financial statements.

**Other Comprehensive Income**  
*for the year ended 30 September 2018*

	2018 £000	2017 £000
Profit for the financial year	87,466	84,561
Net exchange differences on the retranslation of overseas branch	(963)	(1,332)
Actuarial gain recognised on pension schemes	76,400	92,300
Deferred tax arising on actuarial gains in the pension scheme	(12,989)	(15,691)
<b>Total comprehensive income for the year</b>	<b>149,914</b>	<b>159,838</b>

**Statement of Changes in Equity**  
*for the year ended 30 September 2018*

	Called up share capital £'000	Other reserves £'000	Profit and loss account £'000	Total equity £'000
As 1 October 2017	458,816	11,000	(207,785)	262,031
Profit for the financial year	-	-	84,561	84,561
Net exchange differences on the retranslation of overseas branch	-	-	(1,332)	(1,332)
Actuarial gain recognised in the pension schemes	-	-	92,300	92,300
Charge in relation to share based payments	-	-	(217)	(217)
Deferred tax arising on loss in the pension schemes	-	-	(15,691)	(15,691)
<b>At 30 September 2017</b>	<b>458,816</b>	<b>11,000</b>	<b>(48,164)</b>	<b>421,652</b>
Profit for the financial year	-	-	87,466	87,466
Net exchange differences on the retranslation of overseas branch	-	-	(963)	(963)
Actuarial gain recognised in the pension schemes	-	-	76,400	76,400
Charge in relation to share based payments	-	-	(3,459)	(3,459)
Deferred tax arising on gain in the pension schemes	-	-	(12,989)	(12,989)
<b>At 30 September 2018</b>	<b>458,816</b>	<b>11,000</b>	<b>98,291</b>	<b>568,107</b>

Notes from page 13 to 40 form part of these financial statements.

## Notes

*(forming part of the financial statements)*

### Statement of Compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

### 1 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention.

The company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1.

#### Exemptions for qualifying entities under FRS 102

FRS102 allows a qualifying entity certain disclosure exemptions:

- The company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and its parent company, Air Products and Chemicals Inc, includes the company's cash flows in its own consolidated financial statements.

The consolidated financial statements of Air Products and Chemicals Inc are prepared in accordance with US Generally Accepted Accounting Principles and are available to the public. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures

- The company has taken advantage of the exemption, under FRS 102 para 33.7 from disclosing total compensation of key management personnel.
- The company has taken advantage of the exemption for qualifying entities from certain financial instrument disclosures, on the basis that the equivalent disclosures are included in the consolidated financial statements of Air Products and Chemicals Inc, the ultimate parent company.

The company has taken advantage of the exemption, under FRS 33.1 (a), from disclosing related party transactions as they are all with other companies that are wholly owned by Air Products and Chemicals Inc.

The consolidated financial statements of the ultimate parent Air Products and Chemicals Inc, within which this company is included, can be obtained from the company's registered office.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

## Notes (continued)

### 1 Accounting policies (continued)

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments.

#### *Key estimates and judgements*

Accounting for contracts using the percentage-of-completion method requires judgment relative to assessing risks and their impact on the estimate of revenues and costs. Our estimates are impacted by factors such as the potential for incentives or penalties on performance, schedule and technical issues, labour productivity, the complexity of work performed, the cost and availability of materials, and performance of subcontractors.

Our Jazan large air separation unit sale of equipment project within our Industrial Gases- Global segment spans several years. In addition to the typical risks associated with underlying performance of project procurement and construction activities, this project requires monitoring of risks associated with schedule, geography, and other aspects of the contract and their effects on our estimates of total revenues and total costs to complete the contract.

#### *Going Concern*

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on page 3.

The company is expected to generate positive cash flows on its own account for the foreseeable future. The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### *Fixed asset investments*

Investments in subsidiary undertakings, associates and joint ventures are stated at cost less any provision for impairment.

#### *Fixed assets and depreciation*

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold property	-	Up to 50 years
Leasehold improvements	-	Period of the lease
Plant and machinery	-	4-25 years
Leasehold property	-	Period of the lease

No depreciation is provided on freehold land. Costs include directly attributable finance costs.

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any

## Notes (continued)

### 1 Accounting policies (continued)

#### Fixed assets and depreciation (continued)

incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described below.

#### Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or group of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life of 10 years.

#### Negative goodwill

Negative goodwill arising on business combinations in respect of acquisitions is included on the balance sheet immediately below any positive goodwill and released to the profit and loss account in the periods in which the non-monetary assets arising on the same acquisition are recovered. Any excess exceeding the fair value of non-monetary assets acquired shall be recognised in profit or loss in the periods expected to benefit.

#### Impairment excluding stocks

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The carrying amounts of the Company's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its income-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account.

Impairment losses recognised in respect of income-generating units are allocated first to reduce the carrying amount of any goodwill allocated to income-generating units, then to any capitalised intangible asset and finally to the carrying amount of the tangible assets in the unit on a pro rata or more appropriate basis. An income generating unit is the smallest identifiable group of assets that generates income that is largely independent of the income streams from other assets or groups of assets.

#### Calculation of recoverable amount

The recoverable amount of fixed assets is the greater of their net realisable value and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the income-generating unit to which the asset belongs.



## **Notes** *(continued)*

### **1**      **Accounting policies** *(continued)*

#### ***Impairment excluding stocks*** *(continued)*

##### *Reversals of impairment*

An impairment loss is reversed on intangible assets and goodwill only if subsequent external events reverse the effect of the original event which caused the recognition of the impairment or the loss arose on an intangible asset with a readily ascertainable market value and that market value has increased above the impaired carrying amount. For other fixed assets where the recoverable amount increases as a result of a change in economic conditions or in the expected use of the asset then the resultant reversal of the impairment loss should be recognised in the current period.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

##### *Foreign currencies*

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date, and the gains or losses on translation are included in the profit and loss account. If the transaction is hedged forward, the gains or losses arising on completion of this contract are recognised on the date of completion in the profit and loss account.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

##### ***Leases***

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

##### *Operating lease*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

##### *Finance lease*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

##### ***Taxation***

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 102.

## **Notes** *(continued)*

### **1** **Accounting policies** *(continued)*

#### ***Post-retirement benefits***

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

#### ***Stocks***

Stocks are stated at the lower of cost and net realisable value on a line by line basis. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

#### ***Long term contracts***

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less that transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable, within one year, on contracts are included in stocks and represent turnover recognised in excess of payments on account.

Amounts recoverable, over a year, on contracts are included in trade debtors and represent project revenue in excess of billing.

Interest costs incurred during the construction period on long-term contracts are included in work-in-progress.

#### ***Turnover***

Turnover represents the amounts (excluding value added tax, credit notes and returns) derived from the provision of goods and services to customers. Sales of industrial gases are recorded at the time of shipment.

#### ***Share based payments***

The share-based compensation programme allows employees to acquire shares of the parent company, Air Products and Chemicals Inc. Employees are awarded both stock options and deferred stock as part of the programme. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The fair value of deferred stocks granted is measured using both the share price of the company at grant date and a Monte Carlo simulation-based pricing model.

Share based payment transactions are treated as cash settled. The fair value of the awards is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options and stocks. The fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The amount recognised as an expense is adjusted to reflect the actual number of awards that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

## **Notes** *(continued)*

### **1 Accounting policies** *(continued)*

#### **Share based payments** *(continued)*

Air Products and Chemicals Inc recharges to the company the fair market value of awarding share-based compensation to employees. As a recharge is clearly linked to a share-based payment, the recharge is a transaction with the parent in its capacity as a shareholder and is accounted for by Air Products PLC as a capital transaction recognised in connection with the group share based compensation programme. Accordingly, Air Products PLC recognises a recharge liability and a corresponding adjustment (debit) in equity for the capital distribution recognised in respect of the share-based payment. The re-charge liabilities arising from the recharge arrangement are re-measured at each reporting date until settlement date and the amounts of the re-measurement are recognised as a capital distribution to the parent.

#### **Borrowing cost policy**

Borrowing costs are capitalized where these can be directly related to the acquisition, construction or production of qualifying assets. All other borrowing costs are recognized in the profit and loss as incurred.

They are included in the profit and loss account in a separate column for the current and comparative periods, including the gain or loss on sale or impairment loss on abandonment.

#### **Classification of financial instruments issued by the Company**

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

#### **Basic financial instruments**

##### **Trade and other debtors / creditors**

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

##### **Investments in subsidiaries, jointly controlled entities and associates**

These are separate financial statements of the company. Investments in subsidiaries, jointly controlled entities and associates are carried at cost less impairment, *Property, Plant and Equipment*, with net revaluation gains recognised in OCI and net revaluation losses in profit or loss.

**Notes** *(continued)*

**1** **Accounting policies** *(continued)*

***Other financial instruments***

*Financial instruments not considered to be Basic financial instruments (Other financial instruments)*

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and
- hedging instruments in a designated hedging relationship shall be recognised as set out below.

*Derivative financial instruments*

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

***General provisions***

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably. Restructuring provisions are recognised when the company has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either starting to implement the plan or announcing its main features to those affected, and therefore has a legal or constructive obligation to carry out the restructuring. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

## Notes (continued)

### 2 Analysis of turnover on ordinary activities before taxation

The turnover on ordinary activities before taxation is attributable to the two principal activities of the company.

<i>By geographical market</i>	2018 £000	2017 £000
Europe	268,650	440,644
Africa / Middle East	212,218	399,992
Americas	2,559	9,387
Asia / Pacific	3,774	17,134
	<hr/>	<hr/>
	487,201	867,157
	<hr/>	<hr/>
 <i>By business</i>	 2018 £000	 2017 £000
Industrial gases	236,883	576,230
Equipment	250,318	290,927
	<hr/>	<hr/>
	487,201	867,157
	<hr/>	<hr/>

The results of each segment are recorded and reviewed on the basis of business lines across the whole of the European region.

## Notes (continued)

### 3 Profit on ordinary activities before taxation

	2018	2017
	£000	£000
<i>Profit on ordinary activities before taxation is stated after charging / (crediting):</i>		
Depreciation and other amounts written off tangible and intangible fixed assets: (note 11 and 12)		
Fixed asset depreciation	14,054	14,191
Goodwill amortisation	50	50
Intangible amortisation	5	5
Fixed asset impairment reversal	-	(2,210)
Exchange gains	(2,419)	2,451
Gain on sale of fixed assets	(449)	(637)
	<hr/>	<hr/>

#### *Auditor's remuneration:*

	2018	2017
	£000	£000
Amounts payable to the auditor and their associates in respect of:		
Audit of these financial statements	99	111
	<hr/>	<hr/>
	99	111
	<hr/>	<hr/>

### 4 Remuneration of directors

For the services rendered by the directors of the company an amount of £6,600 (2017: £6,600) has been incurred in the current financial year.

## Notes (continued)

### 5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2018	2017
Industrial gases and equipment	1,334	1,378
	<u>1,334</u>	<u>1,378</u>

The aggregate payroll costs of these persons were as follows:

	2018	2017
	£000	£000
Wages and salaries	65,790	64,219
Social security costs	8,696	8,208
Other pension costs	16,594	16,247
Share Based Payments (note 28)	1,954	2,345
Restructuring costs	2,121	4,587
	<u>95,155</u>	<u>95,606</u>

### 6 Income from other fixed asset investments

	2018	2017
	£000	£000
Dividends from fixed asset investments	7,035	350
	<u>7,035</u>	<u>350</u>

**Notes** *(continued)*

**7 Other interest receivable and similar income**

	2018 £000	2017 £000
Receivable from group undertakings	4,025	2,304
Finance lease income	172	186
Bank interest	14	27
	<u>4,211</u>	<u>2,517</u>
	<u><u>4,211</u></u>	<u><u>2,517</u></u>

**8 Interest payable and similar charges**

	2018 £000	2017 £000
Payable to group undertakings	(155)	(158)
	<u>(155)</u>	<u>(158)</u>
	<u><u>(155)</u></u>	<u><u>(158)</u></u>

**9 Other finance income/ (expense)**

	2018 £000	2017 £000
Net interest income/(charge) on net pension scheme liabilities <i>(Note 27)</i>	420	(1,820)
Financial instruments at fair value through profit or loss	4,278	8,943
Finance charge on provisions <i>(Note 18)</i>	(342)	(1,023)
	<u>4,356</u>	<u>6,100</u>
	<u><u>4,356</u></u>	<u><u>6,100</u></u>



## Notes (continued)

### 10 Taxation

#### a. Tax expense included in profit or loss

	2018 £000	2017 £000
<i>Current tax</i>		
- UK Corporation tax on profits for the year	8,498	7,561
- Adjustment in respect of prior periods	(2,363)	(1,297)
- Withholding tax	2,078	0
	<hr/>	<hr/>
Total current tax	8,213	6,264
<i>Deferred tax</i>		
- Origination / reversal of timing differences	10,565	13,302
- Adjustment in respect of prior period	1,410	(7,204)
- Effect of change in tax rate	187	2,635
	<hr/>	<hr/>
Total deferred tax	12,162	8,733
	<hr/>	<hr/>
<b>Tax on profit/(loss)</b>	<b>20,375</b>	<b>14,997</b>
	<hr/> <hr/>	<hr/> <hr/>

#### b. Tax expense/(income) included in other comprehensive income

Origination / reversal of timing differences	12,989	15,691
	<hr/> <hr/>	<hr/> <hr/>

#### Tax on income/(expense) included in other comprehensive income

#### c. Reconciliation of tax charge

Tax assessed for the year is lower (2017: lower) than the standard rate of corporation tax in the UK of 19% (2017: 19.5%). The differences are explained below.

	2018 £000	2017 £000
Profit/(loss) on ordinary activities before tax	107,841	99,558
Current tax at 19% (2017: 19.5%)	20,490	19,414
<i>Effects of:</i>		
Income not subject to tax	(1,531)	1,270
Adjustments to tax charge in respect of prior years	(953)	(8,501)
Withholding Tax	2,078	-
Other	291	2,814
	<hr/>	<hr/>
Tax charge for the year	20,375	14,997
	<hr/> <hr/>	<hr/> <hr/>

#### d. Tax rate changes

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 15 September 2016.

## Notes (continued)

### 11 Tangible fixed assets

	Freehold and long leasehold property	Plant and machinery	Assets under construction	Total
	£000	£000	£000	£000
<i>Cost</i>				
At beginning of year	31,712	289,471	38,085	359,268
Additions	700	7,961	15,297	23,958
Disposals	(142)	(3,684)	(5,381)	(9,207)
Transfers	509	4,317	(4,826)	-
<b>At end of year</b>	<b>32,779</b>	<b>298,065</b>	<b>43,175</b>	<b>374,019</b>
<i>Depreciation and impairment</i>				
At beginning of year	17,157	217,975	25,926	261,058
Charge for year	863	13,191	-	14,054
Disposals	-	(3,269)	-	(3,269)
<b>At end of year</b>	<b>18,020</b>	<b>227,897</b>	<b>25,926</b>	<b>271,843</b>
<i>Net book value</i>				
<b>At 30 September 2018</b>	<b>14,759</b>	<b>70,168</b>	<b>17,249</b>	<b>102,176</b>
At 30 September 2017	14,555	71,496	12,159	98,210

Freehold land and buildings includes £7,908,000 (2018: £7,908,000) of land that is not being depreciated.

The leasehold land and buildings are substantially held under leases with more than 50 years remaining.

Included in the cost of tangible fixed assets is £232,000 (2017: £232,000), with a net book value of £0 (2017: £6,444), in respect of capitalised interest costs.

## Notes (continued)

### 12 Intangible fixed assets

	Goodwill £000	Other Intangibles £000	Total £000
<i>Cost</i>			
At beginning of year	812	139	951
	<hr/>	<hr/>	<hr/>
<b>At end of year</b>	<b>812</b>	<b>139</b>	<b>951</b>
	<hr/>	<hr/>	<hr/>
<i>Amortization</i>			
At beginning of year	287	131	418
Charge for year	50	5	55
	<hr/>	<hr/>	<hr/>
<b>At end of year</b>	<b>337</b>	<b>136</b>	<b>473</b>
	<hr/>	<hr/>	<hr/>
<i>Net book value 2018</i>	<b>475</b>	<b>3</b>	<b>478</b>
	<hr/>	<hr/>	<hr/>
<i>Net book value 2017</i>	525	8	533
	<hr/>	<hr/>	<hr/>

Goodwill representing customer lists was capitalised in the year ended 30 September 2012 upon the transfer of businesses from Cryoservice Limited. The goodwill is amortised to nil by annual instalments over its estimated life of 20 years.

## Notes (continued)

### 13 Fixed asset investments

	Shares in group undertakings £000	Participating interests £000	Total £000
<i>Shares</i>			
<i>Cost</i>			
At beginning of year and end of year	8,000	1,358	9,358
Additions	20,762	-	20,762
	<hr/>	<hr/>	<hr/>
<i>Provisions</i>			
At beginning of year	-	-	-
Impairment Losses	-	-	-
	<hr/>	<hr/>	<hr/>
<b>At the end of year</b>	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
<b>At 30 September 2018</b>	<b>28,762</b>	<b>1,358</b>	<b>30,120</b>
	<hr/>	<hr/>	<hr/>
At 30 September 2017	8,000	1,358	9,358
	<hr/>	<hr/>	<hr/>

The companies in which the company's interest at the year end is more than 20% are as follows:

	Country of incorporation	Principal activity	Class of share	2018 % of shares held	2017 % of shares held
<i>Participating interests</i>					
Air Products Llanwern Limited	Great Britain	Industrial gases	Ordinary	50%	50%
Air Products Renewable Energy Limited	Great Britain	Industrial gases	Ordinary	100%	100%
Gas Direct Limited	Great Britain	Industrial gases	Ordinary	100%	100%
Dixons of Westerhope Ltd	Great Britain	Industrial gases	Ordinary	100%	0%

### 14 Finance lease receivable

Finance lease are receivable as follows:

	2018 £000	2017 £000
Less than one year	374	359
Between one and five years	2,111	2,028
More than five years	1,616	2,073
	<hr/>	<hr/>
	<b>4,101</b>	<b>4,460</b>
	<hr/>	<hr/>

## Notes (continued)

### 15 Stocks

	2018 £000	2017 £000
Raw materials and consumables	1,701	2,179
Work in progress	342	50,267
Finished goods and goods for resale	2,902	2,994
	<u>4,945</u>	<u>55,440</u>

### 16 Debtors

	2018 £000	2017 £000
Trade debtors	47,452	74,839
Amounts owed by group undertakings	444,800	421,455
Other debtors (including £2,610 (2017: £2,237) due after more than one year)	13,111	2,830
Finance lease receivable (including £3,727 (2017: £4,100) due after more than one year)	4,101	4,460
Prepayments and accrued income	6,560	4,540
Derivatives financial instruments	552	1,202
	<u>516,576</u>	<u>509,326</u>

### 17 Creditors: amounts falling due within one year

	2018 £000	2017 £000
Payments received on account	47,608	138,742
Trade creditors	31,191	41,176
Amounts owed to group undertakings	48,732	37,821
Other creditors	8,653	9,504
Accruals and deferred income	24,239	32,509
Derivatives financial instruments	379	5,295
	<u>160,802</u>	<u>265,047</u>

## Notes (continued)

### 18 Provisions

	Asset retirement obligation	Onerous contract provisions	Dilapidation provision	Reorganisation provision	Capital commitment provision	Total
At 1 October 2017	4,911	48,268	1,000	3,871	3,557	61,607
Additions	-	-	-	1,840	-	1,840
Utilised	-	(1,637)	-	(4,615)	(1,635)	(7,887)
Unwinding of discount	-	342	-	-	-	342
<b>At 30 September 2018</b>	<b>4,911</b>	<b>46,973</b>	<b>1,000</b>	<b>1,096</b>	<b>1,922</b>	<b>55,902</b>

#### *Reorganisation provision*

The reorganisation provision is part of the company's global reorganization in order to more effectively compete in the marketplace and execute corporate strategy.

#### *Dilapidations provision*

As part of the company's leasing arrangements there is an obligation to repair damages which incur during the life of the lease and reinstate the property to original configuration upon lease termination. A provision has been made for cost estimates in relation to this contract obligations.

#### *Asset retirement obligations*

Following the decision to exit the EfW business, the company has recognised an asset retirement obligation in relation to the demolition and removal of plant assets.

#### *Onerous contract provisions*

Following the decision to exit the EfW business, the company has recognised a provision for contract obligations that have become onerous in nature.

#### *Capital commitment provision*

Following the decision to exit the EfW business, the company has recognised a provision for future committed capital expenditure.

### 19 Creditors: amounts falling due after more than one year

	2018 £000	2017 £000
Customer advances	2	40
Other creditors long term	15,025	30,106
Derivatives financial instruments	3	14
	<b>15,030</b>	<b>30,160</b>

## Notes (continued)

### 20 Financial instruments

#### (a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2018 £000	2017 £000
Assets measured at fair value through profit or loss	552	1,202
Assets measured at amortised cost	4,101	4,460
Assets measured at cost less impairment	520,889	531,009
Liabilities measured at fair value through profit or loss	(382)	(5,309)
Liabilities measured at amortised cost	-	-
Liabilities measured at cost less impairment	(198,296)	(303,508)
	<hr/> 326,864	<hr/> 227,854
	<hr/>	<hr/>

#### b) Financial instruments measured at fair value

##### *Derivative financial instruments*

Fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

#### c) Maturity of financial instruments

The years in which the cash flows on forward exchange contracts are expected to occur are:

Assets	2018 £000	2017 £000
Less than one year	(1,516)	3,683
In one to two years	(1,814)	656
	<hr/> (3,330)	<hr/> 4,339
	<hr/>	<hr/>
Liabilities	2018 £000	2017 £000
Less than one year	6,544	13,328
In one to two years	931	(375)
	<hr/> 7,475	<hr/> 12,953
	<hr/>	<hr/>

**Notes** *(continued)*

**21 Deferred taxation**

**The movement in the deferred taxation asset during the year was:**

	2018 £000	2017 £000
At beginning of year	65,389	89,812
Credit to the Statement of Recognised Gains and Losses	(12,989)	(15,691)
Origination / reversal of timing differences	(10,565)	(13,302)
Adjustment in respect of prior period	(1,410)	7,204
Effect of change in tax rate	(187)	(2,634)
Other	33	-
At end of year	<u>40,271</u>	<u>65,389</u>

**The elements of deferred tax are as follows:**

	2018 £000	2017 £000
Timing differences on share options	1,343	1,436
Timing differences on fixed assets	23,731	945
Other timing differences	9,147	9,667
Derivative Financial Instruments	292	334
Fixed asset impairment	21,173	54,422
Pension liabilities (see note 27)	(15,415)	(1,415)
	<u>40,271</u>	<u>65,389</u>



## Notes (continued)

### 22 Called up share capital

	2018 £000	2017 £000
<i>Allotted, called up and fully paid</i>		
Equity: 458,816,057 ordinary shares of nominal value of £1 each	<u>458,816</u>	<u>458,816</u>

### 23 Other reserves

	Other reserves £000
At beginning of year	11,000
Movement	-
At end of year	<u>11,000</u>

In September 2011, Air Products PLC received from Air Products Group Ltd a cash capital contribution of GBP 11,000,000.

### 24 Reserves

	Profit and loss account £000
At beginning of year	(48,164)
Profit for the financial year	87,466
Actuarial gain recognised in the pension schemes	76,400
Charge in relation to share based payments	(3,459)
Deferred tax arising on gains in the pension schemes	(12,989)
Exchange adjustments	(963)
At end of year	<u>98,291</u>

### 25 Contingent liabilities

The company has provided bank guarantees to third parties amounting to £196,601,000 (2017: £205,949,000).

## Notes (continued)

### 26 Commitments

(a) Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	2018 £000	2017 £000
Contracted	<u>4,311</u>	<u>6,525</u>

(b) Annual commitments under non-cancellable operating leases are as follows:

	2018		2017	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	4,068	866	4,008	1,191
In the second to fifth years inclusive	16,966	868	16,791	1,265
Over five years	19,892	-	23,060	-
	<u>40,926</u>	<u>1,734</u>	<u>43,859</u>	<u>2,456</u>

During the year £5,587,500 was recognised as an expense in the profit and loss account in respect of operating leases (2017: £5,026,000).

### 27 Pension scheme

The company operates a number of pension schemes within the UK. The defined benefit pension scheme was closed to new members in January 2005. Since that date employees have the option to join a defined contributions scheme. The latest full actuarial valuation was carried out at 30 June 2018 for the main and supplementary scheme. Additional adjustments have been made for changes in market conditions for the year ending 30 September 2018.

The company's best estimate of the pension contributions to be made in FY19 is £8,808,000.

Air Products Group Limited, the company's parent company, has issued an irrevocable guarantee for all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally and in any capacity whatsoever) of the company to make payments to the scheme up to a maximum amount of £280,000,000.

## Notes (continued)

### 27 Pension scheme (continued)

The major assumptions used by the actuary in this valuation were:

	2018	2017	2016
Rate of increase in salaries	3.90%	3.70%	3.60%
Rate of increase in pensions in payment and deferred pensions:			
April 1997 - April 2005	2.40%	2.30%	2.20%
Post April 2005	1.80%	1.70%	1.60%
Discount rate applied to scheme liabilities	2.50%	2.30%	3.70%
Inflation assumption	3.40%	3.20%	3.10%

The assumptions relating to the longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions equivalent to expecting a 65 year old to live for a number of years as follows:

- Current pensioner aged 65: Male: 23.1 years (2017: 23.2 years), Female 24.1 years (2017: 24.2 years)
- Future retiree at retirement age 65 of member aged 45: Male 24.4 years (2017: 24.5 years), Female 25.6 years (2017: 25.7 years)

#### Scheme assets

Scheme assets do not include any company owned financial instruments or property occupied by the company.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Value at 2018 £000	Value at 2017 £000	Value at 2016 £000
Equities	534,940	573,365	621,240
Bonds	458,680	387,270	278,080
Annuities	2,160	2,350	3,030
Cash	10,010	4,490	3,740
	<hr/>	<hr/>	<hr/>
Total market value of assets	1,005,790	967,475	906,090
Present value of scheme liabilities	(915,118)	(959,150)	(994,440)
	<hr/>	<hr/>	<hr/>
Surplus in the scheme – pension asset	90,672	8,325	(88,350)

## Notes (continued)

### 27 Pension scheme (continued)

#### Movement in deficit during the year

	2018 £000	2017 £000	2016 £000
Surplus/ (deficit) in scheme at beginning of year	8,325	(88,350)	(65,910)
Current service cost	(10,413)	(12,230)	(9,590)
Contributions paid	18,740	19,235	35,450
Other finance (loss) / income	420	(1,820)	(1,810)
Actuarial gain/(loss)	76,400	92,300	(44,450)
Admin costs (P&L)	(2,800)	(810)	(2,040)
Surplus/(deficit) in the scheme at end of year	90,672	8,325	(88,350)

#### Analysis of other pension costs charged in arriving at operating profit:

	2018 £000	2017 £000	2016 £000
Current service cost	(10,413)	(12,230)	(9,590)
Administration Cost	(2,800)	-	-
	(13,213)	(12,230)	(9,590)

#### Analysis of the amounts included in other finance income:

	2018 £000	2017 £000	2016 £000
Interest income on pension scheme assets	24,010	20,730	26,840
Interest expense on pension scheme liabilities	(23,590)	(22,550)	(28,650)
	420	(1,820)	(1,810)

**Notes** *(continued)*

**27 Pension scheme** *(continued)*

Movement in fair value of pension assets during the year:

	2018 £000	2017 £000
Fair value of pension assets at beginning of the year	967,475	906,090
Contributions from employer	18,740	19,235
Contributions from employees	240	280
Benefits paid	(30,885)	(28,430)
Administration cost	(2,800)	(810)
Interest on plan assets	24,010	20,730
Actuarial gain/(loss) on assets	29,010	50,380
	<hr/>	<hr/>
Fair value of pension assets at the end of the year	1,005,790	967,475
	<hr/>	<hr/>

Movement in scheme liabilities during the year:

	2018 £000	2017 £000
Scheme liabilities at beginning of the year	(959,150)	(994,440)
Current service costs	(10,413)	(12,230)
Employees contribution	(240)	(280)
Interest cost	(23,590)	(22,550)
Benefits paid	30,885	28,430
Actuarial gain/(loss)	47,390	41,920
	<hr/>	<hr/>
Present value of scheme liabilities at the end of the year	(915,118)	(959,150)
	<hr/>	<hr/>

## Notes (continued)

### 27 Pension scheme (continued)

History of fair value of scheme assets, present value of scheme liabilities and experience gains and losses:

	2018	2017	2016	2015	2014
Present value of scheme liabilities at the end of the year	<b>(915,118)</b>	(959,150)	(994,440)	(787,460)	(756,020)
Fair value of scheme assets at the end of the year	<b>1,005,790</b>	967,475	906,090	721,550	697,600
Amount of irrecoverable surplus	-	-	-	-	-
<b>Surplus/ (deficit) at the end of the year</b>	<b>90,672</b>	8,325	(88,350)	(65,910)	(58,420)

The return on the plan assets was:

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Total return on plan assets	<b>53,020</b>	71,110	176,940	16,930	58,540

## Notes (continued)

### 28 Share Based Payments

Employees of Air Products PLC (APPLC) participate in the Air Products and Chemicals, Inc. (Air Products) Long-Term Incentive Plan under which share-based compensation awards, including stock options and deferred stock units, are granted. The terms of the awards are fixed at the grant date. Air Products issues shares from treasury stock upon the exercise of stock options and the payout of deferred stock units.

Total before-tax share-based compensation expense recognized in the APPLC income statement as a component of selling and administrative expense was £2.00 million in 2018 and £2.35 million in 2017.

#### Stock options

Executives and selected employees receive awards of options to purchase common stock. The exercise price equals the market price of Air Products stock on the date of the grant. Options vest incrementally over three years, and remain exercisable ten years from the date of grant.

The fair value of options granted was estimated using a Black Scholes option valuation model using assumptions for expected volatility, expected dividend yield, expected life (in years) and risk-free interest rate. Expected volatility and expected dividend yield are based on actual historical experience of Air Products stock and dividends over the historical period equal to the option term. The expected life represents the period of time that options granted are expected to be outstanding based on an analysis of Air Products specific historical exercise data. The risk-free rate is based on the U.S. Treasury Strips with terms equal to the expected time of exercise as of the grant date.

A summary of the stock option activity is presented below:

	2018	2018		2017	2017
	Shares	Weighted		Shares (000)	Weighted
	(000)	Average			Average
		Exercise			Exercise
		Price			Price
<b>Outstanding at</b>			<b>Outstanding at</b>		
<b>30 September 2017</b>	215	£65	<b>30 September 2016</b>	263	£69
<b>Granted</b>	-	-	<b>Granted</b>	-	-
<b>Exercised</b>	(72)	£68	<b>Exercised</b>	(75)	£63
<b>Equitable adjustment upon separation</b>	-	£0	<b>Adjusted</b>	27	£0
<b>Forfeited</b>	-	-	<b>Forfeited</b>	-	-
<b>Outstanding at</b>			<b>Outstanding at</b>		
<b>30 September 2018</b>	143	£66	<b>30 September 2017</b>	215	£65
<b>Exercisable at</b>			<b>Exercisable at</b>		
<b>30 September 2018</b>	143	£66	<b>30 September 2017</b>	212	£65

The weighted average share price at the date of exercise for options exercised during 2018 and 2017 was £125.71 and £108.27, respectively.

The total intrinsic value of stock options exercised during 2018 and 2017 was £4.58 million and £4.51 million, respectively.

The stock options outstanding at 30 September 2018 had exercise prices in the range of £48 to £103 and a weighted average remaining contractual life of 3.59 years.

Compensation cost is recognized over the stated vesting period consistent with the terms of the arrangement (i.e. on a graded-vesting basis). Expense recognition is accelerated for retirement eligible individuals who would meet the requirements for vesting of awards upon their retirement. Total before-tax share-based compensation expense recognized in the APPLC income statement for stock options was £(0.07) million in 2018 and £0.13 million in 2017.

## Notes (continued)

### 28 Share Based Payments (continued)

#### Deferred Stock Units

Deferred stock units have been granted to executives and selected employees. These deferred stock units entitle the recipient to one share of common stock upon vesting, which is conditioned on continued employment during the deferral period and may also be conditioned on earn-out against certain performance targets. The deferral period generally ends after death, disability, or retirement. However, for a portion of the performance-based deferred stock units, the deferral period ends at the end of the performance period (one to three years) or up to two years thereafter. Certain of the performance-based deferred stock units provide for one-half of the earned shares to be paid in cash at the end of the performance period. Beginning in 2004, deferred stock units subject to a four-year deferral period have been granted to selected employees.

The grant-date fair value of deferred stock units is estimated on the date of grant based on the market price of Air Products stock, and compensation cost is generally amortized to expense on a straight-line basis over the vesting period during which employees perform the related service. Expense recognition is accelerated for retirement eligible individuals who would meet the requirements for vesting of awards upon their retirement.

Total before-tax share-based-compensation expense recognized in the APPLC income statement for deferred stock units was £2.02 million in 2018 and £2.21 million in 2017.

	2018	2018		2017	2017
	Shares (000)	Weighted Average Grant- Date Fair Value		Shares (000)	Weighted Average Grant- Date Fair Value
<b>Outstanding at</b>			<b>Outstanding at</b>		
<b>30 September 2017</b>	76	£92	<b>30 September 2016</b>	74	£91
<b>Granted</b>	19	£134	<b>Granted</b>	21	£106
<b>Equitable adjustment upon separation</b>	-	£0	<b>Equitable adjustment upon separation</b>	1	£0
<b>Paid Out</b>	(22)	£97	<b>Paid Out</b>	(16)	£57
<b>Forfeited</b>	(4)	£114	<b>Forfeited</b>	(4)	£89
<b>Outstanding at</b>			<b>Outstanding at</b>		
<b>30 September 2018</b>	69	£94	<b>30 September 2017</b>	76	£92



**Notes (continued)**

**29 Related Party Disclosures**

The company is a wholly owned subsidiary of Air Products Group Limited, a company incorporated in Great Britain.

The smallest group in which the results of the company are consolidated is headed by Air Products and Chemicals, Inc., the ultimate controlling party and a company incorporated in the State of Delaware, USA. The consolidated financial statements of this group are available to the public and may be obtained from:

Corporate Secretary  
Air Products and Chemicals, Inc  
7201 Hamilton Boulevard  
Allentown  
Pennsylvania 18195 – 1501

**30 Post Balance Sheet Event**

On 26 October 2018, the United Kingdom High Court issued a ruling in a case relating to equalization of pension plan participants' benefits for the gender effects of Guaranteed Minimum Pensions ("GMP equalization"). The ruling relates to the Lloyds Banking Group pension plans but impacts other UK defined benefit pension plans. The actuary estimates the impact of this ruling to be an increase of the benefit obligation of £3,705,000. Due to ongoing lack of clarity around the practical implications of the ruling within the pension industry and the timing of the ruling, no adjustment has been made in the financial statements of Air Products Plc prepared to 30<sup>th</sup> September 2018.