

Pll Limited

Directors' report and financial statements

For the year ended 31 December 2007

Registered number: 3424425



PII Limited

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PII Limited

Directors' report

The directors present their report and the financial statements for the year ended 31 December 2007.

Principal activities

The principal activity of the company is the provision of oil and gas pipeline maintenance technology to pipeline operators and owners in the oil and gas industries.

Business review

The results for the company show a pre-tax loss of £19.3 million (2006: £13.1 million) for the year and sales of £38.7 million (2006: £42.5 million).

The company has net liabilities of £82.9 million (2006: £65.6 million) of which £158.5 million (2006: £134.8 million) is due to fellow GE Group Companies.

Future outlook

In 2006, we decided to focus our technology spend on delivering new solutions to the market and that increased our base costs for the year. During 2007, the focus was to continue to deliver a quality product for our customers whilst at the same time improving productivity and profitability. We still feel that new technology will be the differentiator in the market and we have continued our focused approach to technology development. As we move forward, our focus will continue to be on quality and safety and on delivering new, cost effective products to the market.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the company are considered to relate to competition from within the global service market, and new technology in the market that may drive prices down.

	2007	2006	Definition/method of calculation
Growth in sales (%)	(8.9%)	10.7%	Year on year sales growth expressed as a percentage

The fluctuation in sales is in line with our expectations due to the contract nature of the business.

Gross margin (%)	(2.4%)	(10.4%)	Ratio of operating profit before exceptional items and goodwill amortisation to sales
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Gross margin was down from last year but remains consistent with expectations.

Return on invested capital (%)	(4.6%)	(11.1%)	Operating profit expressed as a percentage of net assets.
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Return on invested capital is less than last year due to an increase in base cost.

Results and dividends

The loss for the year, after taxation, amounted to £19,280,000 (2006: loss £14,800,000).

The directors do not recommend the payment of a final dividend (2006: £nil).

PII Limited

Directors' report

Directors

The directors who held office during the year and up to the date of the directors' report were:

A M Clark (resigned 25 May 2007)
J J Keenan (resigned 24 October 2007)
H A Wake (resigned 25 May 2007)
D P Mulholland (resigned 25 May 2007)
T B Ackhurst (appointed 26 May 2007 & resigned 1 September 2007)
C C Berger (appointed 26 May 2007 & resigned 12 September 2007)
C K Mann (appointed 26 May 2007 & resigned 2 May 2008)
A Bathgate (appointed 24 September 2007)
J V Bucci (appointed 24 September 2007)
I Hornby (appointed 2 May 2008)
D S P Little (appointed 2 May 2008)
M R B Paparoni (appointed 12 September 2008)
A M C Sloan (appointed 2 May 2008)

Employees

The company is an equal opportunities employer and the importance of good communications with employees is recognised by the directors. The average number of employees for the year ended 31 December 2007 was 212 (2006: 310).

It is the company's policy to give full and fair consideration to the employment needs of disabled persons (and persons who become disabled whilst employed by the company) and to comply with any current legislation with regard to disabled persons. It is the policy of the company that training, career development and promotion opportunities should be available to all employees.

Research and development activities

The company is committed to developing innovative, cost-effective and practical solutions for providing high quality services to its customers. The primary objective is to focus investment in the development and application of technology so that the company has the right skills to employ technology to competitive advantage and that it continues to be alert to technological opportunities.

Provision of information to auditors

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- each director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

PII Limited

Directors' report

Auditors

The auditors, KPMG Audit Plc, are deemed to be reappointed in accordance with section 386 of the Companies Act 1985 by virtue of an elective resolution passed by the members on 20 December 2006.

This report was approved by the board on 15TH JANUARY 2009 and signed on its behalf.

Directors



AMC SLOAN

The Arena
Downshire Way
Bracknell
Berkshire
RG12 1PU

PII Limited

Statement of directors' responsibilities for the year ended 31 December 2007

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Pll Limited

Independent auditors' report to the members of Pll Limited

We have audited the financial statements of Pll Limited for the year ended 31 December 2007, which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the 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 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 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

PII Limited

Independent auditors' report to the members of PII Limited

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 December 2007 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

KPMG Audit Plc.

KPMG Audit Plc

Chartered Accountants
Registered Auditor

Quayside House
110 Quayside
Newcastle Upon Tyne
NE1 3DX

Date: *15 January 2009.*

PIL Limited

Profit and loss account for the year ended 31 December 2007

	Note	2007 £000	2006 £000
Turnover	2	38,723	42,493
Cost of sales		<u>(28,746)</u>	<u>(33,607)</u>
Gross profit		9,977	8,886
Administrative expenses		(18,994)	(16,179)
Other operating income		<u>5,202</u>	<u>-</u>
Operating loss	3	(3,815)	(7,293)
Other exceptional expenses	4	<u>(995)</u>	<u>-</u>
Loss on ordinary activities before interest		(4,810)	(7,293)
Interest receivable and similar income	8	817	2,084
Interest payable and similar charges	9	(15,879)	(8,503)
Other finance income	22	<u>521</u>	<u>639</u>
Loss on ordinary activities before taxation		(19,351)	(13,073)
Tax on loss on ordinary activities	10	<u>71</u>	<u>(1,727)</u>
Loss on ordinary activities after taxation	19	<u>(19,280)</u>	<u>(14,800)</u>

All amounts relate to continuing operations.

The notes on pages 10 to 26 form part of these financial statements.

PII Limited

Statement of total recognised gains and losses for the year ended 31 December 2007

	Note	2007 £000	2006 £000
Loss for the financial year		(19,280)	(14,800)
Actuarial gain/(loss) related to pension scheme	22	2,765	(2,677)
Deferred tax attributable to actuarial loss	17	(714)	803
Revaluation of investments in overseas branches		-	(141)
Total recognised losses relating to the year		(17,229)	(16,815)

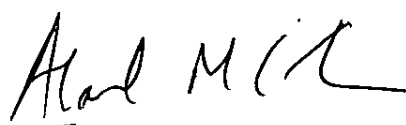
The notes on pages 10 to 26 form part of these financial statements.

Pll Limited

Balance sheet as at 31 December 2007

	Note	£000	2007 £000	£000	2006 £000
Fixed assets					
Intangible fixed assets	11		33,352		31,734
Tangible fixed assets	12		31,195		32,191
			<u>64,547</u>		<u>63,925</u>
Current assets					
Stocks	13	5,646		6,017	
Debtors: amounts falling due after more than one year	14	28,906		27,348	
Debtors: amounts falling due within one year	14	20,616		29,506	
Cash at bank and in hand		1,314		1,593	
		<u>56,482</u>		<u>64,464</u>	
Creditors: amounts falling due within one year	15	<u>(94,283)</u>		<u>(91,414)</u>	
Net current liabilities			<u>(37,801)</u>		<u>(26,950)</u>
Total assets less current liabilities			<u>26,746</u>		<u>36,975</u>
Creditors: amounts falling due after more than one year	16		<u>(114,173)</u>		<u>(104,858)</u>
Net liabilities excluding pension scheme assets			<u>(87,427)</u>		<u>(67,883)</u>
Defined benefit pension scheme asset	22		4,603		2,327
Net liabilities including pension scheme assets			<u>(82,824)</u>		<u>(65,556)</u>
Capital and reserves					
Called up share capital	18		1,000		1,000
Other reserves	19		49		88
Profit and loss account	19		<u>(83,873)</u>		<u>(66,644)</u>
Shareholders' deficit	20		<u>(82,824)</u>		<u>(65,556)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on


 Alan M. Sloan
 Directors
 15 January 2009

The notes on pages 10 to 26 form part of these financial statements.

PII Limited

Notes to the financial statements

1. Accounting policies

1.1 Basis of preparation of financial statements

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

The financial statements have been prepared on a going concern basis on the assumption that the parent company will provide such resources and financial support as is necessary in order to enable the company to continue as a going concern and meet its liabilities as they fall due.

1.2 Cash flow

The company, being a subsidiary undertaking where 90% or more of the voting rights are controlled within the group whose consolidated financial statements are publicly available, is exempt from the requirement to draw up a cash flow statement in accordance with FRS 1.

1.3 Turnover

Turnover comprises revenue recognised by the company in respect of goods and services supplied, exclusive of Value Added Tax and trade discounts.

1.4 Intangible fixed assets and amortisation

Goodwill is the difference between amounts paid on the acquisition of a business and the fair value of the identifiable assets and liabilities. It is amortised to the profit and loss account over its estimated economic life.

Following a review of the costs included within tangible fixed assets the directors have reclassified certain costs from tangible fixed assets to intangible fixed assets. This relates to additions in 2006 and 2007. There is no impact on the profit and loss for the year as the amortisation policy and depreciation policy for these costs is the same

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Freehold land and buildings	-	50 years
Plant & machinery	-	5 years
Computer equipment	-	3 years
Inspection vehicles	-	3 to 10 years

1.6 Operating leases

Rentals under operating leases are charged on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

Pll Limited

Notes to the financial statements

1. Accounting policies (continued)

1.7 Research and development expenditure

Revenue expenditure on research and development is written off to the profit and loss account in the period in which it is incurred. Assets used in research and development activities are capitalised with other tangible fixed assets and depreciated over their estimated useful economic lives.

1.8 Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

1.9 Taxation

Taxation for the year is based on the loss for the year.

Full provision is made for deferred tax liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

1.10 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the profit and loss account.

1.11 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 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.

PIL Limited

Notes to the financial statements

1. Accounting policies (continued)

1.12 Share based payments

Share options and restricted units over the shares of General Electric Company, the ultimate parent entity are granted to certain employees and executives of the company. The fair value of options and units granted is recognised as an employee expense with a corresponding increase in equity, the 'other reserve'.

The fair value is measured at grant date using the Black-Scholes option pricing model, and is recognised as an expense over the period the employees become unconditionally entitled to the options/units. The amount recognised as an expense is adjusted to reflect the actual number of options/units expected to vest.

Any recharges by the ultimate parent entity are offset against the 'other reserve'.

In addition the company has established an employee share ownership scheme, under which employees are able to acquire a number of shares in the ultimate parent company, General Electric Company, with the company matching the employees' purchases. The company's costs of these purchases are charged to the profit and loss account as incurred.

1.13 Pensions

The company operates a defined benefit pension scheme, Pipeline Integrity International Group Pension Scheme and the pension charge is based on a full actuarial valuation dated 31 December 2006.

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

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

The company is also a member of a larger group pension scheme providing benefits based on final pensionable pay. The group pension scheme, GE Pension Plan, covers a number of United Kingdom subsidiary companies of General Electric Company. Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the scheme has been accounted for, in these financial statements as if the scheme was a defined contribution scheme.

1.14 Transactions with related parties

The company, as a wholly owned subsidiary undertaking of General Electric Company, has taken advantage of an exemption contained in FRS 8, "Related Party Disclosures", in preparing its financial statements. This exemption allows the company not to disclose details of transactions with other group companies or investees of the group qualifying as related parties, as the consolidated financial statements of General Electric Company, in which the company is included, are publicly available.

2. Turnover

A geographical analysis of turnover has not been given, as, in the opinion of the directors, the provision of such sensitive information could be seriously prejudicial to the commercial interests of the company.

PII Limited

Notes to the financial statements

3. Operating loss

The operating loss is stated after charging/(crediting):

	2007 £000	2006 £000
Amortisation - intangible fixed assets	3,131	2,875
Depreciation of tangible fixed assets:		
- owned by the company	3,908	4,758
Operating lease rentals:		
- plant and machinery	201	399
- buildings	340	222
Difference on foreign exchange	275	2,920
(Profit)/loss on sale of tangible assets	(196)	1,849
Royalties receivable	(1,346)	(2,941)
Research and development expenditure (net of third party contributions)	(1,018)	(1,483)

4. Other exceptional expenses

The exceptional expense of £995,000 (2006: £nil) incurred in the year represents redundancy costs incurred as a result of restructuring the business.

5. Auditors' remuneration

	2007 £000	2006 £000
Fees payable to the company's auditor for the audit of the company's annual accounts	85	139
Fees payable to the company's auditor and its associates in respect of:		
All other services	1	-

PII Limited

Notes to the financial statements

6. Staff costs

Staff costs, including directors' remuneration, were as follows:

	2007 £000	2006 £000
Wages and salaries	11,631	13,722
Social security costs	1,063	1,045
Other pension costs (note 22)	2,567	1,653
	<u>15,261</u>	<u>16,420</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2007 No.	2006 No.
Operations	98	159
Administration and selling	114	151
	<u>212</u>	<u>310</u>

7. Directors' remuneration

	2007 £000	2006 £000
Emoluments	<u>107</u>	<u>-</u>

During the year retirement benefits were accruing to 3 directors (2006: nil) in respect of defined benefit pension schemes.

The highest paid director received remuneration of £55,000 (2006: £nil).

8. Interest receivable and similar income

	2007 £000	2006 £000
On amounts owed from group undertakings	794	2,056
Bank interest receivable	23	28
	<u>817</u>	<u>2,084</u>

PII Limited

Notes to the financial statements

9. Interest payable and similar charges

	2007 £000	2006 £000
On bank loans and overdrafts	2	5
On overdue tax	215	29
On loans from group undertakings	15,551	8,219
Other interest payable	111	250
	<u>15,879</u>	<u>8,503</u>

10. Taxation

	2007 £000	2006 £000
Analysis of tax charge in the year		
Current tax (see note below)		
UK corporation tax charge on loss for the year	-	-
Foreign tax on income for the year	643	924
Total current tax	<u>643</u>	<u>924</u>
Deferred tax		
Origination and reversal of timing differences	3,118	3,166
Movement in deferred tax not provided	(4,023)	(932)
Adjustment in respect of prior years	-	(1,431)
Effect of decreased tax rate	191	-
Total deferred tax	<u>(714)</u>	<u>803</u>
Tax on loss on ordinary activities	<u>(71)</u>	<u>1,727</u>

PII Limited

Notes to the financial statements

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2006: higher than) the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2007 £000	2006 £000
Loss on ordinary activities before tax	<u>(19,351)</u>	<u>(13,073)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006: 30%)	(5,805)	(3,922)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	726	1,126
Capital allowances for year in excess of depreciation not recognised	(3,091)	(2,993)
Short term timing differences not recognised	(27)	(173)
Group relief not paid for	8,197	5,962
Overseas taxation	643	924
<i>Current tax charge for the year (see note above)</i>	<u>643</u>	<u>924</u>

Factors that may affect future tax charges

Deferred tax assets and liabilities on all timing differences have been calculated at 28%, being the rate of UK corporation tax effective from 1 April 2008, including those expected to reverse in the year ended 31 December 2008 (the effective rate for which would otherwise be 28.5%). The impact of this on the financial statements is not considered to be material.

PII Limited

Notes to the financial statements

11. Intangible fixed assets

	Others £000	Purchased goodwill £000	Total £000
Cost			
At 1 January 2007	-	56,851	56,851
Additions	2,031	-	2,031
Transfer between classes	2,564	-	2,564
Foreign exchange movement	-	154	154
At 31 December 2007	4,595	57,005	61,600
Amortisation			
At 1 January 2007	-	25,117	25,117
Charge for the year	256	2,875	3,131
At 31 December 2007	256	27,992	28,248
Net book value			
At 31 December 2007	4,339	29,013	33,352
At 31 December 2006	-	31,734	31,734

Goodwill is amortised over 20 years. The directors consider this to be appropriate in view of their assessment of the durability of the acquired businesses and their long term plans to maintain and develop their respective ranges of services and products.

Following a review of the costs included within tangible fixed assets the directors have reclassified certain costs from tangible fixed assets to intangible fixed assets. This relates to additions in 2006 and 2007. There is no impact on the profit and loss for the year as the amortisation policy and depreciation policy for these costs is the same.

PIL Limited

Notes to the financial statements

12. Tangible fixed assets

	Freehold land and buildings £000	Plant, machinery, computer equipment & inspection vehicles £000	Total £000
Cost			
At 1 January 2007	3,262	58,241	61,503
Additions	-	5,033	5,033
Disposals	-	(129)	(129)
Transfer between classes	-	(2,564)	(2,564)
Foreign exchange movement	-	424	424
At 31 December 2007	3,262	61,005	64,267
Depreciation			
At 1 January 2007	1,235	28,077	29,312
Charge for the year	67	3,841	3,908
On disposals	-	(325)	(325)
Foreign exchange movement	-	177	177
At 31 December 2007	1,302	31,770	33,072
Net book value			
At 31 December 2007	1,960	29,235	31,195
At 31 December 2006	2,027	30,164	32,191

13. Stocks

	2007 £000	2006 £000
Work in progress	1,571	3,142
Inspection vehicle spares and consumables	4,075	2,875
	5,646	6,017

PII Limited

Notes to the financial statements

14. Debtors

	2007 £000	2006 £000
<i>Due after more than one year</i>		
Amounts owed by group undertakings	27,116	26,351
Deferred tax asset (note 15)	1,790	997
	<u>28,906</u>	<u>27,348</u>
<i>Due within one year</i>		
Trade debtors	6,752	8,116
Amounts owed by group undertakings	5,163	13,376
Other debtors	3,661	5,498
Prepayments and accrued income	2,330	80
Amounts recoverable on long term contracts	2,710	2,436
	<u>20,616</u>	<u>29,506</u>

15. Creditors: Amounts falling due within one year

	2007 £000	2006 £000
Trade creditors	1,138	1,344
Amounts owed to group undertakings	76,614	69,651
Overseas tax payable	2,483	2,531
Other creditors and accruals	14,048	17,888
	<u>94,283</u>	<u>91,414</u>

16. Creditors: Amounts falling due after more than one year

	2007 £000	2006 £000
Amounts owed to group undertakings	114,173	104,858

PII Limited

Notes to the financial statements

17. Deferred taxation

	2007 £000	2006 £000
At beginning of year	997	1,811
Charge/(credit) for the year	79	(11)
Recognised in the STRGL	714	(803)
At end of year	<u>1,790</u>	<u>997</u>

The amounts recognised and unrecognised in respect of the deferred taxation asset are set out as below:

	Recognised 2007 £000	Potential asset 2007 £000	Recognised 2006 £000	Potential asset 2006 £000
Difference between accumulated depreciation and capital allowances	1,790	2,079	997	5,319
Short term timing differences	-	(1,014)	-	767
Total	<u>1,790</u>	<u>1,065</u>	<u>997</u>	<u>6,086</u>

The pension surplus in note 22 is stated after providing for a deferred tax liability of £1,790,000 (2006: £997,200). A deferred tax asset of 1,790,000 (2006: £997,200) has also been recognised in debtors. The overall deferred tax liability/asset at 31 December 2007 is £nil (2006: £nil) on the basis that the company does not anticipate that future taxable profits will be sufficient for these timing differences to reverse.

18. Share capital

	2007 £000	2006 £000
Authorised, allotted, called up and fully paid		
1,000,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

19. Reserves

	Other reserves £000	Profit and loss account £000
At 1 January 2007	88	(66,644)
Loss for the year	-	(19,280)
Pension reserve movement	-	2,051
Equity compensation expense written back during the year	(15)	-
Recharges made by GE Company in respect of share options exercised during the year	(24)	-
At 31 December 2007	<u>49</u>	<u>(83,873)</u>

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Notes to the financial statements

20. Reconciliation of movement in shareholders' deficit

	2007 £000	2006 £000
Opening shareholders' deficit	(65,556)	(48,829)
Loss for the year	(19,280)	(14,800)
Other recognised gains and losses during the year	2,051	(2,015)
Equity compensation expense written back/charged during the year	(15)	88
Recharges made by GE Company in respect of share options exercised during the year	(24)	-
Closing shareholders' deficit	<u>(82,824)</u>	<u>(65,556)</u>

21. Capital commitments

At 31 December 2007 the company had capital commitments as follows:

	2007 £000	2006 £000
Contracted for but not provided in these financial statements	<u>-</u>	<u>990</u>

22. Pension commitments

The company operates a defined benefit pension scheme, Pipeline Integrity International Group Pension Scheme, providing benefits based on final pensionable pay. The scheme commenced on 1 January 1999 and is now closed to new entrants.

The amounts in the financial statements for the year ended 31 December 2007, relating to pensions, are based on a full actuarial valuation dated 31 December 2006 and updated to 31 December 2007 by a qualified independent actuary.

The main financial assumptions used in the actuarial valuation were:

	2007 %	2006 %	2005 %
Inflation	3.25	3.00	2.70
Rate of increase in salaries	4.50	4.00	3.40
Rate of increase for pensions	3.25	3.00	2.70
Discount rate for liabilities	<u>5.75</u>	<u>5.00</u>	<u>4.90</u>

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Notes to the financial statements

22. Pension commitments (continued)

The assets in the scheme and the expected rates of return were:

	Long-term rate of return expected at 2007 %	Fair value at 2007 £000	Long-term rate of return expected at 2006 %	Fair value at 2006 £000	Long-term rate of return expected at 2005 %	Fair value at 2005 £000
Equities	7.00	37,519	6.30	36,581	6.30	32,829
Bonds	4.50	16,339	4.30	13,121	4.30	12,417
Gilts	4.25	178	4.00	173	4.00	91
Total market value of assets		54,036		49,875		45,337
Present value of scheme liabilities		(47,643)		(46,551)		(39,299)
Surplus in the scheme		6,393		3,324		6,038
Related deferred tax liability		(1,790)		(997)		(1,811)
Net pension asset		4,603		2,327		4,227

The following amounts have been recognised in the financial statements in the year to 31 December 2007 and 31 December 2006 under the requirements of FRS 17:

	2007 £000	2006 £000
Operating loss		
Current service cost	1,359	1,249
Past service cost	1,177	-
Total operating charge	2,536	1,249
Other finance income		
Expected return on pension scheme assets	2,877	2,574
Interest on pension scheme liabilities	(2,356)	(1,935)
Net return	521	639
Analysis of amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)		
Actual return less expected return on pension scheme assets	371	2,270
Experience gains and losses arising on the scheme liabilities	(67)	(1,642)
Changes in assumptions underlying the present value of the scheme liabilities	2,461	(3,305)
Actuarial gains/(losses) recognised in STRGL	2,765	(2,677)

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Notes to the financial statements

22. Pension commitments (continued)

	2007 £000	2006 £000
Movements in surplus during the year:		
Surplus in scheme at beginning of year	3,324	6,038
Current year service cost	(1,359)	(1,249)
Contributions	2,319	573
Past service cost	(1,177)	-
Net return on assets	521	639
Actuarial gains/(losses) recognised in STRGL	2,765	(2,677)
Surplus in scheme at end of year	6,393	3,324

History of experience gains and losses in the scheme

	2007	2006	2005
Difference between the expected and actual return on scheme assets:			
Amount (£)	371	2,270	5,128
Percentage of scheme assets	0.69 %	4.55 %	11.31 %
Experience gains and losses on scheme liabilities:			
Amount (£)	(67)	(1,642)	964
Percentage of the present value of the scheme liabilities	(0.14)%	(3.53)%	2.50 %
Total amount recognised in Statement of Total Recognised Gains and Losses (STRGL)			
Amount (£)	2,765	(2,677)	190
Percentage of the present value of the scheme liabilities	5.80 %	(5.75)%	0.50 %

The company is also a member of a larger group wide pension scheme providing benefits based on final pensionable pay. The group pension scheme, GE Pension Plan, covers a number of United Kingdom subsidiary companies of General Electric Company. Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the scheme has been accounted for, in these financial statements as if the scheme was a defined contribution scheme. The funding surplus/deficit in respect of the scheme is disclosed in the financial statements of IGE USA Investments, a company registered in England & Wales.

The latest full actuarial valuation was carried out at 5 April 2006 by a qualified independent actuary. At this date there was a funding deficit of £100.4 million and a funding level of 80%.

During the year the company contributed £31,000 (2006: £404,000) to the scheme.

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Notes to the financial statements

23. Operating lease commitments

At 31 December 2007 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2007	2006	2007	2006
	£000	£000	£000	£000
Expiry date:				
Within 1 year	-	20	20	48
Between 2 and 5 years	-	-	52	146

24. Share based payments

Certain employees of the company are selected to participate in share options and restricted units of General Electric Company under the terms of the General Electric Company Long Term Incentive Plan. Share options expire 10 years from grant date and vest over service periods ranging from one to five years.

The option price is usually set as the closing day share price on grant date. Restricted units give the participants the right to receive shares in General Electric Company for no consideration. Restricted units vest over various service periods beginning three years from grant date through to grantee retirement.

All grants of GE options under all plans must be approved by the Management Development and Compensation Committee of General Electric Company, which consists entirely of outside directors.

The recognition and measurement principles in FRS 20 have not been applied to share options granted before 7 November 2002.

(a) Share options

The number and weighted average exercise price of share options is as follows:

	2007 Weighted average exercise price £	2007 Number of options No	2006 Weighted average exercise price £	2006 Number of options No
Outstanding at the beginning of the year	19.33	22,500	19.58	24,900
Granted during the year	19.37	500	19.07	6,000
Forfeited during the year	18.71	(2,160)	18.42	(1,300)
Exercised during the year	19.78	(5,990)	20.16	(7,100)
Employee transfers	10.81	(525)	-	-
Outstanding at the end of the year	20.34	14,325	19.33	22,500

PII Limited

Notes to the financial statements

24. Share based payments (continued)

	2007 Weighted average exercise price £	2007 Number of options No	2006 Weighted average exercise price £	2006 Number of options No
Exercisable at the end of the year	21.13	9,545	19.73	14,320
		£		£
For share options exercised during the year weighted average share price on date of exercise		26.23		23.26
	Minimum £	Maximum £	Minimum £	Maximum £
Range of exercise price for outstanding options	16.94	30.67	16.94	20.16
		Years		Years
Weighted average remaining contractual life of outstanding options in years		5.84		6.79

(a) Fair value for options granted

The fair value at grant date is determined using the Black-Scholes option pricing method. The key assumptions used in calculating the fair value of share options granted are detailed below:

	2007	2006
Weighted average fair value at measurement date	£4.76	£4.70
Share price	£19.37	£19.07
Exercise price	£19.37	£19.07
Expected volatility (weighted average volatility)	26.90%	25.40%
Option life (expected weighted average life)	6.90 years	6.19 years
Expected dividends	3.07%	2.94%
Risk free interest rate	4.16%	4.97%

The expected volatility was based on historical volatility.

The grants are subject to service conditions. Such conditions are not taken into account in the determination of grant date fair value.

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Notes to the financial statements

24. Share based payments (continued)

(b) Restricted units

The number of restricted units is as follows:

	2007	2006
Outstanding at the beginning of the year	1,672	536
Granted during the year	-	1,337
Exercised during the year	(232)	-
Forfeited during the year	(602)	(134)
Employee transfers	134	(67)
Outstanding at the end of the year	<u>972</u>	<u>1,672</u>

Weighted average remaining contractual life of outstanding restricted units

8.04 years 8.84 years

Fair value of restricted units

The fair value of restricted units is calculated as the closing day share price on grant date.

The grants are subject to service conditions. Such conditions are not taken into account in determination of grant date fair value.

Weighted average fair value at measurement date for RSU granted during the year

- 19.03

(c) Expenses arising from share-based payment transactions

	2007 £000	2006 £000
Share options	(15)	81
Restricted units	(24)	7
	<u>(39)</u>	<u>88</u>

25. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is PII Group Limited, a company registered in England and Wales.

The smallest and largest group in which the results of the company are consolidated is that headed by its ultimate parent undertaking, General Electric Company, a company incorporated in the United States of America. The consolidated financial statements of this company are available to the public and may be obtained from 3135 Easton Turnpike, Fairfield, Connecticut, 06828, USA or at www.ge.com.