

Pall Europe Limited
Directors' Report and Financial Statements
for the Year Ended 31 July 2007

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Pall Europe Limited
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**Pall Europe Limited
Officers and Advisers**

Chairman	E Krasnoff
Directors	H Chapman E Krasnoff E J Pearson A Trewhela C Munslow
Secretary	C Munslow
Solicitors	Blake Lapthorn Tarlo Lyons
Bankers	National Westminster Bank plc Commercial Road, Portsmouth
Auditors	KPMG LLP Dukes Keep, Southampton

Pall Europe Limited
Directors' Report for the Year Ended 31 July 2007

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 July 2007

Directors' responsibilities

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure the 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

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 the UK accounting standards and applicable law, (UK Generally Accepted Accounting Practices). The directors are required to

- select suitable accounting policies and 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,
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business

Principal activity and business review

The principal activity of the Company is the supply of proprietary fine and ultra fine filters, filter systems and ancillary equipment

Review of business and future developments

Pall Europe has both manufacturing and sales divisions. As part of a large US based organisation much of the product manufactured by the company is sold to intercompany partners for further processing or for sales to third parties in their domestic markets. The sales side of the business purchases products both manufactured domestically and internationally for sales to both UK and overseas countries where the Pall Corporation does not have a local subsidiary or sales office

The Company has six divisions, four of which are manufacturing sites and are located at Ilfracombe, Newquay, North Harbour – Portsmouth and Redruth. The final two are a European procurement division and the UK sales division both of which are located at its head office, Europa House – Portsmouth

The Company serves customers through two business groups globally. Life Sciences and Industrial. The Life Sciences business group is focused on developing, manufacturing and selling products to customers in the Medical and BioPharmaceuticals marketplaces. *The Industrial business group is focused on developing, manufacturing and selling products to customers in the Aerospace and Transportation, Microelectronics and General Industrial markets*

These business groups are supported by shared and corporate services groups that facilitate the Company's corporate governance and business activities globally. The transition to this business structure began in fiscal year 2005 and was completed in the first quarter of fiscal year 2007. While there is overlap in the intellectual property that underlies the products sold by the business groups, Company management believes that this structure positions the Company for future profitable growth

This business structure holistically focuses on the global marketplace presenting opportunities for sales growth, efficiencies and cost reduction in both of the business groups, as well as in the Company's corporate and shared services infrastructure, while leveraging its entire intellectual property portfolio to the marketplaces efficiently

The external sales for the year, based on this structure, are set out below

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Directors' Report for the Year Ended 31 July 2007

	Sales	Sales	Sales	Percentage change to 2007 from	
	2007	2006	2005	2006 %	2005 %
	£ 000	£ 000	£ 000		
Life Sciences	51,484	42,239	39,259	21.89	31.14
Industrial	51,844	49,078	42,870	5.64	20.93
External sales	103,328	91,317	82,129	13.15	25.81
Inter company sales and other income	173,412	165,471	155,974	4.80	11.18
Turnover	276,740	256,788	238,103	7.76	16.22

The sales division has seen considerable growth in the life sciences segments and the directors consider that further growth is expected in the coming year. Industrial segments have seen a more difficult year and the directors have devoted a proportion of their time to re-focus their teams and set a more aggressive sales strategy. With the manufacturing sites operating at near capacity intercompany sales have seen a steady increase.

The directors have plans to continue growing through organic sales growth, further improvement to reduce the cost of sales and administrative costs and therefore increase gross and net margins and where the opportunity is available by acquisition.

Risk Factors affecting the business

The Company's costs are subject to fluctuations, particularly due to changes in commodity prices, raw materials, energy and related utilities and cost of labour. The achievement of the Company's financial objectives is reliant on its ability to manage these fluctuations through cost savings actions and efficiency initiatives.

Fluctuations in foreign currency exchange rates and interest rates may affect operating results. It is the company's practise to invoice in the home currency of the customer. These exposures are hedged, but fluctuations in currency exchange rates may affect operating results.

Part of the Company's planned growth is dependent on new products and technologies. Some of those new products may require regulatory approval. Growth from those new technologies may not be realized if regulatory approval is not granted or customer demand for those products or technologies does not materialise.

Changes in demand for the Company's products and business relationships with key customers and suppliers, including delays or cancellations in shipments, may affect operating results. To achieve its objectives, the Company must develop and sell products that are subject to the demands of customers. This is dependent on many factors including, but not limited to, managing and maintaining relationships with key customers, responding to the rapid pace of technological change and obsolescence, which may require increased investment by or greater pressure to commercialize developments rapidly or at prices that may not fully recover the associated investment, and the effect on demand resulting from customers' research, development and capital expenditure plans.

The manufacturing of the Company's products is dependent on an adequate supply of raw materials. The Company's ability to maintain an adequate supply of raw materials could be impacted by the availability and price of those raw materials and maintaining relationships with key suppliers.

The Company may not successfully enforce patents and protect proprietary products and manufacturing techniques. Some of the Company's products, as well as some competitor's products, are based on patented technology and other intellectual property rights. Some of these patented technologies and intellectual property require substantial resources to develop. Operating results may be affected by the costs associated with the Company's defence of its intellectual property against unauthorized use by others as well as third-party challenges to its intellectual property. The Company could also experience disruptions in its business, including loss of revenues and adverse effects on its prospects, if its patented or other proprietary technologies are successfully challenged.

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Directors' Report for the Year Ended 31 July 2007

The Company may not be able to successfully complete or integrate acquisitions. In so far as acquisition opportunities are identified, there is no assurance of the Company's ability to complete any such transactions and successfully integrate the acquired business as planned.

The Company is subject to competition in all of the global markets in which it operates. The Company's achievement of its objectives is reliant on its ability to successfully respond to many competitive factors including, but not limited to, pricing, technological innovations, product quality, customer service, manufacturing capabilities and hiring and retention of qualified personnel. The Company may be impacted by global and regional economic conditions and legislative, regulatory and political developments.

Post balance sheet events

Several months after the year end the Internal Revenue Service (IRS) of the United States of America and Her Majesty's Revenue and Customs (HMRC) of the United Kingdom resolved the outstanding competent authority dispute over royalties for the years pertaining to 1996-1998. The treatment found broadly in favour of the HMRC and the Company has decided to release the provisions brought forward for all years not just the ones formally agreed. The full details are covered in note 4 exceptional items and in note 21 contingent liabilities.

Results and dividend

The results for the Company are set out in the financial statements.

The directors do not recommend the payment of a dividend (2006 - Nil).

Research and development

The Company will continue its policy of investment in research and development in order to retain a competitive position in the market.

Employees

The Company recognises the benefits of keeping employees informed of the progress of the business. During the year the employees were regularly provided with information regarding the financial and economic factors affecting the performance of the group and on other matters of concern to them as employees, through the medium of regular employee briefings. The Company's policy with regard to the employment of disabled persons is that equal consideration is given to all applications from both able and disabled persons, subject only to the overriding consideration of safety. The special needs of disabled employees for training and advancement are kept under review.

Health and Safety

The company has continued to follow the requirements of the Health and Safety at Work Act 1974 and its associated provisions.

Fixed assets

In the opinion of the directors no fixed assets have a significant difference in value between the book value reported and the market value. The difference between the book value reported and market value is not significant.

Donations

The company made the following donations

	2007	2006
	£ 000	£ 000
Charitable donations	43	19
Political donations	-	-
Total donations	43	19

Directors

The directors who held office during the year were as follows

Pall Europe Limited
Directors' Report for the Year Ended 31 July 2007

- H Chapman
- E Krasnoff
- E J Pearson
- A Trewhela
- C Munslow

Retirement of directors

In accordance with the Articles of Association, directors are not required to retire from the board on a rotational basis

Disclosure of information to auditors

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 auditors are 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 auditors are aware of that information

Auditors

The auditors, KPMG LLP, are deemed to be re-appointed in accordance with section 386 of the Companies Act 1985

Election to dispense laying accounts

In accordance with section 252, Companies Act 1985, the company has elected to dispense with laying accounts before the members in general meeting. Members, however, may by notice in writing to the company at its registered office require that accounts are laid before the members in general meeting

Approved by the Board on 28 May 2008 and signed on its behalf by



A Trewhela
Director

Independent Auditors' Report to the Members of Pall Europe Limited

We have audited the financial statements of Pall Europe Limited for the year ended 31 July 2007 which comprise of the Profit and Loss account, the Balance Sheet and the Statement of Total Recognised Gains and Losses and related notes. These financial statements have been prepared in accordance with 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 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 auditors' 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 2, the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom 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 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 transactions with the company 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

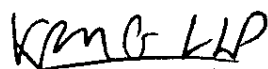
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements 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 United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 July 2007 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 LLP

Chartered Accountants
Registered Auditors

29 May 2008

Pall Europe Limited
Profit and Loss Account for the Year Ended 31 July 2007

	Note	2007 £ 000	2006 £ 000
Turnover	2	276,740	256,788
Cost of sales		(205,026)	(188,944)
Gross profit		<u>71,714</u>	<u>67,844</u>
Administrative expenses		(58,170)	(39,761)
Operating profit	3	<u>13,544</u>	<u>28,083</u>
Exceptional item - royalties	4	40,204	-
Pension fund curtailment	4	-	(12,727)
Other interest receivable and similar income		230	490
Other finance costs	24	(304)	(434)
Interest payable and similar charges	7	(3,751)	(3,256)
Profit on ordinary activities before taxation		<u>49,923</u>	<u>12,156</u>
Tax on profit on ordinary activities	8	(13,271)	(3,298)
Profit for the financial year	19	<u><u>36,652</u></u>	<u><u>8,858</u></u>

Turnover and operating profit derive wholly from continuing operations

There is no material difference between the result reported above and the result on an unmodified historical cost basis

Pall Europe Limited

Statement of Total Recognised Gains and Losses for the Year Ended 31 July 2007

	2007 £ 000	2006 £ 000
Net profit for the year	36,652	8,858
Actuarial gain on pension scheme surplus	4,363	4,428
Changes in actuarial assumptions	10,005	(18,392)
Deferred tax on pension movement	(4,566)	-
Adoption of FRS20 Share based payments years prior to 2006	(63)	-
Adoption of FRS20 Share based payments years prior to 2006 - tax	17	-
Deferred tax on pension movement - prior years	13,590	-
Total gains/(losses) for the year	<u>59,998</u>	<u>(5,106)</u>

Adoption of FRS 20

The company has paid some of its employees and directors in the form of share based payments FRS 20 is intended to address the difference between the accrued liability and realised cost, by making a provision each year for the expected value

During the course of the year the company has valued the share based payments made to its staff using the Black Scholes valuation model Below is disclosed the cumulative adjustment required for previous periods and the charge incurred this year and last year with deduction for tax shown separately The company consider the effects of FRS 20 to be immaterial in general terms and has not restated the prior year

	£ 000	£ 000	£ 000
	FRS20 Charge	Tax	Net P&L Reserve
Year ending 2007 - charged to Profit & Loss	17	(5)	12
Year ending 2006 - charged to Profit & Loss	7	(2)	5
Years ending before 2006 - charged to STRGL	63	(17)	46
Total charge for adoption of FRS 20	<u>87</u>	<u>(24)</u>	<u>63</u>

Pall Europe Limited
Balance Sheet as at 31 July 2007

	Note	2007 £ 000	2006 £ 000
Fixed assets			
Intangible assets	9	3,491	4,009
Tangible assets	10	53,250	54,660
Investments	11	<u>65,646</u>	<u>67,160</u>
		<u>122,387</u>	<u>125,829</u>
Current assets			
Stocks	12	52,319	41,529
Debtors – includes £26,000 due after more than one year	13	53,597	52,378
Cash at bank and in hand		<u>5,989</u>	<u>3,702</u>
		<u>111,905</u>	<u>97,609</u>
Creditors: Amounts falling due within one year	14	<u>(88,563)</u>	<u>(119,084)</u>
Net current assets/(liabilities)		<u>23,342</u>	<u>(21,475)</u>
Total assets less current liabilities		145,729	104,354
Creditors: Amounts falling due after more than one year	15	<u>(26,036)</u>	<u>(32,984)</u>
Provisions for liabilities	17	<u>(1,658)</u>	<u>(1,916)</u>
Net assets excluding pension liabilities		118,035	69,454
Pension liabilities:			
Total of defined benefit schemes with net liabilities	24	<u>(9,208)</u>	<u>(20,625)</u>
Net assets including pension liabilities		<u>108,827</u>	<u>48,829</u>
Capital and reserves			
Called up share capital	18	21,000	21 000
Other reserves	19	2,469	2,469
Profit and loss reserve	19	<u>85,358</u>	<u>25,360</u>
Equity shareholders' funds	20	<u>108,827</u>	<u>48,829</u>

Approved by the Board on 28 May 2008 and signed on its behalf by



A Trewhela
Director

Pall Europe Limited
Notes to the Financial Statements for the Year Ended 31 July 2007

1 Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The company is exempt by virtue of section 228A of the Companies Act 1985 from the requirement to prepare group accounts as it is a wholly owned subsidiary of Pall Corporation which prepares consolidated accounts in a manner prescribed by s228A(2). These financial statements present information about the company as an individual undertaking and not about its group.

The company has applied the following accounting policies consistently in dealing with items which are considered material in relation to the financial statements, except the company has adopted FRS20 and the details of this change to accounting policy are shown in the statement of recognised gains and losses.

Cash flow statement

As the company is a wholly owned subsidiary of Pall Corporation (US), and whose accounts are available from Securities Exchange Commission (SEC, New York), it is exempt under FRS1 from the requirement to present a cash flow statement.

Turnover

Turnover represents amounts invoiced, excluding value added tax, in respect of the sale of goods and services to customers.

Amortisation

Intangible fixed assets purchased separately from a business are capitalised at their cost. Amortisation is provided on intangible fixed assets so as to write off the cost or valuation, less any estimated residual value, over their expected useful economic life as follows:

Patent	10% to 20%
Goodwill	10%

Depreciation

Depreciation is provided on tangible fixed assets so as to write off the cost or valuation, less any estimated residual value, by equal instalments, over their expected useful economic life as follows:

Plant and equipment	10% to 25% straight line basis
Freehold buildings	2% straight line basis

Land with a cost of £1,468,000 (2006: £1,468,000) included in the balance sheet is not depreciated.

Goodwill

Goodwill is the difference between the fair value of consideration paid for an acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities. Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Research and development expenditure

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Pall Europe Limited
Notes to the Financial Statements for the Year Ended 31 July 2007

Revenue Recognition

Revenue is recognised when title and risk or loss have transferred to the customer and when contractual terms have been fulfilled, this is with the exception of long term contracts in which we recognise income on a percentage of completion basis

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value, after due regard for obsolete and slow moving stocks. Net realisable value is based on selling price less anticipated costs to completion and selling costs. In determining the cost of the raw materials, consumables and goods purchased for resale, a weighted average method is used. For work in progress and finished goods, cost is taken as the production cost, which includes an appropriate proportion of attributable overheads

Long-term contracts

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs (as defined in Stocks above) as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen

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 provided in full on timing differences which represent a liability at the balance sheet date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income or expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax assets and liabilities are not discounted

Foreign currencies

Profit and loss account transactions in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates at the balance sheet date and the exchange differences are included in the profit and loss account

Hire purchase and finance lease contracts

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases are included as liabilities in the balance sheet. The interest element of the rental obligation is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding

Assets acquired under instalment finance agreements are treated as tangible fixed assets and depreciation is provided accordingly. The capital element of future finance payments is included within creditors. Finance charges are allocated to accounting periods over the length of the contract

Investments

Investments are stated at cost less any provisions for permanent diminution in value

Operating leases

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term

Share based payments

The share option programme allows employees to acquire shares of the Company. The fair value of options granted (after 7 November 2002 and those not yet vested as at 31 July 2008) is recognised as an

Pall Europe Limited
Notes to the Financial Statements for the Year Ended 31 July 2007

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

For cash settled share based payment transactions, (with the exception of those awards settled before the 7th November 2002) the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on an option pricing model taking in to account the terms and conditions upon which the instruments were granted. The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account.

Cost of sales re-classification

At the start of the year the Company changed its internal policy on overhead absorption. The impact of this change on the 31 July 2006 financial statements would have been to reclassify £2,833,000 from administrative expenses to cost of sales. There is no effect on operating profit, stock valuation or tax.

Pensions

Defined contributions

The Company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

Defined benefits

Contributions payable to the Company's pension schemes are charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the schemes. The pension charge is calculated on the basis of actuarial advice.

The pension schemes liabilities are measured using a project unit method and discounted at an AA corporate bond rate. The pension schemes assets are valued at market rate. The pension schemes surplus (to the extent that they can be recovered)/ deficit are recognised in full on the balance sheet.

2 Turnover

An analysis of turnover by geographical market is given below

	2007	2006
	£ 000	£ 000
United Kingdom	55,820	50,524
Europe	164,528	152,853
Rest of world	56,392	53,411
	<u>276,740</u>	<u>256,788</u>

3 Operating profit

Operating profit is stated after charging/ (crediting)

Pall Europe Limited
Notes to the Financial Statements for the Year Ended 31 July 2007

	2007		2006	
	£ 000	£ 000	£ 000	£ 000
Research and development expenditure		2,699		2,070
Hire of other assets (Operating leases)		462		302
Auditors' remuneration				
The audit of the company's annual accounts	291		470	
Other services	<u>59</u>		<u>42</u>	
		350		512
Foreign currency losses/(gains)		235		(3)
Loss/(profit) on sale of tangible fixed assets		116		(61)
Depreciation of owned tangible fixed assets		8,187		8,810
Depreciation of leased tangible fixed assets		63		149
Provision for impairment of Pall Euroflow investment (note 11)		1,434		-
Amortisation of goodwill		90		204
Amortisation of patents		<u>428</u>		<u>425</u>

4 Exceptional items

	2007	2006
	£ 000	£ 000
Exceptional item - Royalties	40,204	-
Exceptional item - Pension curtailment	-	(12,727)

Royalties

In May 2004, at the conclusion of an audit of the company's payments to Pall Corporation during 1996 to 1998, the Internal Revenue Service in the USA, proposed that additional royalties and other transfer price adjustments of £16,164,000, before any tax relief, should be payable in respect of those years. In October 2005, the Internal Revenue Service proposed similar adjustments amounting to £16,173,000 in respect of the years 1999 to 2002. The Internal Revenue Service will, in due course, investigate the payments made in subsequent years. The directors have applied for relief from UK taxation under the Competent Authority procedure provided for in the Double Taxation Agreement between the United Kingdom and the United States of America in respect of the periods 1996 to 1998 and 1999 to 2002.

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Notes to the Financial Statements for the Year Ended 31 July 2007

Subsequent to the year end, the proceedings for the years 1996 to 1998 were completed and it was agreed on a without prejudice basis that while the transfer pricing adjustments would be upheld the royalty adjustments were not accepted. In the opinion of the Directors this settlement is reasonable and, accordingly have released the provision for the proposed royalty adjustments for all prior years. Provision has been retained for the proposed transfer pricing adjustments and an accrual has been made for the anticipated adjustment for 2007.

There remains a risk that the Internal Revenue Service will be successful in obtaining a royalty adjustment in subsequent years and this is referred to in note 21.

The tax benefit of these matters has been reclassified from a deferred tax asset to a current tax receivable following the completion of the proceedings for the years 1996 to 1998, see note 13.

Pension curtailment

On 31 March 2006, the company closed its UK defined benefit pension plans to future service accruals. The amounts credited to the profit and loss account to reflect the reduction in the pension deficits are £12,588,000 in respect of The Pall (UK) Pension Fund and £139,000 in respect of The Pall Supplementary Pension Scheme (see note 24).

5 Particulars of employees

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

	2007 No.	2006 No.
Productive departments	1,484	1,407
Marketing and sales	145	192
General administration	115	198
	1,744	1,797

The aggregate payroll costs of these persons were as follows:

	2007 £ 000	2006 £ 000
Wages and salaries	55,606	55,173
Share based payments	17	7
Social security	5,803	5,492
Other pension costs	1,825	7,632
	63,251	68,304

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Notes to the Financial Statements for the Year Ended 31 July 2007

6 Directors' emoluments

The directors' emoluments for the year are as follows

	2007 £ 000	2006 £ 000
Directors' emoluments (including benefits in kind)	502	775
Pension contributions	<u>16</u>	<u>26</u>

During the period the number of directors who were accruing benefits under company pension schemes was as follows

	2007 No.	2006 No.
Money purchase	4	5
Defined benefit	<u>4</u>	<u>6</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £147,000 (2006 - £212,000), and company pension contributions of £4,476 (2006 - £4,293) were made to a money purchase scheme on their behalf. The highest paid director is a member of a defined benefit scheme, under which their accrued pension at the year end was £27,358 (2006 - £83,841)

7 Interest payable and similar charges

	2007 £ 000	2006 £ 000
Bank interest payable	2,033	230
Interest payable to group undertakings	1,662	3,017
Other interest payable	56	9
	<u>3,751</u>	<u>3,256</u>

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Notes to the Financial Statements for the Year Ended 31 July 2007

8 Taxation

Analysis of current period tax charge

	2007 £ 000	2006 £ 000
Current tax		
Corporation tax charge	2,963	1,439
Adjustment in respect of prior years	(4)	(313)
Total current tax	2,959	1,126
Deferred tax		
Change of rate	(240)	-
Royalty adjustment	11,973	-
Elimination of balancing adjustments (re IBA's)	(1,688)	-
Origination and reversal of timing differences	267	2,172
Total tax on profit on ordinary activities	13,271	3,298

Factors affecting current period tax charge

The tax assessed on the profit on ordinary activities for the year is higher than (2006 - lower than) the standard rate of corporation tax in the UK of 30.00% (2006 - 30.00%). The deferred tax charge was reduced by £240,000 in respect of the impact of the reduction in the rate at which deferred tax was provided from 30.00% to 28.00%. The balancing adjustments credit £1,688,000 is in respect of changes in the Finance Act which have modified the rules to eliminate any clawing back of industrial buildings allowance.

The differences are reconciled below

	2007 £ 000	2006 £ 000
Profit on ordinary activities before taxation	49,923	12,156
Standard rate corporation tax charge	14,977	3,647
Expenses not deductible for tax purposes	671	1,569
Royalty adjustment	(11,973)	-
Short Term timing differences	(900)	(3,702)
Depreciation in excess of capital allowances	188	(75)
Adjustment to tax in prior periods	(4)	(313)
Total current tax for the year	2,959	1,126

Pall Europe Limited
Notes to the Financial Statements for the Year Ended 31 July 2007

9 Intangible fixed assets

	Goodwill £ 000	Patent £ 000	Total £ 000
Cost			
As at 1 August 2006 and 31 July 2007	<u>894</u>	<u>4,057</u>	<u>4,951</u>
Amortisation			
As at 1 August 2006	517	425	942
Charge for the year	<u>90</u>	<u>428</u>	<u>517</u>
As at 31 July 2007	<u>607</u>	<u>853</u>	<u>1,460</u>
Net book value			
As at 31 July 2007	<u>287</u>	<u>3,204</u>	<u>3,491</u>
As at 31 July 2006	<u>377</u>	<u>3,632</u>	<u>4,009</u>

Goodwill, which relates to the acquisition of the trade and net assets of Hughes Whitlock Limited, consists of purchased goodwill and is being amortised evenly over its useful economic life of 10 years

Intellectual property recognised on the hive up of Pall Euroflow Limited as of the 31 January 2006 is being amortised over 10 years

Pall Europe Limited
Notes to the Financial Statements for the Year Ended 31 July 2007

10 Tangible fixed assets

	Land and buildings £ 000	Plant and machinery £ 000	Total £ 000
Cost			
As at 1 August 2006	27,232	120,895	148,127
Additions	112	7,173	7,285
Disposals	(108)	(4,456)	(4,564)
As at 31 July 2007	<u>27,236</u>	<u>123,612</u>	<u>150,848</u>
Depreciation			
As at 1 August 2006	9,590	83,877	93,467
Eliminated on disposals	(27)	(4,092)	(4,119)
Charge for the year	519	7,731	8,250
As at 31 July 2007	<u>10,082</u>	<u>87,516</u>	<u>97,598</u>
Net book value			
As at 31 July 2007	<u>17,154</u>	<u>36,096</u>	<u>53,250</u>
As at 31 July 2006	<u>17,642</u>	<u>37,018</u>	<u>54,660</u>

Hire purchase agreements

Included within the total net book value of tangible fixed assets is £121,517 (2006 - £184,467) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £62,950 (2006 - £121,000).

The net book value of the land and buildings is comprised entirely of freehold land and buildings.

Pall Europe Limited
Notes to the Financial Statements for the Year Ended 31 July 2007

11 Investments held as fixed assets

	Shares in group undertakings £ 000
Cost	
As at 1 August 2006	67,512
Disposals	(80)
As at 31 July 2007	<u>67,432</u>
Provisions	
As at 1 August 2006	352
Charge for the year	1,434
As at 31 July 2007	<u>1,786</u>
Net book value	
As at 31 July 2007	<u>65,646</u>
As at 31 July 2006	<u>67,160</u>

The company has provided in full for its investment in Pall Euroflow Limited which is expected to be liquidated in the coming year. The investment in Hughes Whitlock was written off in the year following the liquidation of the company.

The company holds more than 20% of the share capital of the following companies

	Country of incorporation	Principal activity	Class	%
Subsidiary undertakings				
Pall Biomedical Limited	England	Dormant	Ordinary	100
Pall Euroflow Limited	England	Dormant	Ordinary	100
Pall Verwaltungsgesellschaft mbH	Germany	Investment	Ordinary	100
Pall Filtration and Separations Holding BV	Netherlands	Investment	Ordinary	100

In addition, through its directly held interests, the company has the following principal subsidiaries:

Cord Chemical Company Limited	England	Dormant	Ordinary	100
Pall Filtration and Separations Limited	England	Investment	Ordinary	100
Pall Seitz Filterite Limited	England	Dormant	Ordinary	100
Pall Filtration and Separations GmbH	Germany	Investment	Ordinary	100
Pall Filtration and Separations Group SAS	France	Investment	Ordinary	100
Pall Filtration France SAS	France	Dormant	Ordinary	100

Pall Europe Limited
Notes to the Financial Statements for the Year Ended 31 July 2007

12 Stocks and work in progress

	2007	2006
	£ 000	£ 000
Raw materials	19,169	18,869
Work in progress	5,686	5,694
Finished goods	27,464	16,966
	<u>52,319</u>	<u>41,529</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material

13 Debtors

	2007	2006
	£ 000	£ 000
Trade debtors	20,473	19,902
Amounts owed by group undertakings	25,964	26,359
Other debtors	1,079	2,671
Corporation tax	3,729	-
Prepayments and accrued income	2,352	3,446
	<u>53,597</u>	<u>52,378</u>

Other debtors

Other debtors includes employee loans of £26,000 (2006 £158,000) due after more than one year, in respect of the Home Computer Initiative

Corporation tax debtor

This year the company has chosen to disclose the corporation tax debtor separately from the provision for royalties. In previous years a net provision was stated as part of the deferred tax balance. The value of the debtor is £3,729,000 (2006 £15,702,000)

14 Creditors: Amounts falling due within one year

	2007	2006
	£ 000	£ 000
Bank loans and overdrafts (note 16)	36,000	38,353
Obligations under finance leases and hire purchase contracts	47	94
Payments received on account	-	773
Trade creditors	7,649	14,850
Amounts owed to group undertakings	22,607	57,358
Corporation tax	2,370	538
Social security and other taxes	275	834
Other creditors	510	1,513
Accruals and deferred income	19,105	4,771
	<u>88,563</u>	<u>119,084</u>

Pall Europe Limited
Notes to the Financial Statements for the Year Ended 31 July 2007

15 Creditors: Amounts falling due after more than one year

	2007 £ 000	2006 £ 000
Obligations under finance leases and hire purchase contracts	36	163
Accruals and deferred income	-	1,454
Intercompany loans due between two and five years	26,000	31,367
	<u>26,036</u>	<u>32,984</u>

16 Maturation of borrowings

Amounts repayable

	Bank loans & overdraft £ 000	Intercompany loans £ 000	Obligations under finance leases and HP contracts £ 000	Total £ 000
As at 31 July 2007				
In one year or less on demand	36,000	-	47	36,047
Between two and five years	-	26,000	36	26,036
	<u>36,000</u>	<u>26,000</u>	<u>83</u>	<u>62,083</u>
As at 31 July 2006				
In one year or less on demand	38,353	-	94	38,447
Between two and five years	-	31,367	163	31,530
	<u>38,353</u>	<u>31,367</u>	<u>257</u>	<u>69,977</u>

Rate of borrowing

The company has two loans in place. One £26,000,000 is with a group entity based in Luxembourg which bears an interest rate of 1.25% above the Bank of England base lending rate and is repayable on 28 July 2011. The other £36,000,000 is with JP Morgan and is charged at the floating libor plus 0.0326% margin and is repayable on the 20 June 2008. Neither loan is secured against specific assets of the company.

Pall Europe Limited
Notes to the Financial Statements for the Year Ended 31 July 2007

17 Provision for liabilities

	Deferred tax provision £ 000
As at 1 August 2006	1,916
Deferred tax provision charged to the profit and loss account	(1,661)
Deferred tax provision charged to Statement of total recognised gains and losses	(13,607)
Deferred tax provision charged to pension - FRS17	(692)
Deferred tax charged to the profit and loss account regarding royalties	11,973
Deferred tax transferred to corporation tax regarding royalties	3,729
As at 31 July 2007	<u>1,658</u>

The deferred tax movement through the Statement of total recognised gains and losses arises principally in respect of the pension liability of the company and the estimated tax position there on

Deferred tax

Deferred tax is provided at 28.00% (2006 - 30.00%)

	2007 £ 000	2006 £ 000
Accelerated rate of capital allowances over depreciation and amortisation	5,318	5,782
Other timing differences	(1,972)	(1,754)
Pension liabilities	-	13,590
Royalties	-	(15,702)
	<u>3,346</u>	<u>1,916</u>

18 Share capital

	2007 £	2006 £
Authorised		
Equity		
25,000,000 Ordinary shares of £ 1.00 each	<u>25,000,000</u>	<u>25,000,000</u>
Allotted, called up and fully paid		
Equity		
21,000,000 Ordinary shares of £ 1.00 each	<u>21,000,000</u>	<u>21,000,000</u>

Pall Europe Limited
Notes to the Financial Statements for the Year Ended 31 July 2007

19 Reserves

	Other reserves £ 000	Profit and loss reserve £ 000	Total £ 000
Balance at 1 August 2006	2,469	25,360	27,829
Other gains/(losses) recognised in statement of total gains and losses	-	(46)	(46)
Transfer from profit and loss account for the year	-	36,652	36,652
Actuarial gain recognised in Statement of total gains and losses	-	14,368	14,368
Deferred tax arising on actuarial gains in pension scheme in the current year	-	(4,566)	(4, 566)
Deferred tax arising on actuarial gains in pension scheme from prior year	-	13,590	13,590
Balance at 31 July 2007	<u>2,469</u>	<u>85,358</u>	<u>87,827</u>

20 Reconciliation of movements in shareholders' funds

	2007 £ 000	2006 £ 000
Profit attributable to members of the company	36,652	8,858
Other recognised gains/(losses) for the year	23,346	(13,964)
Net addition to shareholders' funds	<u>59,998</u>	<u>(5,106)</u>
Opening equity shareholders' funds	48,829	53,935
Closing equity shareholders' funds	<u>108,827</u>	<u>48,829</u>

21 Contingent liabilities

A - Distributor Agreements

The company has agreed to repurchase inventory from distributors in the event that distribution agreements are terminated

B - Regional Selective Assistance

Government grants of up to £760,000 become repayable if qualifying jobs are not maintained in the development area for a minimum of 18 months following the final instalment of the grant or if the qualifying job target has not been attained by September 2009

C - Royalties

The Internal Revenue Service (IRS), in the United States of America, has been investigating royalty payments made by the Company to Pall Corporation between 1999 and 2002. A claim was settled for the years 1996-1998 and on this basis that the competent authority found broadly in favour of the UK tax authorities the Company has decided to release the provision held and disclose this issue as a contingent liability. The directors consider that the pre tax cost could be in the region of £40,000,000 for the years 1999 to 2007 based on the methodology put forward by the IRS. A full disclosure can be found in note 4

D - Warranties

The company has potential warranty disputes to the value of £1,753,000 (2006 nil)

Pall Europe Limited
Notes to the Financial Statements for the Year Ended 31 July 2007

22 Capital commitments

Expenditure contracted for but not provided in the financial statements

	2007 £ 000	2006 £ 000
Contracted	<u>907</u>	<u>1,601</u>

23 Operating lease commitments

As at 31 July 2007 the company had annual commitments under non-cancellable operating leases as follows

	Land and Buildings		Other	
	2007 £ 000	2006 £ 000	2007 £ 000	2006 £ 000
Within one year	-	-	613	248
Within two and five years	-	-	761	359
Over five years	-	86	-	-
	<u>-</u>	<u>86</u>	<u>1,374</u>	<u>607</u>

Trade guarantees and indemnities

At 31 July 2007, the group and the company had continuing financial commitments in respect of trade guarantees and indemnities amounting to £1,158,469 (2006 £1,221,000)

Pall Europe Limited
Notes to the Financial Statements for the Year Ended 31 July 2007

24 Pension schemes

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the scheme and amounted to £1,825,000 (2006 - £383,000).

Contributions totalling £264,000 (2006 - £13,000) were payable to the scheme at the end of the period and are included in creditors.

Defined benefit pension schemes

Pall (UK) Pension Fund

The major assumptions used in this valuation were

	2007	2006	2005
Rate of increase in salaries	n/a	4.50%	4.25%
Rate of increase in pensions in payment and deferred pensions	3.30%	3.00%	2.75%
Discount rate applied to scheme liabilities	5.80%	5.10%	5.00%
Inflation assumption	3.30%	3.00%	2.75%

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.

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

	Value at 2007 £ 000	Value at 2006 £ 000	Value at 2005 £ 000
Equities	74,190	71,523	61,399
Bonds	30,755	24,449	19,496
Cash	879	413	-
Total fair value of assets	105,824	96,385	80,895
Present values of scheme liabilities	(118,415)	(125,299)	(113,585)
Deficit in the scheme - Pension liability	(12,591)	(28,914)	(32,690)
Related deferred tax liability	3,525	8,674	9,807
Net pension liability	(9,066)	(20,240)	(22,883)

	Long term rate of return 2007	Long term rate of return 2006	Long term rate of return 2005
Equities	7.00%	6.50%	6.50%
Bonds	5.50%	5.50%	5.50%
Cash	5.75%	4.75%	n/a

Pall Europe Limited
Notes to the Financial Statements for the Year Ended 31 July 2007

Movement in deficit during the year

	2007	2006
	£ 000	£ 000
Deficit at year beginning	(28,914)	(32,690)
Current service costs	-	(1,910)
Contributions paid	2,500	7,216
Curtailment	-	12,588
Past service costs	-	-
Other financial costs	(318)	(448)
Actuarial gain / (loss)	14,141	(13,670)
Deficit in the scheme at the end of the year	<u>(12,591)</u>	<u>(28,914)</u>

Analysis of other pension costs charged in arriving at operating profit

	2007	2006
	£ 000	£ 000
Current service costs	-	1,910
Curtailment credit	-	(12,588)
Net operating return	<u>-</u>	<u>(10,678)</u>

Analysis of amounts included in other finance income/costs

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

	2007	2006
	£ 000	£ 000
Expected return on pension scheme assets	5,981	5,469
Interest on pension scheme liabilities	(6,299)	(5,917)
Net finance cost	<u>(318)</u>	<u>(448)</u>

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

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

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

	2007	2006
	£ 000	£ 000
Actual return less expected return on scheme assets	4,519	4,458
Changes in assumptions underlying the present value of scheme liabilities	9,622	(18,128)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	<u>14,141</u>	<u>(13,670)</u>
History of experience gains and losses		
History of experience gains and losses		

Pall Europe Limited
Notes to the Financial Statements for the Year Ended 31 July 2007

History of experience gains and losses

	2007 £ 000	2006 £ 000	2005 £ 000
Difference between the expected and actual return on scheme assets			
Amount	4,519	4,458	9,855
Percentage of year end scheme assets	4 00%	5 00%	12 00%
Experience gains and losses on scheme liabilities			
Amount	-	-	(1,103)
Percentage of year end present value of scheme liabilities	0 00%	0 00%	1 00%
Total amount recognised in statement of total recognised gains and losses			
Amount	14,141	(13,670)	(6,990)
Percentage of year end present value of scheme liabilities	12 00%	11 00%	6 00%

Pall Supplementary Scheme

The major assumptions used in this valuation were

	2007	2006	2005
Rate of increase in salaries	4 80%	4 50%	4 25%
Rate of increase in pensions in payment and deferred pensions	3 30%	3 00%	2 75%
Discount rate applied to scheme liabilities	5 80%	5 10%	5 00%
Inflation assumption	3 30%	3 00%	2 75%

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

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

	Value at 2007 £ 000	Value at 2006 £ 000	Value at 2005 £ 000
Equities	2,768	2,644	2,744
Bonds	121	113	145
Cash	211	56	-
Total fair value of assets	3,100	2,813	2,889
Present values of scheme liabilities	(3,298)	(3,363)	(3,355)
Deficit in the scheme - Pension liability	(198)	(550)	(466)
Related deferred tax liability	55	165	140
Net pension liability	(143)	(385)	(326)

	Long term rate of return 2007	Long term rate of return 2006	Long term rate of return 2005
Equities	7 00%	6 50%	6 50%
Bonds	5 50%	5 50%	5 50%
Cash	5 75%	4 80%	0 00%

Pall Europe Limited
Notes to the Financial Statements for the Year Ended 31 July 2007

Movement in deficit during the year

	2007	2006
	£ 000	£ 000
Deficit at year beginning	(550)	(466)
Current service costs	(188)	(138)
Contributions paid	299	195
Curtailment	-	139
Past service costs	-	-
Other financial costs	14	14
Actuarial gain / loss	227	(294)
Deficit in the scheme at the end of the year	<u>(198)</u>	<u>(550)</u>

Analysis of other pension costs charged in arriving at operating profit

	2007	2006
	£ 000	£ 000
Current service costs	188	138
Curtailment Credit	-	(139)
Net operating charge/(return)	<u>188</u>	<u>(1)</u>

Analysis of amounts included in other finance income/costs

	2007	2006
	£ 000	£ 000
Expected return on pension scheme assets	189	189
Interest on pension scheme liabilities	(175)	(175)
Net finance charge	<u>14</u>	<u>14</u>

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

	2007	2006
	£ 000	£ 000
Actual return less expected return on scheme assets	(156)	(30)
Changes in assumptions underlying the present value of scheme liabilities	383	(264)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	<u>227</u>	<u>(294)</u>

Pall Europe Limited
Notes to the Financial Statements for the Year Ended 31 July 2007

History of experience gains and losses

	2007 £ 000	2006 £ 000	2005 £ 000
Difference between the expected and actual return on scheme assets			
Amount	(156)	(30)	332
Percentage of year end scheme assets	5 00%	1 00%	12 00%
Experience gains and losses on scheme liabilities			
Amount	-	-	407
Percentage of year end present value of scheme liabilities	0 00%	0 00%	12 00%
Total amount recognised in statement of total recognised gains and losses			
Amount	227	(294)	341
Percentage of year end present value of scheme liabilities	7 00%	9 00%	10 00%

25 Share based payments

The company operates two share option plans. All instruments are issued with Pall Corporation stock and not those of any subsidiaries. This stock is listed on the SEC (Securities and exchange commission, New York, United States). The Central Index Key (CIK) 0000075829 or the 'ticker' for this stock is 'PLL' and issuances are denominated in US dollars. The employee is under no obligation to sell the shares once exercised/vested however a taxable gain is recorded at this point. The taxable gain is converted to GBP using the rates quoted in the Financial Times on the day of exercise. The rate used is the closing mid point rate.

Share options

Pall Corporation currently has two share option schemes. Both schemes have UK Sub plans which allow the employee to take advantage of enhanced taxable treatment set out by HMRC. Options are issued to staff as an incentive and in recognition of their work. Each tranche of options is issued at the closing rate of the stock on the issue date.

Management share purchase plan

The Company operates a share plan for senior managers that allows for the issue of units which vest after four years. At the end of the four year cycle the employee must purchase the stock and the tax is deducted.

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

	2007 Number of options	2006 Number of options
Outstanding at the beginning of the period	326,852	567,151
Granted during the period	28,582	50,637
Exercised during the period	(104,405)	(158,386)
Lapsed during the period	(13,830)	(132,550)
Outstanding at the end of the period	237,199	326,852
Weighted average value of exercised shares		
At issue price	£10.82	£11.58
At exercise price	£17.19	£16.29

Pall Europe Limited
Notes to the Financial Statements for the Year Ended 31 July 2007

26 Related parties

Controlling entity

The company is ultimately a subsidiary undertaking of Pall Corporation which is the ultimate parent company

As the company is a wholly subsidiary of the Pall Corporation, the company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entities which form part of the group

The largest group in which the results of the company are consolidated is that headed by Pall Corporation. The smallest group in which they are consolidated is that headed by Pall Corporation. The consolidated accounts of these groups are available to the public and may be obtained from the company website or by contacting the company at 2200 Northern Boulevard, East Hills, Long Island, New York