Gardner Denver International Limited

Directors' report and financial statements

Registered number 736644

31 December 2005

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Principal activities

The company is an intermediate holding company within the Gardner Denver Inc. group (see note 20).

Business review

The profit for the financial year was £1,896,000 *(2004: £992,000).*

On 13 December 2005 a number of companies were transferred from Thomas Industries Inc., a fellow group company to Gardner Denver International Limited for a total consideration of £10,080. Further details of these subsidiaries are disclosed in note 7 to the accounts.

On 31 December 2005, the company acquired an additional 17,483,363 ordinary shares of £1 each in its wholly owned subsidiary, Gardner Denver Industries Limited to rank pari passu with the existing ordinary shares.

Dividends

Interim dividends amounting to £3,326,000 were paid during the year *(2004: £nil).* The directors do not recommend the payment of a final dividend *(2004:£nil).*

Directors

The directors who held office during the period and up to the date of signing were as follows:

A Hartley	(resigned 11 April 2005)
R Centanni (USA)	(resigned 1 June 2005)
H Cornell (USA)	
T Pagliara (USA)	
S W S Ambler	(resigned 14 July 2006)
G H Jones	(appointed 11 April 2005)
J P Warr	(appointed 2 August 2006)

All directors retire by rotation and, being eligible, offer themselves for re-appointment.

Directors' report *(continued)*

Directors' interests

The interests of SWS Ambler, and GH Jones in the share capital of the ultimate parent undertaking, Gardner Denver Inc was as follows:

	Number of options during the year			
	At 31 December 2004	Options granted	Options exercised	**At 31 December 2005**
SWS Ambler				
Share options	8,000	4,600	2,666	**9,934**
GH Jones				
Share options	5,000	3,200	-	**8,200**

The interests of H Cornell and T Pagliara are disclosed in the directors' report of the ultimate parent undertaking.

Auditors

Pursuant to section 385 Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors to the company will be proposed at the forthcoming Annual General Meeting.

By order of the board

M E Grummett

Secretary

25 October 2006

Springmill Street
Bradford
BD5 7HW

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing 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 the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to 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 judgments 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They 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.

Under applicable law the directors are also responsible for preparing a Directors' report that complies with that law.

KPMG Audit Plc

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Neville Street
Leeds
LS1 4DW

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GARDNER DENVER INTERNATIONAL LIMITED

We have audited the financial statements of Gardner Denver International Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' responsibilities on page 3, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

25 October 2006

Profit and loss account
For the year ended 31 December 2005

	Note	**Year ended 31 December 2005**	Year ended 31 December 2004
		£'000	£'000
Other net operating income		**1,140**	2,302
Staff costs	*2*	**(1,391)**	(1,659)
Depreciation		**(415)**	(384)
Other income		**62**	53
Operating (loss) / profit		**(604)**	312
Income from shares in group undertakings		**2,470**	759
Net interest payable	*4*	**(424)**	(91)
Profit on ordinary activities before taxation	*5*	**1,442**	980
Taxation on profit on ordinary activities	*6*	**454**	12
Profit for the financial year	*16*	**1,896**	992

A reconciliation of movements in shareholders' funds is given in note 17.

The financial statements are prepared on an unmodified historical cost basis and there were no recognised gains or losses in either period other than those reflected in the profit and loss account above.

All income and expenditure arises from continuing operations.

Balance sheet
As at 31 December 2005

	Note	Year ended 31 December 2005	Year ended 31 December 2004 (As restated)
		£'000	£'000
Fixed assets			
Tangible assets	*8*	**1,307**	1,569
Investments	*7*	**26,785**	9,291
		28,092	10,860
Current assets			
Debtors	*9*	**20,131**	29,659
Cash at bank and in hand		**219**	41
		20,350	29,700
Creditors: amounts falling due within one year			
Borrowings	*10*	**(6,406)**	(15,493)
Other creditors	*11*	**(21,760)**	(3,319)
		(28,166)	(18,812)
Net current (liabilities) /assets		**(7,816)**	10,888
Total assets less current liabilities		**20,276**	21,748
Creditors: amounts falling due after more than one year			
Provisions for liabilities and charges	*12*	**(49)**	(91)
Net assets		**20,227**	21,657
Capital and reserves			
Called up share capital	*13*	**6,574**	6,574
Share premium account	*14*	**9,806**	9,806
Merger reserve	*15*	**1,197**	1,197
Profit and loss account	*16*	**2,650**	4,080
Shareholders' funds - Equity	*17*	**20,227**	21,657

These financial statements were approved by the board of directors on 25 October 2006 and were signed on its behalf by:

J P Warr
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

In these financial statements the following new standards have been adopted for the first time:

- FRS 17 'Retirement benefits'.
- FRS 21 'Events after the balance sheet date';
- The presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

Although FRS17 has been fully adopted in the year, the multi employer exemption available in FRS17 has been applied (see note 18) which results in no apportionment of the group deficit being recognised in the company balance sheet. The previous balances maintained under SSAP 24 have been eliminated (see note 21) upon this change in accounting policy.

The corresponding amounts in these financial statements are restated in accordance with the new policies.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Cash flow statement

Under Financial Reporting Standard No 1, the company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of a company registered in England and Wales.

Related party transactions

Under Financial Reporting Standard No 8, the company is exempt from the requirement to disclose related party transactions with other group companies, on the grounds that it is a wholly owned subsidiary undertaking of Gardner Denver Inc. (see note 20).

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 19.

Notes *(continued)*

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract.

Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or 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.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Pension costs

The company participates in a group wide pension scheme providing benefits based upon final pensionable pay. The assets of the scheme are held separately from those of the company. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits' accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contribution payable to the scheme in respect of the accounting period. The prior year pension prepayment calculated under SSAP 24 has been reversed together with the associated deferred tax liability and prior year amounts restated accordingly (see also note 21).

2 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	
	Year ended 31 December 2005	Year ended 31 December 2004
Management	**25**	24

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 *£'000*
Wages and salaries	**1,068**	1,373
Social security costs	**96**	117
Other pension costs (note 18)	**227**	169
	1,391	1,659

Notes *(continued)*

3 Remuneration of directors

	Year ended 31 December 2005 £	Year ended 31 December 2004 £
Directors' emoluments:		
Remuneration as executives	**363,743**	1,323,561
Pension contributions	**48,356**	44,061
	412,099	1,367,622

The emoluments of the highest paid director were £163,563 *(2004: £432,235).*

Pension contributions made by the company on behalf of the highest paid director amounted to £7,799 *(2004: £6,750).*

Retirement benefits are accruing to two *(2004: one)* directors under a defined benefit scheme.

4 Net interest payable

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
On bank loans and overdrafts	**491**	626
On finance leases	**-**	7
On loans from affiliated companies	**704**	-
	1,195	633
Interest receivable on loans from affiliated companies	**(769)**	(534)
Other interest receivable	**(2)**	(8)
	424	91

Notes *(continued)*

5 Profit on ordinary activities before taxation

	Year ended 31 December 2005	Year ended 31 December 2004
	£'000	£'000
Loss on ordinary activities before taxation is stated after charging/(crediting):		
Operating lease rentals:		
Property rents	**75**	41
Plant and equipment	**84**	95
Auditors' remuneration:		
Audit	**53**	55
Other services	**83**	77
Profit on sale of fixed assets	**(12)**	-
Depreciation of fixed assets	**415**	384
Property rentals receivable	**(62)**	(53)

6 Taxation on profit on ordinary activities

	Year ended 31 December 2005		Year ended 31 December 2004	
	£000	**£000**	£000	£000
UK corporation tax				
Current tax on income for the year	**(190)**		-	
Adjustments in respect of prior years	**(222)**		(41)	
		(412)		(41)
Double taxation relief		**-**		(1)
Total current tax		**(412)**		(42)
Deferred tax (see note 12)				
Origination/reversal of timing differences		**(42)**		30
Tax (credit) on profit on ordinary activities		**(454)**		(12)

Notes *(continued)*

Factors affecting the tax charge for the current year

The current tax charge for the year is lower *(2004: lower)* than the standard rate of corporation tax in the UK (30%, 2004: 30 %). The differences are explained below.

	2005	2004
	£000	£000
Current tax reconciliation		
Profit on ordinary activities before tax	**1,442**	980
Current tax at 30% (2004: 30 %)	**433**	294
Effects of:		
Expenses not deductible for tax purposes	**82**	(35)
Dividends not taxable	**(741)**	(228)
Fixed asset timing differences	**28**	10
Short term timing differences	**8**	(41)
Double tax relief	**-**	(1)
Adjustment to charge in respect of prior years	**(222)**	(41)
Total current tax (credit)/charge (see above)	**(412)**	(42)

7 Fixed asset investments

	Investments in Subsidiary Undertakings £000
As at 1 January 2005	9,291
Additions	17,494
As at 31 December 2005	**26,785**

Investments in subsidiary undertakings are stated at cost and are shown after deduction of provisions amounting to £68,000 *(2004: £68,000).*

In the opinion of the directors the investments in and amounts due from the company's subsidiary undertakings are worth at least the amounts at which they are stated in the balance sheet.

Details of changes in investments during the year are contained in the business review section of the Directors' report.

By virtue of s228/s248 of the Companies Act 1985, the company is exempt from the requirement to prepare group financial statements as it is a wholly owned subsidiary of Gardner Denver Inc. (see note 20).

Notes *(continued)*

7 Fixed asset investments *(continued)*

Details of the principal subsidiary undertakings are set out below:

	Incorporated and trading in	Effective interest
		%
Gardner Denver Industries Limited	UK	100
Rietschle Thomas Slovakia s.r.o.	Slovakia	15
Rietschle Thomas Czech Republic, s.r.o.	Czech Rep	10
Rietschle Thomas Hungaria Kft.	Hungary	3.3

All holdings are of ordinary shares.

Each company operates in its country of incorporation.

The subsidiary undertakings named above are part of the Gardner Denver group of companies, a global producer of blowers, compressors, petroleum and water jetting pumps and accessories serving a diverse group of industries and applications.

8 Tangible fixed assets

	Freehold property £000	Long leasehold property £000	Plant, equipment & vehicles £000	Total £000
Cost				
At 1 January 2005	87	190	2,635	2,912
Additions	-	-	195	195
Disposals	-	-	(159)	(159)
At 31 December 2005	**87**	**190**	**2,671**	**2,948**
Depreciation				
At 1 January 2005	-	83	1,260	1,343
Charge for period	-	6	409	415
Eliminated on disposals	-	-	(117)	(117)
At 31 December 2005	**-**	**89**	**1,552**	**1,641**
Net book value				
At 31 December 2005	**87**	**101**	**1,119**	**1,307**
At 31 December 2004	87	107	1,375	1,569

Notes *(continued)*

8 Tangible fixed assets *(continued)*

Plant, machinery and vehicles include assets which are the subject of finance leases and are analysed as:

	As at 31 December 2005 £000	As at 31 December 2004 £000
Cost	-	453
Accumulated depreciation	-	(130)
Net book value	-	323
Depreciation in year	-	65

9 Debtors

	As at 31 December 2005 £'000	As at 31 December 2004 (As restated) £'000
Amounts falling due within one year:		
Trade debtors	**2**	14
Other debtors	-	147
Taxation recoverable	**193**	33
Prepayments and accrued income	**428**	299
Amounts owed by subsidiary undertakings	**19,508**	29,143
	20,131	29,636
Amounts falling due after one year:		
Other debtors	-	23
	20,131	29,659

Debtors falling due after more than one year have been restated in the prior year following adoption of FRS 17 (see also notes 1 and 21).

Notes *(continued)*

10 Borrowings

	As at 31 December 2005 £'000	As at 31 December 2004 £'000
The maturity profiles of the company's financial liabilities are detailed below:		
Due on demand or within one year:		
Bank overdrafts and loans – secured	**6,406**	15,493

11 Other creditors

	As at 31 December 2005 £'000	As at 31 December 2004 £'000
Amounts falling due within one year:		
Trade creditors	**283**	399
Social security	**298**	265
Accruals	**121**	475
Other creditors	**154**	307
Amounts owed to affiliated companies	**20,904**	1,873
	21,760	3,319

Notes *(continued)*

12 Provisions for liabilities and charges

	Pension asset £000	Deferred tax £000	Total £000
At 31 December 2004 as previously reported	2,408	(813)	1,595
Prior year adjustment (see notes 1 and 21)	(2,408)	722	(1,686)
At 31 December 2004 as restated	-	(91)	(91)
Credit in year	-	42	42
At 31 December 2005	**-**	**(49)**	**(49)**

The deferred tax liability comprises:

	As at 31 December 2005 £000	As at 31 December 2004 (As restated) £000
Accelerated capital allowances	**60**	87
Other short term timing differences	**(11)**	4
	49	91

13 Called up share capital

Number	**Authorised**	**As at 31 December 2005 £'000**
32,000,000	Ordinary shares of 25p each	**8,000**
	Allotted, called up and fully paid	
26,294,606	At start and end of year	**6,574**

Notes *(continued)*

14 Share premium account

	As at 31 December 2005 £'000
At start and end of year	**9,806**

15 Merger reserve

	As at 31 December 2005 £'000
At start and end of year	**1,197**

The merger reserve arose as a result of shares to fund the 100% acquisition of equity in Priestman Equipment Limited, at 31 July 1999.

16 Profit and loss account

	2005 £'000
At beginning of year as previously reported	5,766
Prior year adjustment (see notes 1 and 21)	(1,686)
At beginning of year as restated	4,080
Profit for the financial year	1,896
Interim dividend	(3,326)
At end of year	**2,650**

Notes *(continued)*

17 Reconciliation of movements in shareholders' funds

	Year ended 31 December 2005	Year ended 31 December 2004 As restated
	£'000	£'000
Profit for the financial year	**1,896**	992
Interim dividend	**(3,326)**	-
Net (reduction)/addition to shareholders' funds	**(1,430)**	992
Shares issued	**-**	680
Opening shareholders' funds as previously reported	**21,657**	21,671
Prior year adjustment:		
FRS 17 'Retirement benefits'	**-**	(1,686)
Closing shareholders' funds	**20,227**	21,657

18 Pensions

The company is a member of a group pension scheme ('The Gardner Denver British Pension Scheme') providing benefits based on final pensionable pay. Because the group is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the scheme has been accounted for, in these financial statements as if the scheme was a defined contribution scheme.

An actuarial valuation was carried out by an independent actuary as at 31 December 2005 for FRS 17 purposes. The deficit in the scheme as at 31 December 2005 was £14,682,000 (£10,277,000 net of deferred tax at 30%). The contributions paid by the company into the scheme during the year were £190,269. The deficit is planned to be eliminated over a fourteen year period through cash contributions at a similar level to 2005.

19. Contingent liabilities

The company has guaranteed the bank borrowings of certain group undertakings which at 31 December 2005 amounted to £231,000 *(2004:£271,000)*. The company has guaranteed the VAT liability of certain group undertakings which at 31 December 2005 amounted to £287,000 *(2004: £134,000)*.

20. Ultimate parent company

The company's immediate parent company and controlling party is GD First (UK) Limited, registered in England and Wales.

The company's ultimate parent undertaking and controlling related party is Gardner Denver Inc. incorporated in the USA and its results are included in the consolidated financial statements of that company. The consolidated financial statements of Gardner Denver Inc are available to the public and may be obtained from: Gardner Denver Inc, 1800 Gardner Expressway, Quincy, USA, 1L62301.

Notes *(continued)*

21 Prior year adjustment

As outlined in note 1, FRS 17 has been adopted in the current year which has resulted in eliminating a £2,408,000 pension prepayment previously calculated under SSAP 24 offset by a related £722,000 deferred tax liability. This has resulted in a prior year adjustment to opening retained earnings (see also notes 9 and 16).

The adoption of FRS 17 'Retirement Benefits' has required a change to the accounting treatment of pensions and the prior year results have been restated as follows:

Balance sheet

	Debtors	Deferred tax liability on pension asset	Profit and loss account
	£'000	£'000	£'000
31 December 2004 as previously reported	32,067	(813)	5,766
Adoption of FRS 17 – removal of SSAP 24 balances	(2,408)	722	(1,686)
31 December 2004 as restated	29,659	(91)	4,080

The adjustments above equate to the removal of the SSAP 24 balances upon adoption of FRS 17. Given the fact the multi employer exemption available in FRS 17 (see note 1) is being taken, no FRS 17 liabilities are shown above or recognised in the company accounts (see note 18).