

Air Products Group Limited

**Directors' report and consolidated
financial statements**

Registered number 3101747

30 September 2006

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Directors' report and financial statements

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Directors' report

The directors present their directors' report and financial statements for the year ended 30 September 2006

Principal activities

The principal activities of the group continue to be the manufacture and sale of industrial gases, the design and construction of equipment for the production and use of industrial gases, and the manufacture and sale of specialty chemicals

Business review and results

The group has continued to invest in new industrial gas process plants to serve both new and existing customers. In the future the company will continue to strive for operational and administrative excellence to meet the demands of the marketplace for quality, responsiveness and overall value

The group profit for the financial year was £17,799,000 (2005: loss £63,000) and the group operating profit for the year was £20,893,000 (2005: £12,238,000)

Principal risks and uncertainties

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

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

Environment

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

Proposed dividend

The directors do not recommend the payment of a dividend (2005: £nil)

Policy and practice on payment of creditors

The group policy on the payment of creditors is to settle the terms of the payment with those suppliers when agreeing the terms of each transaction, ensure that those suppliers are made aware of the terms of the payment, and abide by the terms of payment

At the year end there were 22 days (2005: 34 days) of purchases in trade creditors

Directors and directors' interests

The directors who held office during the year were as follows

CM Lloyd

C Almeida (resigned 14th December 2006)

M Begg

G Rhodes

P Neligan (appointed 13th March 2007)

RB Smith (appointed 25th July 2007)

None of the directors who held office at the end of the financial year had any disclosable interest in the company or any other group companies incorporated in Great Britain

According to the register of directors' interests, no rights to subscribe for shares of the company or any other group company incorporated in Great Britain were granted to any of the directors or their immediate families, or exercised by them during the financial year

Directors' report (continued)

Directors and directors' interests (continued)

There were no contracts during the year in which a director held a beneficial interest

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

Employees

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

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

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

Political and charitable contributions

The group made no political contributions during the year. Donations to UK charities amounted to £89,235 (2005 £106,412).

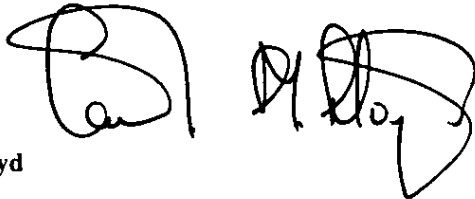
Disclosure of information to auditors

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

In accordance with section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



CM Lloyd
Director

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

16 August 2007

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent 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 parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

The directors' are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions



KPMG LLP

8 Salisbury Square

London

EC4Y 8BB

United Kingdom

Independent auditors' report to the members of Air Products Group Limited

We have audited the group and parent company financial statements (the "financial statements") of Air Products Group Limited for the year ended 30 September 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Statement of Total Recognised Gains and Losses, the Reconciliations of Movements in Shareholders' Funds 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 Directors' Report and 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 group's and 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.

Independent auditors' report to the members of Air Products Group Limited
(continued)

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 group's and the parent company's affairs as at 30 September 2006 and of the group's 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

KPMG LLP
Chartered Accountants
Registered Auditor

16 August 2007

Consolidated Profit and Loss Account
for the year ended 30 September 2006

	<i>Note</i>	2006 Total £000	Restated* 2005 Total £000
Turnover from continuing activities		418,317	405 963
Turnover from discontinued activities		-	8,990
		<hr/>	<hr/>
Turnover, including share of joint ventures		418,317	414 953
Less share of joint venture turnover		(2,050)	(1,602)
		<hr/>	<hr/>
Group turnover	2	416,267	413,351
Cost of sales from continuing activities		(287,312)	(302,738)
Cost of sales from discontinued activities		-	(7 362)
		<hr/>	<hr/>
Cost of sales		(270,551)	(310 100)
		<hr/>	<hr/>
Gross profit		128,955	103,251
Distribution costs from continuing activities		(80,805)	(62,686)
Distribution costs from discontinued activities		-	(594)
		<hr/>	<hr/>
Distribution costs		(80,805)	(63 280)
Administration costs from continuing activities		(27,257)	(27,739)
Administration costs from discontinued activities		-	6
		<hr/>	<hr/>
Administrative expenses		(27,257)	(27,733)
Operating profit from continuing activities		20,893	11,198
Operating profit from discontinued activities		-	1,040
		<hr/>	<hr/>
Group operating profit	3	20,893	12,238
Loss on sale of group investment		-	(69)
Share of joint venture operating profit		147	254
Share of associate operating profit		1,169	1 039
		<hr/>	<hr/>
Total operating profit	3	22,209	13,462
Other interest receivable and similar income	6	849	604
Interest payable and similar charges	7	(3,773)	(7 860)
Other finance costs	8	2,995	(1 265)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	2-5	22,280	4 941
Tax on profit on ordinary activities	9	(4,481)	(5 004)
		<hr/>	<hr/>
Profit/(loss) for the financial year		17,799	(63)

* Restated on adoption of FRS17 Retirement benefits (FRS17)

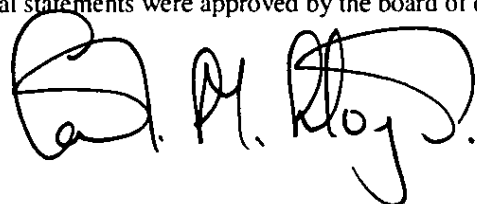
Consolidated Balance Sheet
at 30 September 2006

	<i>Note</i>	2006 £000	2006 £000	2005 £000	2005 £000
				Restated*	
Fixed assets					
Intangible assets	10		7,693		9,612
Tangible assets	11		232,137		229,057
Investments	12				
Investments in joint ventures					
Share of gross assets		3,896		4,123	
Share of gross liabilities		(984)		(848)	
Investments in associates		3,547		3,014	
			6,459		6,289
			246,289		244,958
Current assets					
Stocks	13	78,424		47,596	
Debtors	14	99,035		110,157	
Cash at bank and in hand		5,533		6,016	
		182,992		163,769	
Creditors: amounts falling due within one year	15	(128,143)		(118,625)	
Net current assets			54,849		45,144
Total assets less current liabilities			301,138		290,102
Creditors: amounts falling due after more than one year	16		(46,146)		(46,823)
			254,992		243,279
Provisions for liabilities and charges					
Other	17		(4,002)		(1,930)
Deferred taxation	18		(5,579)		(10,612)
Net assets excluding pension liabilities			245,411		230,737
Pension liabilities	23		(91,391)		(89,810)
Net assets including pension liabilities			154,020		140,927
Capital and reserves					
Called up share capital	19		45,204		45,204
Other reserves	20		55,000		55,000
Profit and loss account	20		53,816		40,723
Shareholders' funds			154,020		140,927

* Restated on adoption of FRS17

These financial statements were approved by the board of directors on 16 August 2007 and were signed on its behalf by

CM Lloyd
Director

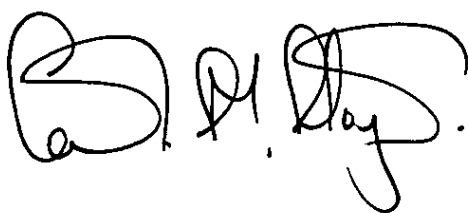


Company Balance Sheet
at 30 September 2006

	<i>Note</i>	2006 £000	2006 £000	2005 £000	2005 £000
Fixed assets					
Investments	12		239,908		239,908
Current assets					
Debtors	14	8,557		8,850	
Cash at Bank		-		24	
		<u>8,557</u>		<u>8,874</u>	
Creditors amounts falling due within one year	15	(136,219)		(128,040)	
Net current liabilities			(127,662)		(119,166)
Total assets less current liabilities			112,246		120,742
Creditors: amounts falling due after more than one year	16		(40,000)		(40,000)
Net assets			<u>72,246</u>		<u>80,742</u>
Capital and reserves					
Called up share capital	19		45,204		45,204
Other reserves	20		150,528		150,528
Profit and loss account	20		(123,486)		(114,990)
Shareholders' funds			<u>72,246</u>		<u>80,742</u>

These financial statements were approved by the board of directors on 16 August 2007 and were signed on its behalf by

CM Lloyd
Director



Consolidated Statement of Total Recognised Gains and Losses for the year ended 30 September 2006

	2006 £000	Restated* 2005 £000
Profit for the financial year		
Group	16,948	(918)
Share of joint venture	137	229
Share of associate	714	626
	<u>17,799</u>	<u>(63)</u>
Net exchange differences on the retranslation of net investments and related borrowings	(79)	(64)
Actuarial gain / (loss) recognised in the pension schemes	(6,572)	(1,097)
Deferred tax arising on gains / (losses) in the pension schemes	1,945	276
	<u>13,093</u>	<u>(948)</u>
Total recognised gains and losses relating to the financial year	<u>13,093</u>	<u>(948)</u>
Prior year adjustment (as explained in note 1)	(89,828)	
Total gains and losses recognised since last annual report	<u>(76,735)</u>	

* Restated on adoption of FRS17

Reconciliations of Movements in Shareholders' Funds for the year ended 30 September 2006

	Group		Company	
	2006 £000	Restated* 2005 £000	2006 £000	2005 £000
Profit/(loss) for the financial year	17,799	(63)	(8,496)	(11,458)
New share capital issued	-	2,952	-	2,952
Capital contribution	-	25,000	-	25,000
Other recognised gains and losses relating to the year (net)	(4,706)	(885)	-	-
	<u>13,093</u>	<u>27,004</u>	<u>(8,496)</u>	<u>16,494</u>
Net addition to shareholders' funds	<u>13,093</u>	<u>27,004</u>	<u>(8,496)</u>	<u>16,494</u>
Opening shareholders' funds as originally stated	230,755	203,751	80,742	64,248
Prior year adjustment (as explained in note 1)	(89,828)	(89,828)	-	-
	<u>140,927</u>	<u>113,923</u>	<u>80,742</u>	<u>64,248</u>
Opening shareholders' funds as restated	<u>140,927</u>	<u>113,923</u>	<u>80,742</u>	<u>64,248</u>
Closing shareholders' funds	<u>154,020</u>	<u>140,927</u>	<u>72,246</u>	<u>80,742</u>

* Restated on adoption of FRS17

Notes

(forming part of the financial statements)

1 Accounting policies

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

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

- FRS 21 'Events after the balance sheet date',
- FRS 28 'Corresponding amounts'

The recognition and measurement requirements of FRS 17 'Retirement benefits' have also been adopted, previously the transitional disclosures of that standard have been followed

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS21 'Events after the balance sheet date' has had no impact and FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985

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

Change in accounting policy

FRS17 Retirement benefits

FRS17 replaces the previous accounting policy under the Statement of Standard Accounting Practice 24 'Accounting for Pension costs' ('SSAP24'). The adoption of FRS17 represents a change in accounting policy and the comparative figures have been restated accordingly. The effect of adopting FRS17 on the group has been as follows

- To recognise under FRS17 other pension costs of £11,230,000 and other finance costs of £1,264,000, less associated tax of £3,715,000, for the year ended 30 September 2005 in the consolidated profit and loss account
- To reverse the pension charge under SSAP 24 of £713,000, less associated tax of £0, for the year ended 30 September 2005 in the consolidated profit and loss account

The net impact of adopting FRS17 has been to reduce the group profit for the year ended 30 September 2005 by £12,393,000

- To recognise under FRS17 a pension liability, net of deferred tax, of £89,810,000 as at 30 September 2005
- To reverse the SSAP 24 pension prepayment of £13,963,000 and pension accrual of £13,945,000, less the associated deferred tax liability of £0, as at 30 September 2005

The net impact of adopting FRS17 has been to reduce group net assets as at 30 September 2005 by £89,828,000

Basis of preparation

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

Under FRS1 the group is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the group in its own published consolidated financial statements

As 100% of the company's voting rights are controlled within the group headed by Air Products and Chemicals Inc the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Air Products and Chemicals Inc, within which this company is included, can be obtained from the address given in note 24

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account

Notes (continued)

1 Accounting policies (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 September 2006. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the group has a long-term interest and over which it exercises joint control. The group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets, is included in investments in the consolidated balance sheet.

Goodwill and negative goodwill

Purchased goodwill (both positive and negative) arising on consolidation or business combinations in respect of acquisitions before 1 January 1998, when FRS 10 *Goodwill and intangible assets* was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation or business combinations in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life of between 8 and 20 years. Provision is made for any impairment and the charge is included within operating profit.

Negative goodwill arising on consolidation in respect of acquisitions since 1 January 1998 is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale. Negative goodwill is released to the profit and loss account on a straight line basis.

On the subsequent disposal or termination of a business acquired since 1 January 1998, the profit or loss on disposal or termination is calculated after charging (crediting) the unamortised amount of any related goodwill (negative goodwill).

Fixed asset investments

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

Fixed assets and depreciation

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

Freehold buildings	-	Up to 50 years
Leasehold property	-	Period of the lease
Plant and machinery	-	4-20 years
Leasehold improvements	-	Period of the lease

No depreciation is provided on freehold land.

Costs include directly attributable finance costs.

Notes (continued)

1 Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date or, if hedged forward, at the rate of exchange under the related forward currency contract and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the estimated useful economic lives of the assets to which they relate.

Leases

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

Post retirement benefits

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

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

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

Stocks

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

Long term contracts

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

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

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

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

Notes (*continued*)

1 Accounting policies (*continued*)

Taxation

The charge for taxation is based on the profit / (loss) 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

Turnover

Turnover represents the amounts (excluding value added tax, credit notes and returns) derived from the provision of goods and services to third party customers and excludes sales between group undertakings

Sales of industrial gases are recorded at the time of shipment and sales of specialty chemicals are recorded at the time of receipt by the customer

Product swap transactions are shown net in either turnover or cost of sales

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

Notes (continued)

2 Segmental information

The table below sets out information for each of the group's industry segments and geographic areas of operation

	Industrial gases and equipment		Chemical agents		Total	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
Turnover by destination						
Europe	275,359	259,936	42,949	42,593	318,308	302,529
Africa & Middle East	57,864	37,289	2,090	2,083	59,954	39,372
Americas	9,282	15,091	4,022	7,116	13,304	22,207
Asia / Pacific	19,510	44,014	5,191	5,229	24,701	49,243
	<u>362,015</u>	<u>356,330</u>	<u>54,252</u>	<u>57,021</u>	<u>416,267</u>	<u>413,351</u>
Turnover by origin						
Europe	360,176	349,053	54,252	57,021	414,428	406,074
Africa & Middle East	1,508	5,081	-	-	1,508	5,081
Americas	331	2,196	-	-	331	2,196
	<u>362,015</u>	<u>356,330</u>	<u>54,252</u>	<u>57,021</u>	<u>416,267</u>	<u>413,351</u>

Notes (continued)

3 Notes to the profit and loss account

	2006 £000	2005 £000
<i>Profit on ordinary activities before taxation is stated after charging / (crediting)</i>		
Depreciation and other amounts written off tangible fixed assets		
Owned	31,027	28 728
Leased	862	1,325
Amortisation of goodwill	1,919	1,919
Exchange (gains) / losses	(455)	751
Hire of plant and machinery – rentals payable under operating leases	11,894	12,449
Hire of other assets – operating leases	5,237	5,180
Loss on disposal of subsidiary	-	(69)
Loss / (profit) on sale of fixed assets	2,821	(477)
	2006 £000	2005 £000
<i>Auditors' remuneration</i>		
Amounts receivable by auditors and their associates in respect of		
Audit of these financial statements	28	25
Audit of financial statements of subsidiaries pursuant to legislation	264	249
	<u>292</u>	<u>274</u>

4 Remuneration of directors

	2006 £000	2005 £000
Directors' emoluments	<u>1,069</u>	<u>934</u>

The aggregate of emoluments of the highest paid director was £296,000 (2005 £293 000). They are a member of a defined benefit scheme under which their accrued pension at the year end was £NIL (2005 £nil).

	Number of directors 2006	2005
Retirement benefits are accruing to the following number of directors under		
Defined benefit schemes	<u>3</u>	<u>4</u>

Notes (continued)

5 Staff numbers and costs

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

	Number of employees	
	2006	2005
Industrial gases and equipment	1,986	2,016
Chemical agents	54	70
	<u>2,040</u>	<u>2,086</u>

The aggregate payroll costs of these persons were as follows

	2006	Restated*
	£000	2005 £000
Wages and salaries	83,937	77,526
Social security costs	8,683	8,316
Other pension costs (note 23)	13,674	12,372
	<u>106,294</u>	<u>98,214</u>

* Restated on adoption of FRS17

6 Other interest receivable and similar income

	2006	2005
	£000	£000
Bank interest	146	505
Net exchange gains	208	-
Interest receivable from other group companies	446	47
Share of joint venture	49	52
	<u>849</u>	<u>604</u>

7 Interest payable and similar charges

	2006	2005
	£000	£000
On bank loans and overdrafts	48	130
Net exchange losses	-	92
Finance charges payable in respect of finance leases and hire purchase contracts	248	874
Interest payable to other group companies	3,298	6,588
Share of associate	179	176
	<u>3,773</u>	<u>7,860</u>

Notes (continued)

8 Other finance costs

	2006 £000	* Restated 2005 £000
Expected return on pension scheme assets	23,943	18,899
Interest on pension scheme liabilities	(20,948)	(20,164)
	<u>2,995</u>	<u>(1,265)</u>

* Restated on adoption of FRS17

9 Taxation

	2006 £000	2006 £000	2005 £000	Restated* 2005 £000
<i>UK corporation tax</i>				
Current tax on income for the period	7,163		4,199	
Adjustments in respect of prior periods	405		84	
	<u></u>	7,568	<u></u>	4,283
<i>Foreign tax</i>				
Current tax on income for the period	27		(46)	
Adjustments in respect of prior periods	271		(14)	
	<u></u>	298	<u></u>	(60)
Total current tax		<u>7,866</u>		<u>4,223</u>
<i>Deferred tax (see note 18)</i>				
Origination/reversal of timing differences	(1,341)		472	
Adjustment in respect of previous years	(2,379)		(5)	
	<u></u>	(3,720)	<u></u>	467
Share of joint ventures' tax		59		77
Share of associates' tax		276		237
Tax on profit on ordinary activities		<u>4,481</u>		<u>5,004</u>

Notes (continued)

9 Taxation (continued)

Factors affecting the tax charge for the current period

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

	2006 £000	Restated* 2005 £000
<i>Current tax reconciliation</i>		
Profit / (loss) on ordinary activities before tax	22,280	4,941
	<hr/>	<hr/>
Current tax at 30% (2005 30%)	6,684	1,482
<i>Effects of</i>		
Expenses/(income) not deductible/(chargeable) for tax purposes	(492)	1,739
Depreciation for the period in excess of capital allowances	3,105	2,710
Lower tax rates on overseas earnings	(826)	(737)
Short term timing differences on pension	(1,313)	(488)
Other short term timing differences	(451)	(534)
Other permanent differences	517	-
Manufacturing relief credit	(34)	(19)
Adjustments to tax charge in respect of previous periods	676	70
	<hr/>	<hr/>
Total current tax charge (see above)	7,866	4,223
	<hr/>	<hr/>

* Restated on adoption of FRS17

Factors that may affect future tax charges

The group has an unrecognised deferred tax asset which may affect future tax charges

Notes (continued)

10 Intangible fixed assets

	Goodwill	Negative goodwill	Total
	£000	£000	£000
Group			
<i>Cost</i>			
At beginning and end of year	34,375	(2,983)	31,392
	<hr/>	<hr/>	<hr/>
<i>Amortisation</i>			
At beginning of year	24,763	(2,983)	21,780
Charge for year	1,919	-	1,919
	<hr/>	<hr/>	<hr/>
At end of year	26,682	(2,983)	23,699
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 30 September 2006	7,693	-	7,693
	<hr/>	<hr/>	<hr/>
At 30 September 2005	9 612	-	9 612
	<hr/>	<hr/>	<hr/>

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises

Notes (continued)

11 Tangible fixed assets

	Freehold and long leasehold property £000	Plant and machinery £000	Short leasehold £000	Assets under construction £000	Total £000
Group					
<i>Cost</i>					
At beginning of year	42,979	512,122	177	15,055	570,333
Exchange adjustments	(4)	(120)	-	(1)	(125)
Additions	979	31,783	-	5,375	38,137
Disposals	(61)	(19,371)	-	-	(19,432)
Transfers between items	247	11,717	-	(11,964)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	44,140	536,131	177	8,465	588,913
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
At beginning of year	24,497	316,293	81	405	341,276
Exchange adjustments	(1)	(63)	-	-	(64)
Charge for year	1,007	30,875	7	-	31,889
On disposals	(58)	(16,267)	-	-	(16,325)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	25,445	330,838	88	405	356,776
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 30 September 2006	18,695	205,293	89	8,060	232,137
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2005	18,482	195,829	96	14,650	229,057
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Freehold land and buildings includes £8,668,000 (2005 £8,668,000) of land that is not being depreciated

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

Included in the total net book value of plant and machinery is £1,685,000 (2005 £3,799,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £862,000 (2005 £1,325,000)

Included in the cost of tangible fixed assets is £6,154,000 (2005 £5,995,000), with a net book value of £2,300,000 (2005 £2,415,000) in respect of capitalised interest costs

Notes (continued)

12 Fixed asset investments

Group	Investment in joint venture £000	Investment in associate £000	Total £000
Cost			
At beginning and end of year	50	2,498	2,548
Share of post acquisition reserves			
At beginning of year	2,725	500	3,225
Prior year adjustment	500	16	516
Revised at beginning of year	3,225	516	3,741
Group share of profit of joint venture	137	-	137
Group share of profit of associate	-	731	731
Dividends received	(500)	(198)	(698)
At end of year	2,862	1,049	3,911
Net book value			
At 30 September 2006	2,912	3,547	6,459
At 30 September 2005	3,275	3,014	6,289
Company	Shares in group undertakings £000	Other investments other than loans £000	Total £000
Shares			
Cost			
At beginning of year	314,160	2	314,162
Additions	-	-	-
At end of year	314,160	2	314,162
Provisions			
At beginning of year	(74,254)	-	(74,254)
Impairment	-	-	-
At end of year	(74,254)	-	(74,254)
Net book value			
At 30 September 2006	239,906	2	239,908
At 30 September 2005	239,906	2	239,908

Notes (continued)

12 Fixed asset investments (continued)

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

	Country of incorporation	Principal activity	Class and percentage of shares held by the company	
			Indirectly	Directly
<i>Subsidiary undertakings</i>				
Air Products (BR) limited	Great Britain	Industrial gases		100%
Air Products PLC	Great Britain	Industrial gases		100%
Air Products Ireland Limited	Ireland	Industrial gases		100%
Air Products (Chemicals) PLC	Great Britain	Chemicals		100%
Air Products (Chemicals) Teesside Limited	Great Britain	Industrial gases		100%
Prodair Services Limited	Great Britain	Site services for major equipment sales		100%
Cryomed Limited	Great Britain	Dormant		100%
The Cryosurgery Clinic Limited	Great Britain	Dormant		100%
Air Products (UK) Limited	Great Britain	Dormant	100%	
Air Products (GB) Limited	Great Britain	Dormant	100%	
Anchor Chemical (UK) Limited	Great Britain	Dormant	100%	
Anchor Chemical International Limited	Great Britain	Dormant	100%	
Ancomer Limited	Great Britain	Dormant	100%	
Air Products Peru S A C	Peru	Construction and Maintenance of Industrial Gas Plants		100%
Air Products Yanbu Limited	Great Britain	Construction and Maintenance of Industrial Gas Plants	100%	
Air Products Medical Ireland Limited	Ireland	Dormant	100%	
Air Products Didcot Inc	US	Dormant	100%	
<i>Associated undertakings - joint ventures</i>				
Air Products Llanwern Limited	Great Britain	Industrial gases	50%	
<i>Associated undertakings - associates</i>				
Cryoservice Limited	Great Britain	Industrial gases	25%	

During the year the following dormant subsidiaries were liquidated

Air Products Cryogenic Services Limited

On-Site Engineering Services Limited

Rimer Alco International Limited

The Oxygen Therapy Company Limited

Notes (continued)

13 Stocks

	Group
	Restated*
	2005
	£000
Raw materials and consumables	8,327
Work in progress	57,681
Finished goods and goods for resale	12,416
	<u>78,424</u>
	<u>47,596</u>

Work in progress includes the following amounts in respect of long-term contracts

	Group
	Restated*
	2005
	£000
Net cost less foreseeable losses	84,916
Less payments on account received and receivable not matched with turnover	(27,762)
	<u>57,154</u>
	<u>30,311</u>

* Restated due to reclassification from trade debtors in compliance with group policy on classification of work in progress

14 Debtors

	Group		Company
	Restated*		Restated*
	2005		2005
	£000		£000
Trade debtors	67,191		-
Amounts owed by other group undertakings	24,124		-
Amounts owed by subsidiary undertakings	-		8,765
Amounts owed by associate undertakings	704		85
Other debtors	3,734		-
Prepayments and accrued income	3,282		-
	<u>99,035</u>		<u>8,850</u>
	<u>110,157</u>		<u>8,850</u>

Total group debtors include other debtors of £ nil (2005: £nil) due after more than one year

Total group and company debtors include amounts owed by other group undertakings of £ nil (2005: £nil) due after more than one year

* Restated on adoption of FRS17 and due to a reclassification from trade debtors to stocks in compliance with group policy on classification of work in progress

Notes (continued)

15 Creditors: amounts falling due within one year

	Group		Company	
	2006	Restated* 2005	2006	2005
	£000	£000	£000	£000
Bank loans and overdrafts	10,918	7,116	134	-
Obligations under finance leases	2,283	2,954	-	-
Payments received on account	2,814	26,098	-	-
Trade creditors	21,705	35,488	-	-
Amounts owed to other group undertakings	36,566	27,795	19,298	4,007
Amounts owed to subsidiary undertakings	-	-	116,787	123,788
Amounts owed to associate undertakings	597	543	-	-
Other creditors	7,449	4,539	-	-
Accruals and deferred income	45,811	14,092	-	245
	<u>128,143</u>	<u>118,625</u>	<u>136,219</u>	<u>128,040</u>

* Restated on adoption of FRS17

16 Creditors: amounts falling due after one year

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Obligations under finance leases	176	2,349	-	-
Amounts owed to other group undertakings	40,000	40,000	40,000	40,000
Amounts owed to associate undertakings	3,528	4,071	-	-
Other creditors	2,442	403	-	-
	<u>46,146</u>	<u>46,823</u>	<u>40,000</u>	<u>40,000</u>

Amounts owed to associate undertakings relates a loan from Air Products Llanwern Limited of £4,071,000 (2005 £4,614,000) which is unsecured, interest free and is repayable in fifteen semi-annual instalments by 14 November 2013. Of this £3,528,000 (2005 £4,071,000) is due after more than one year and £543,000 (2005 £543,000) is due within one year.

Notes (continued)

16 Creditors: amounts falling due after one year (continued)

Analysis of debt:

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Debt can be analysed as falling due				
In one year or less, or on demand	50,364	38,608	136,219	127,795
Between one and two years	176	881	-	-
Between two and five years	-	1,468	-	-
In five years or more	43,528	44,071	40,000	40,000
	<u>94,068</u>	<u>85,028</u>	<u>176,219</u>	<u>167,795</u>

The maturity of obligations under finance leases is as follows

	Group	
	2006 £000	2005 £000
Within one year	2,283	2,954
In the second to fifth years	176	2,349
Over five years	-	-
	<u>2,459</u>	<u>5,303</u>

17 Provisions for liabilities and charges

Group	£000 Other	£000 Billingham	£000 Total
At beginning of year	(230)	(1,700)	(1,930)
Credited/(charged) to the profit and loss account in the year	230	(2,302)	(2,072)
	<u>-</u>	<u>(4,002)</u>	<u>(4,002)</u>

Since the year end the group has settled its obligations on the termination of the tolling contract with ICI/Croda. The amount of the final charge was consistent with the closing provision of £4,002,000.

The other provision relates to an outstanding claim by Intel Ireland for contaminated Argon which was settled during the year without cash payment. The provision was therefore released to profit and loss account.

Notes (continued)

18 Deferred taxation

The movement in the deferred taxation provision during the year was

Group	2006 £000	Restated* 2005 £000
At beginning of year	(10,612)	(10,633)
Credit / (charge) to the profit and loss for the year	5,033	21
	<hr/>	<hr/>
At end of year	(5,579)	(10,612)
	<hr/>	<hr/>

The elements of deferred taxation are as follows

	2006 £000	2005 £000
Difference between accumulated depreciation and amortisation and capital allowances	5,801	11 285
Other timing differences	(222)	(673)
	<hr/>	<hr/>
	5,579	10 612
	<hr/>	<hr/>

Deferred taxation relating to Pension Liabilities is as follows

	2006 £000	Restated* 2005 £000
At beginning of year	38,278	38,490
Credit / (charge) to the profit and loss for the year	(1,313)	(488)
Credit / (charge) to the statement of total recognised gains and losses for the year	1,945	276
	<hr/>	<hr/>
At end of year	38,910	38 278
	<hr/>	<hr/>

The movement in total deferred tax asset during the year was

	2006 £000	Restated* 2005 £000
At beginning of year	27,666	27 857
Credit / (charge) to the profit and loss for the year	3,720	(467)
Credit / (charge) to the statement of total recognised gains and losses for the year	1,945	276
	<hr/>	<hr/>
At end of year	33,331	27,666
	<hr/>	<hr/>

Notes (continued)

18 Deferred taxation (continued)

The elements of unrecognised deferred taxation are as follows

	2006 £000	2005 £000
Difference between accumulated depreciation and amortisation and capital allowances	10,024	11,106
Other timing differences	398	402
	<hr/>	<hr/>
Unrecognised deferred tax asset	10,422	11,508
	<hr/>	<hr/>

An amount of deferred tax asset has not been recognised for the difference between accumulated depreciation and amortisation and capital allowances as the realisability of this element of deferred tax asset is not considered more likely than not

* Restated on adoption of FRS17

19 Called up share capital

	2006 £000	2005 £000
Authorised		
Equity 200 000,000 ordinary shares of £1 each	200,000	200,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
Equity 45,204,000 ordinary shares of £1 each	45,204	45,204
	<hr/>	<hr/>

Notes (continued)

20 Reserves

Group	2006 Other reserves £000	2006 Profit and loss account £000
At beginning of year as previously reported	55,000	130,551
Prior year adjustment (adoption of FRS17)	-	(89,828)
At beginning of year - restated	55,000	40,723
Profit for the financial year	-	17,799
Exchange adjustments	-	(79)
Actuarial (loss) / gain recognised in the pension schemes	-	(6,572)
Deferred tax arising on gains / (losses) in the pension schemes	-	1,945
At end of year	55,000	53,816

Group	2006 £000	2005 £000
Profit and loss reserve excluding pension liability	145,207	130,533
Pension liability	(91,391)	(89,810)
Profit and loss reserve including pension liability	53,816	40,723

Company	2006 Other Reserves £000	2006 Profit and loss account £000
At beginning of year	150,528	(114,990)
Loss for the financial year	-	(8,496)
At end of year	150,528	(123,486)

The Company's loss for the financial year was £8,496,000 (2005 Loss £11,458,000)

Notes (continued)

21 Contingent liabilities

The company and certain of its subsidiaries have guaranteed the overdrafts and gross value of foreign exchange facilities of other subsidiaries within the group the amount outstanding at the year end was £85,400,000 (2005 £85,400,000)

The company has provided guarantees and letters of awareness in respect of performance guarantees and transactions amounting to £1,918,634 (2005 £1,953,163)

The group has provided bank guarantees to third parties amounting to £34,661,679 (2005 £23,607,977)

22 Commitments

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

	Group	
	2006	2005
	£000	£000
Contracted	5,686	15 326

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

	2006		2005	
Group	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire				
Within one year	118	801	43	688
In the second to fifth years inclusive	3,325	661	3,409	1 166
Over five years	572	163	705	113
	4,015	1,625	4 157	1 967

- (c) Joint ventures and associates

The group's share of capital commitments, as at the end of the financial year of its joint venture and associate was £1 519,000 (2005 £1,700,000)

Notes (continued)

23 Pension scheme

Group

The group operates a number of pension schemes within the UK and Ireland providing benefits based on final pensionable pay. The latest full actuarial valuation was carried out at 5 April 2006 for the UK main scheme, 6 April 2005 for the UK supplementary scheme and 30 September 2006 for the Ireland scheme and was updated for FRS 17 purposes to 30 September 2006 and 30 September 2005 by a qualified independent actuary.

It has been agreed that an employer contribution rate of 30% for the UK schemes and 17% for the Irish scheme of pensionable pay will apply in future years.

The major assumptions used by the actuary in these valuations were:

UK schemes	2006	2005	2004
Rate of increase in salaries	3.60%	3.50%	3.75%
Rate of increase in pensions in payment and deferred pensions			
Pre-April 2005	2.80%	2.50%	2.75%
Post April 2005	2.00%	1.75%	-
Discount rate applied to scheme liabilities	5.00%	5.00%	5.50%
Inflation assumption	2.80%	2.50%	2.75%
 Ireland scheme	 2006	 2005	 2004
Rate of increase in salaries	4.40%	4.50%	4.50%
Discount rate applied to scheme liabilities	4.50%	5.00%	5.00%
Inflation assumption	2.25%	2.50%	2.50%

The assumptions used by the actuary are 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:

	Long term rate of return 2006	Value at 2006 £000	Long term rate of return 2005	Value at 2005 £000	Long term rate of return 2004	Value at 2004 £000
Equities	8.39%	251,263	8.88%	226,595	8.59%	181,730
Bonds	4.84%	70,268	4.89%	54,448	5.39%	45,294
Annuities	4.25%	7,100	4.30%	7,150	4.90%	7,390
Cash	4.64%	673	4.16%	2,022	4.32%	2,460
 Total market value of assets		 329,304		 290,215		 236,874
Present value of scheme liabilities		(459,605)		(418,303)		(366,078)
 Deficit in the scheme – pension liability		 (130,301)		 (128,088)		 (129,204)
Related deferred tax asset		38,910		38,278		38,648
 Net pension liability		 (91,391)		 (89,810)		 (90,556)

Notes (continued)

23 Pension scheme (continued)

Movement in deficit during the year

	2006 £000	2005 £000
Deficit in scheme at beginning of year	(128,088)	(129,204)
Exchange adjustments	4	4
Current service cost	(11,065)	(11,232)
Contributions paid	15,034	15,846
Curtailment cost	(2,609)	(1,140)
Other finance cost	2,995	(1,265)
Actuarial gain / (loss)	(6,572)	(1,097)
	<u>(130,301)</u>	<u>(128,088)</u>

Analysis of other pension costs charged in arriving at operating profit

	2006 £000	2005 £000
Current service cost	11,065	11,232
Curtailment cost	2,609	1,140
	<u>13,674</u>	<u>12,372</u>

Analysis of the amounts included in other finance cost

	2006 £000	2005 £000
Expected return on pension scheme assets	23,943	18,899
Interest on pension scheme liabilities	(20,948)	(20,164)
	<u>2,995</u>	<u>(1,265)</u>

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

	2006 £000	2005 £000
Actual return less expected return on scheme assets	9,903	28,862
Experience (losses) and gains arising on scheme liabilities	3,729	(6,225)
Changes in assumptions underlying the present value of scheme liabilities	(20,204)	(23,734)
	<u>(6,572)</u>	<u>(1,097)</u>

Notes (continued)

23 Pension scheme (continued)

History of experience gains and losses

	2006	2005	2004	2003	2002
Difference between the expected and actual return on scheme assets					
Amount (£000)	9,903	28,862	6,308	12,013	(51,838)
Percentage of year end scheme assets	3.0%	9.9%	2.7%	5.7%	27.1%
Experience gains and losses on scheme liabilities					
Amount (£000)	3,729	(6,225)	5,850	6,178	(3,606)
Percentage of year end present value of scheme liabilities	0.8%	1.5%	1.6%	1.7%	(1.3%)
Total amount recognised in statement of total recognised gains and losses					
Amount (£000)	(6,572)	(1,097)	18,099	(36,224)	(76,021)
Percentage of year end present value of scheme liabilities	1.7%	3.4%	5.0%	10.3%	(26.4%)

24 Ultimate parent company and parent undertaking of larger group

The company is a subsidiary undertaking of Air Products and Chemicals Inc, which is the ultimate parent company incorporated in Delaware, USA

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

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

25 Events after the balance sheet date

The Budget recently announced a change in the rate of corporation tax from 30% to 28% effective from 1 April 2008, however this change is not expected to have a material impact for the purpose of deferred tax calculations.

The Budget also announced the removal of balancing events for IBA's, phasing them out by 2011 with balancing charges/allowances to be scrapped. This change will not have a material impact for the purposes of deferred tax calculations.