

Gardner Denver International Limited

**Directors' report and financial
statements**

Registered number 736644

31 December 2006

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006

Principal activities

The company is an intermediate holding company within the Gardner Denver Inc group (see note 19)

Business review

The profit for the financial year was £35,416,000 (2005 £1,928,000) The results and financial position of the company include the full adoption of FRS17 'Retirement benefits' for the first time Further details are disclosed in notes 1 and 22

On 28 November 2006, the company sold its entire holding in Gardner Denver Industries Limited to GD First (UK) Limited, its holding company in return for the issue of a promissory note of £55,058,996 This resulted in a profit of £28,284,392

On 6 December 2006, the company acquired the entire share capital of Gardner Denver Nash UK Limited from Gardner Denver Elmo Technologies GmbH, a fellow group company, in return for cash consideration of £150,000

On 12 December 2006, the company acquired the entire share capital of Gardner Denver Limited from its holding company, GD First (UK) Limited, for a fair value of £20,167,000 satisfied by the issue of one ordinary share in Gardner Denver International Limited

On 12 December 2006, the company acquired the entire share capital of TIWR U K Limited from its holding company G D First (UK) Limited, in return for the issue of a promissory note for £13,806,055

On 12 December 2006, the company acquired the entire share capital of Webster Drives Limited, Emco Wheaton U K Limited, Gardner Denver Drum Ltd, Gardner Denver UK Ltd and Powered Access Platforms Limited from Gardner Denver Industries Ltd, a fellow group company, in return for the issue of a promissory note for the sum of £31,850,658

On 12 December 2006, the company sold its holdings in Webster Drives Limited, Gardner Denver Drum Limited and Gardner Denver Nash UK Limited to Powered Access Platforms Limited, a subsidiary company, in return for the issue of shares in Powered Access Platforms Limited There was no profit or loss on disposal

Dividends

Interim dividends amounting to £5,250,000 were paid during the year (2005 £3,326,000) The directors do not recommend the payment of a final dividend (2005 £nil)

Directors

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

H Cornell (USA)
T Pagliara (USA)
S W S Ambler (resigned 14 July 2006)
G H Jones (resigned 20 October 2006)
J P Warr (appointed 2 August 2006)

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

Directors' report *(continued)*

Post balance sheet events

On 13 July 2007, all employees were notified of the intention to change their employer from the company to Gardner Denver Group Services Ltd. The change duly came into effect on 1 August 2007 and the company entered into an agreement with Gardner Denver Group Services Ltd for the provision of services by its former employees.

On 30 July 2007, the company paid a special contribution of £447,057 into the Gardner Denver British Pension Scheme. The payment was made in conjunction with the merger of the Gardner Denver British Pension Scheme, Gardner Denver Pension Scheme and GD Nash Retirement Benefits Scheme. The merger became effective on 1 August 2007.

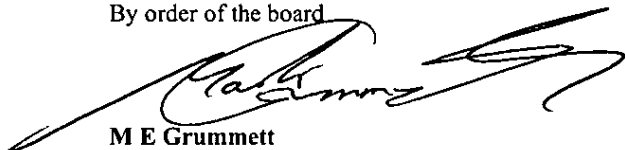
Disclosure of information to auditors

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

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

28 September 2007

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
United Kingdom

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 2006 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, 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 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

28 September 2007

Profit and loss account

For the year ended 31 December 2006

	Note	2006 £'000	2005 (as restated) £'000
Operating income		1,060	1,140
Staff costs	2	(1,511)	(1,332)
Depreciation		(382)	(415)
Other income		32	62
Operating loss		(801)	(545)
Profit on sale of subsidiary undertakings		28,284	-
Income from shares in group undertakings		8,000	2,470
Interest receivable	4	1,323	771
Interest payable	5	(1,801)	(1,208)
Profit on ordinary activities before taxation	6	35,005	1,488
Taxation on profit on ordinary activities	7	411	440
Profit for the financial year	16	35,416	1,928

A reconciliation of movements in shareholders' funds and statement of total recognised gains and losses is given on page 8

All operating income and expenditure arose from continuing operations

Balance sheet

As at 31 December 2006

	Note	2006 £'000	2005 (as restated) £'000
Fixed assets			
Tangible assets	9	936	1,307
Investments	8	65,984	26,785
		<u>66,920</u>	<u>28,092</u>
Current assets			
Debtors	10	28,809	20,131
Cash at bank and in hand		4,518	219
		<u>33,327</u>	<u>20,350</u>
Creditors: amounts falling due within one year	11	<u>(29,601)</u>	<u>(28,166)</u>
Net current assets / (liabilities)		<u>3,726</u>	<u>(7,816)</u>
Total assets less current liabilities		<u>70,646</u>	<u>20,276</u>
Creditors, amounts falling due after more than one year			
Provisions for liabilities and charges	12	(12)	(49)
Net assets – excluding pension liability		<u>70,634</u>	<u>20,227</u>
Pension liability	12	(823)	(859)
Net assets – including pension liability		<u>69,811</u>	<u>19,368</u>
Capital and reserves			
Called up share capital	13	6,574	6,574
Share premium account	14	29,973	9,806
Merger reserve	14	-	1,197
Capital contribution reserve	15	86	-
Profit and loss account	16	33,178	1,791
Shareholders' funds - Equity		<u>69,811</u>	<u>19,368</u>

These financial statements were approved by the board of directors on 28 September 2007 and were signed on its behalf by



J P Warr
 Director

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2006

	2006	2005 (as restated)
	£'000	£'000
Profit for the financial year	35,416	1,928
Pension fund actuarial gains / (losses)	34	(289)
Deferred tax on pension fund actuarial gains/losses	(10)	87
Issue of share capital	20,167	-
Capital contribution reserve arising on share options	86	-
Dividends paid	(5,250)	(3,326)
	<hr/>	<hr/>
Net increase/ (reduction) in shareholders' funds	50,443	(1,600)
Opening shareholders' funds	19,368	20,968
	<hr/>	<hr/>
Closing shareholders' funds	69,811	19,368
	<hr/>	<hr/>

Statement of total recognised gains and losses
for the year ended 31 December 2006

	2006	2005 (as restated)
	£'000	£'000
Profit for the financial year	35,416	1,928
Pension fund actuarial gains / (losses)	34	(289)
Deferred tax on pension fund actuarial gains/losses	(10)	87
	<hr/>	<hr/>
Total recognised gains relating to the financial year	35,440	1,726
	<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

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

- Financial reporting standard no 20 (FRS 20) has been adopted for the first time in these financial statements. The accounting policy under the new standard is set out below. Its adoption has resulted in a cost of £86,039 for 2006 as disclosed in note 21. The details of the share option plans can be found in note 20.

Basis of preparation

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

By virtue of s228A 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, a company incorporated in the USA. These financial statements present information about the company as an individual undertaking and not about it as a Group.

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 19).

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.

Investments

Fixed asset investments are stated at cost less any provision for impairment.

Share based payments

The Company's ultimate parent company, Gardner Denver Inc, operates share option plans, allowing eligible employees within the group to acquire shares of the Gardner Denver Inc. The fair value of employee services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in capital and reserves. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, for options granted with non-market vesting conditions, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to capital and reserves.

Notes (continued)

Share-based employee compensation expense was not recognised in the Company's financial statements for accounting periods ending prior to 1 January 2006, as all share option awards granted under the parent company's share-based compensation plans had an exercise price equal to the market value of the shares on the date of the grant

From 1 January 2006, the Company adopted the provisions of FRS 20 using the modified prospective transition method. Under this transition method, compensation expense recognised during the year ended 31 December 2006 included

(a) compensation expense for all share-based awards granted prior to, but not yet vested as of, 31 December 2005, based on the estimated grant date fair value, and

(b) compensation expense for all share-based awards granted subsequent to 31 December 2005, based on the grant date fair value estimated in accordance with the provisions of FRS 20

In accordance with the modified prospective transition method, results for prior periods have not been restated. The Company's share-based compensation plans and share-based payments are described more fully in Note 20 – Employee share schemes

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 has not previously recorded a full FRS17 liability on its balance sheet. Instead it has taken advantage of the multi-employer exemption allowed under the standard. However, as part of the merger of its UK pension schemes, the group now believes it is able to split the liabilities between the participating companies with sufficient accuracy for the exemption to no longer be applicable. The 2005 comparative figures have been adjusted accordingly for consistency and comparability

The company also operates an existing defined contribution benefit section of The Gardner Denver British Pension Scheme and the costs are charged to the profit and loss account as incurred in accordance with FRS17

Fixed assets and depreciation

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

Freehold property	-	up to 50 years
Long leasehold property	-	over the residue of the lease
Plant and equipment	-	3 to 10 years
Motor vehicles	-	4 years

Notes (continued)

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	
	2006	2005
Management	22	25

The aggregate payroll costs of these persons were as follows

	2006	2005
	£'000	(as restated) £'000
Wages and salaries	1,280	1,068
Social security costs	113	96
Other pension costs	118	168
	<u>1,511</u>	<u>1,332</u>

3 Remuneration of directors

	2006	2005
	£	£
Directors' emoluments		
Remuneration as executives	324,729	363,743
Pension contributions	33,457	48,356
	<u>358,186</u>	<u>412,099</u>

The emoluments of the highest paid director were £231,034 (2005 £163,563)

Pension contributions made by the company on behalf of the highest paid director amounted to £15,245 (2005 £7,799)

Retirement benefits are accruing to nil (2005 two) directors under a defined benefit scheme

4 Interest receivable

	2006	2005
	£000	£000
Interest receivable on loans from affiliated companies	1,306	769
Other interest receivable	17	2
	<u>1,323</u>	<u>771</u>

Notes (continued)

5 Interest payable

	2006	2005 (as restated)
	£'000	£'000
On bank loans and overdrafts	309	491
On loans from affiliated companies	1,477	704
Interest payable on pension scheme liabilities (see note 17)	15	13
	<u>1,801</u>	<u>1,208</u>

6 Profit on ordinary activities before taxation

	2006	2005
	£'000	£'000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting).</i>		
Operating lease rentals		
Property rents	73	75
Plant and equipment	50	84
Auditors' remuneration		
Audit	35	53
Other services	30	83
Profit on sale of fixed assets	-	(12)
Depreciation of fixed assets	382	415
Property rentals receivable	(32)	(62)
	<u></u>	<u></u>

7 Taxation on profit on ordinary activities

	2006	2005 (as restated)
	£000	£000
<i>UK corporation tax</i>		
Current tax on income for the year	(358)	(190)
Adjustments in respect of prior years	3	(222)
	<u>(355)</u>	<u>(412)</u>
Total current tax	(355)	(412)
<i>Deferred tax (see note 12)</i>		
Reversal of timing differences	(61)	(42)
Deferred tax on pensions	5	14
	<u>(411)</u>	<u>(440)</u>
Tax credit on profit on ordinary activities		

Notes (continued)

Factors affecting the tax charge for the current year

The current tax charge for the year is lower (2005 lower) than the standard rate of corporation tax in the UK (30%, 2005 30 %) The differences are explained below

	2006 £000	2005 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	35,005	1,488
	<hr/>	<hr/>
Current tax at 30% (2005 30 %)	10,502	446
<i>Effects of</i>		
Expenses not deductible for tax purposes	12	82
Non taxable income	(10,930)	(741)
Deferred tax	43	23
Short term timing differences	(6)	
Timing differences arising on pension	(5)	-
Timing differences on share options	26	
Adjustment to charge in respect of prior years	3	(222)
	<hr/>	<hr/>
Total current tax credit (see above)	(355)	(412)
	<hr/>	<hr/>

8 Fixed asset investments

	Investments in Subsidiary Undertakings £000
As at 1 January 2006	26,785
Additions	87,636
Disposals	(48,437)
	<hr/>
As at 31 December 2006	65,984
	<hr/>

Investments in subsidiary undertakings are stated at cost

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 19)

Notes (continued)

8 Fixed asset investments (continued)

Details of the principal subsidiary undertakings are set out below

	Incorporated and trading in	Effective interest %
Rietschle Thomas Slovakia s r o	Slovakia	15
Rietschle Thomas Czech Republic, s r o	Czech Rep	10
Rietschle Thomas Hungaria Kft	Hungary	33
TIWR U K Limited	UK	100
Gardner Denver Limited	UK	100
Gardner Denver UK Limited	UK	100
Emco Wheaton UK Limited	UK	100
Powered Access Platforms Limited	UK	100

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 Inc group of companies, a global producer of blowers, compressors, petroleum and water jetting pumps and accessories serving a diverse group of industries and applications

9 Tangible fixed assets

	Freehold property £000	Long leasehold property £000	Plant, equipment & vehicles £000	Total £000
Cost				
At 1 January 2006	87	190	2,671	2,948
Additions	-	-	11	11
At 31 December 2006	87	190	2,682	2,959
Depreciation				
At 1 January 2006	-	89	1,552	1,641
Charge for year	-	5	377	382
At 31 December 2006	-	94	1,929	2,023
Net book value				
At 31 December 2006	87	96	753	936
At 31 December 2005	87	101	1,119	1,307

Notes *(continued)*

10 Debtors

	2006 £'000	2005 £'000
Amounts falling due within one year		
Trade debtors	-	2
Taxation recoverable	81	193
Prepayments and accrued income	367	428
Amounts owed by subsidiary undertakings	28,336	19,508
Deferred tax asset on share options (note 12)	25	-
	<hr/>	<hr/>
	28,809	20,131
	<hr/>	<hr/>

11 Creditors: amounts falling due within one year

	2006 £'000	2005 £'000
Bank overdrafts and loans	641	6,406
Trade creditors	269	283
<i>Other creditors including taxation & social security</i>		
Corporation tax	144	-
Other taxes and social security	285	298
Accruals	593	121
Other creditors	11	154
Amounts owed to affiliated companies	27,658	20,904
	<hr/>	<hr/>
	29,601	28,166
	<hr/>	<hr/>

Notes (continued)

12 Provisions for liabilities and charges

	Deferred tax on pension liability £'000	Pensions provision £'000	Restated Total £'000
Prior year adjustment to 2005 upon adoption of FRS 17 (see note 22)	(368)	1,227	859
At beginning of year as restated	(368)	1,227	859
Charge for the year in the profit and loss account	5	118	123
Pension contributions paid	-	(135)	(135)
Charge / (credit) to the statement of total recognised gains and losses	10	(34)	(24)
At end of year	(353)	1,176	823

The amount provided for deferred taxation at 30% (2005 30%) represents the full potential liability and is as follows

The deferred tax liability comprises

	2006 £'000	2005 £'000
Deferred tax asset on share option expense (see note 10)	(25)	-
Deferred tax asset on net pension fund deficit	(353)	(368)
Deferred tax assets	(378)	(368)
Accelerated capital allowances	16	60
Other short term timing differences	(4)	(11)
Deferred tax liabilities	12	49

13 Called up share capital

Number	Authorised	2006 £'000
32,000,000	Ordinary shares of 25p each	8,000
	Allotted, called up and fully paid	
26,294,607	Ordinary shares of 25p each	6,574

On 12th December 2006, one new ordinary share of 25p was issued at par to Gardner Denver First (UK) Limited as consideration for the purchase of Gardner Denver Ltd. The shares rank pari passu with the existing ordinary shares of 25p each.

Notes (continued)

14 Share premium account and merger reserve

	Merger reserve	Share premium account
	2006	2006
	£'000	£'000
At start of year	1,197	9,806
Arising on issue of share	-	20,167
Transfer to profit and loss account reserves	(1,197)	-
	<hr/>	<hr/>
At end of year	-	29,973
	<hr/>	<hr/>

The merger reserve arose as a result of shares to fund the 100% acquisition of equity in Priestman Equipment Limited, at 31 July 1999. The company has now been dissolved and consequently the reserve has been transferred to profit and loss account reserves.

15 Capital contribution reserve

	2006
	£'000
Arising on share options (see note 20)	86
	<hr/>

16 Profit and loss account

	2006
	£'000
At beginning of year as reported	2,650
Prior year adjustment to 2005 upon adoption of FRS 17 (see note 22)	(859)
	<hr/>
At beginning of year as restated	1,791
Profit for the financial year	35,416
Pension scheme actuarial gains	34
Deferred tax on actuarial gains	(10)
Interim dividend paid	(5,250)
Transfer from merger reserve	1,197
	<hr/>
At end of year	33,178
	<hr/>

Notes (continued)

17 Pensions

The company is a member of a group pension scheme ('The Gardner Denver British Pension Scheme') providing benefits based on final pensionable pay. As stated in note 1, an appropriate share of the scheme assets and liabilities have been included in these financial statements on a reasonable and consistent basis.

An actuarial valuation was carried out by an independent actuary as at 31 December 2006 for FRS 17 purposes. The deficit in the scheme as at 31 December 2006 was £14,075,000 (£9,852,000 net of deferred taxes at 30%). The deficit as at 31 December 2005 was £14,682,000 (£10,277,000 net of deferred taxes at 30%).

The company has not previously recorded a full FRS17 liability on its balance sheet. Instead it has taken advantage of the multi-employer exemption allowed under the standard. However, as part of the merger of its UK pension schemes, the group now believes it is able to split the liabilities between the participating companies with sufficient accuracy for the exemption to no longer be applicable. The 2005 comparative figures have been adjusted accordingly for consistency and comparability.

The company also operates an existing defined contribution benefit section of The Gardner Denver British Pension Scheme and the costs are charged to the profit and loss account as incurred in accordance with FRS17.

The major assumptions used in the valuation of The Gardner Denver British Scheme were as follows:

	2006	2005	2004
Rate of increase in salaries	4.0%	3.75%	3.8%
Rate of increase in pensions in payment	3.0%	2.75%	2.8%
Discount rate	5.1%	4.75%	5.3%
Investment return	6.63%	6.11%	6.72%
Inflation assumption	3.0%	2.75%	2.8%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

17 Pension Scheme (continued)

Scheme assets

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

	Expected long term rate of return	Market value	Expected long term rate of return	Market value	Expected long term rate of return	Market value
	31 December 2006 %	31 December 2006 £'000	31 December 2005 %	31 December 2005 £'000	31 December 2004 %	31 December 2004 £'000
Equities	7.50%	26,344	7.10%	23,027	7.50%	21,136
Bonds	4.70%	12,464	4.30%	13,094	4.80%	9,042
Property	7.50%	1,082	7.10%	1,079	7.50%	989
Market value of scheme assets	6.63%	39,890	6.11%	37,200	6.72%	31,167
Present value of scheme liabilities		(53,965)		(51,882)		(42,945)
Deficit in the scheme – Pension liability		(14,075)		(14,682)		(11,778)
Related deferred tax asset		4,223		4,405		3,533
Net pension liability		(9,852)		(10,277)		(8,245)

Movement in the deficit during the year

	2006 (company share) £'000	2006 (total scheme) £'000	2005 (company share) £'000	2005 (total scheme) £'000
Deficit in scheme at beginning of year	(1,227)	(14,682)	(985)	(11,778)
Current service cost	(103)	(1,234)	(88)	(1,048)
Contributions paid	135	1,615	148	1,758
Other finance expenditure	(15)	(180)	(13)	(158)
Actuarial gain / (loss)	34	406	(289)	(3,456)
Deficit in the scheme at end of year	(1,176)	(14,075)	(1,227)	(14,682)

17 Pension Scheme (continued)

Analysis of amounts included in interest payable

	2006 (company share) £'000	2006 (total scheme) £'000	2005 (company share) £'000	2005 (total scheme) £'000
Expected return on pension scheme assets	190	2,278	175	2,121
Interest on pension scheme liabilities	(205)	(2,458)	(188)	(2,279)
	<u>(15)</u>	<u>(180)</u>	<u>(13)</u>	<u>(158)</u>

Analysis of amount recognised in statement of total recognised gains and losses

	2006 (company share) £'000	2006 (total scheme) £'000	2005 (company share) £'000	2005 (total scheme) £'000
Actual return less expected return on assets	26	308	257	3,078
Changes in assumptions	(216)	(2,569)	(438)	(5,243)
Experience gains and losses arising on liabilities	224	2,667	(108)	(1,291)
	<u>34</u>	<u>406</u>	<u>(289)</u>	<u>(3,456)</u>

History of experience gains and losses (total scheme)

	2006	2005	2004
Difference between the expected and actual return on scheme assets			
Amount (£000)	308	3,078	752
Percentage of year end scheme assets	0.8%	8.2%	2.4%
Experience gains and losses on scheme liabilities			
Amount (£000)	2,667	(1,291)	-
Percentage of year end present value of scheme liabilities	4.9%	(2.5%)	-
Total amount recognised in statement of total recognised gains and losses			
Amount (£000)	406	(3,456)	714
Percentage of year end present value of scheme liabilities	0.8%	(6.7%)	1.7%

18 Contingent liabilities

The company has guaranteed the bank borrowings of certain group undertakings which at 31 December 2006 amounted to £4,313,988 (2005 £231,000). The company has guaranteed the VAT liability of certain group undertakings which at 31 December 2006 amounted to £228,000 (2005 £287,000).

19 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)

20 Employee share schemes

Under the parent company's Long-Term Incentive Plan (the "Incentive Plan"), designated employees are eligible to receive awards in the form of share options, share appreciation rights, restricted stock awards or performance shares, as determined by the Management Development and Compensation Committee of the parent company's Board of Directors. Under the Incentive Plan, the grant price of an option is determined by the Management Development and Compensation Committee, but must not be less than the average of the high and low price of the parent company's shares on the date of grant. The Incentive Plan provides that the term of any option granted may not exceed ten years. Under the terms of existing awards, one-third of employee options granted become vested and exercisable on each of the first three anniversaries of the date of grant (or upon retirement, death or cessation of service due to disability, if earlier). The options granted to employees in 2006, 2005 and 2004 expire seven years after the date of grant.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price \$ 2006	Number of options 2006	Weighted average exercise price \$ 2005	Number of options 2005
Outstanding at the beginning of the year	15.91	46,134	13.29	31,000
Granted during the year	30.58	20,000	20.09	17,800
Exercised/cancelled during the year	15.64	14,400	13.29	2,666
Outstanding at the end of the year	22.81	51,734	15.91	46,134

The options outstanding at the year end have an exercise price in the range of \$13.29 and \$30.58 and a total weighted average contractual life of 7 years.

The fair value of each share option grant under the parent company's Incentive Plan was estimated on the date of grant using the Black-Scholes option-pricing model. Expected volatility is based on historical volatility of the parent company's shares calculated over the expected term of the option. The expected term for the majority of the options granted during the year ended 31 December 2006, was calculated in accordance with FRS 20 using the simplified method for "plain-vanilla" options. The risk-free rate over the expected term of the options is based on the U.S. Treasury yield curve in effect at the date of grant. The weighted-average assumptions used in the valuation of option awards granted during the years ended 31 December 2006, 2005 and 2004 are noted in the table below.

	2006	2005	2004
Fair value at grant date	\$10.31	\$6.65	\$4.72
Share price	\$30.58	\$20.09	\$13.29
Exercise price	\$30.58	\$20.09	\$13.29
Risk-free interest rate	4.7%	3.9%	3.1%
Volatility factor	27	33	34
Expected life (in years)	4.8	4.4	4.5
Dividend yield	-	-	-

20 Employee share schemes (cont.)

The total expenses recognised for the year arising from share based payments are as follows

	2006 £'000
Equity settled share based payments	86
Capital contribution reserve as at 31 December 2006	86

In accordance with the modified prospective transition method, the Company's financial statements for the years ended 31 December 2005 and 2004 have not been restated and do not include the impact of FRS 20. Accordingly, no compensation expense related to share option awards was recognised in 2005 and 2004, as all share options granted had an exercise price equal to the fair market value of the underlying share capital on the date of grant.

The Company's deferred corporation tax charge has been reduced by the tax benefits from employee share option exercises. These totalled

21 Post balance sheet events

On 13 July 2007, all employees were notified of the intention to change their employer from the company to Gardner Denver Group Services Ltd. The change duly came into effect on 1 August 2007 and the company entered into an agreement with Gardner Denver Group Services Ltd for the provision of services by its former employees.

On 30 July 2007, the company paid a special contribution of £447,057 into the Gardner Denver British Pension Scheme. The payment was made in conjunction with the merger of the Gardner Denver British Pension Scheme, Gardner Denver Pension Scheme and GD Nash Retirement Benefits Scheme. The merger became effective on 1 August 2007.

22 Prior year adjustment

As outlined in note 1, the company has not previously recorded a full FRS17 liability on its balance sheet. Instead it has taken advantage of the multi-employer exemption allowed under the standard. However, as part of the merger of its UK pension schemes, the group now believes it is able to split the liabilities between the participating companies with sufficient accuracy for the exemption to no longer be applicable. The 2005 comparative figures have been adjusted accordingly for consistency and comparability.

This has resulted in a prior year adjustment to opening retained earnings, pension provision and deferred tax (see notes 12 and 16) and to the comparative pension costs in the 2005 profit and loss account.