

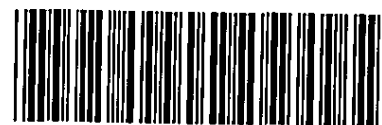
PII Limited

Directors' report and financial statements

For the year ended 31 December 2008

Registered number: 3424425

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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 2008.

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 £2.6 million (2007: pre-tax loss of £19.4 million) for the year and sales of £39.4 million (2007: £38.7 million).

The company has net liabilities of £91.8 million (2007: £82.8 million) of which a net £149.8 million is to fellow GE Group Companies.

Future outlook

During 2008, 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.

	2008	2007	Definition, method of calculation
Growth in sales (%)	1.8%	(8.9%)	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 (%)	36.4%	(2.4%)	Gross margin is the ratio of gross profit before exceptional items and goodwill amortization to sales expressed as a percentage.
Return on invested capital (%)	8%	(4.6%)	Operating profit expressed as a percentage of net assets.

Results and dividends

The loss for the year, after taxation, amounted to £5,112,000 (2007: loss £19,280,000).

The directors do not recommend the payment of a dividend (2007: £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 Bathgate
J V Bucci
I Hornby (appointed 2 May 2008)
D S P Little (appointed 2 May 2008 & resigned 1 September 2009)
C K Mann (resigned 2 May 2008)
M R B Paparoni (appointed 12 September 2008)
A M C Sloan (appointed 2 May 2008)
C C Berger (resigned 12 September 2008)

Post balance sheet events

On 23 November 2009 the company increased its authorised share capital by 91,913,000 £1 ordinary shares. These were entirely subscribed by PII Group Limited, the company's immediate parent undertaking, at nominal value for a total cash consideration of £91,913,000.

Subsequently, on 23 November 2009 the company received waivers for £71,308,000 of intercompany creditors. A further £93,460,000 of intercompany creditors were repaid at the same date.

As a result of the above transactions, on 23 November 2009, the company has a reduction in creditors of £164,768,000, of which £158,844,000 were outstanding at 31 December 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 2008 was 230 (2007: 212).

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
- that 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.


Pll Limited

Directors' report

Auditors

Under section 487 of the Companies Act 2006, KPMG Audit Plc will be deemed to have been reappointed as auditor(s) 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board on *26 November 2005* and signed on its behalf.


Director *MRS PAPARONE*

Atley Way
Cramlington
Northumberland
NE23 1WW

PII Limited

Statement of directors' responsibilities for the year ended 31 December 2008

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.

PII Limited

Independent auditors' report to the members of PII Limited

We have audited the financial statements of PII Limited for the year ended 31 December 2008, 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 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 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 2008 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: *26 November 2009.*

PII Limited

Profit and loss account for the year ended 31 December 2008

	Note	2008 £000	2007 £000
Turnover	1,2	39,437	38,723
Cost of sales		(25,068)	(28,746)
		<hr/>	<hr/>
Gross profit		14,369	9,977
Administrative expenses		(8,186)	(18,994)
Other operating income		1,244	5,202
		<hr/>	<hr/>
Operating profit/(loss)	3	7,427	(3,815)
Other exceptional expenses	4	-	(995)
		<hr/>	<hr/>
Profit/(loss) on ordinary activities before interest		7,427	(4,810)
Interest receivable and similar income	8	2,542	817
Interest payable and similar charges	9	(13,228)	(15,879)
Other finance income	22	645	521
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(2,614)	(19,351)
Tax on loss on ordinary activities	10	(2,498)	71
		<hr/>	<hr/>
Loss for the financial year	19	(5,112)	(19,280)
		<hr/>	<hr/>

All amounts relate to continuing operations.

The notes on pages 10 to 29 form part of these financial statements.

PII Limited

Statement of total recognised gains and losses for the year ended 31 December 2008

	Note	2008 £000	2007 £000
Loss for the financial year		(5,112)	(19,280)
Actuarial (loss)/gain related to defined benefit pension scheme	22	(5,465)	2,765
Deferred tax attributable to actuarial loss/(gain)	17	1,531	(714)
Total recognised losses relating to the year		(9,046)	(17,229)

The notes on pages 10 to 29 form part of these financial statements.

PII Limited

Balance sheet as at 31 December 2008

	Note	£000	2008 £000	2007 £000
Fixed assets				
Intangible fixed assets	11		30,978	33,352
Tangible fixed assets	12		25,249	31,195
			<u>56,227</u>	<u>64,547</u>
Current assets				
Stocks	13	5,859		5,646
Debtors: amounts falling due after more than one year	14	29,919		28,906
Debtors: amounts falling due within one year	14	30,958		20,616
Cash at bank and in hand		64		1,314
		<u>66,800</u>		<u>56,482</u>
Creditors: amounts falling due within one year	15	<u>(128,901)</u>		<u>(94,283)</u>
Net current liabilities			<u>(62,101)</u>	<u>(37,801)</u>
Total assets less current liabilities			<u>(5,874)</u>	<u>26,746</u>
Creditors: amounts falling due after more than one year	16		<u>(87,537)</u>	<u>(114,173)</u>
Net liabilities excluding pension scheme assets			<u>(93,411)</u>	<u>(87,427)</u>
Defined benefit pension scheme asset	22		<u>1,544</u>	<u>4,603</u>
Net liabilities including pension scheme assets			<u>(91,867)</u>	<u>(82,824)</u>
Capital and reserves				
Called up share capital	18		1,000	1,000
Other reserves	19		52	49
Profit and loss account	19		<u>(92,919)</u>	<u>(83,873)</u>
Shareholders' deficit	20		<u>(91,867)</u>	<u>(82,824)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 26 November 2009

Director

Registered number: 3424425

 MRB PAPARONE

The notes on pages 10 to 28 form part of these financial statements.

PIL 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 amendment to FRS 17 'Retirement benefits' has been adopted in these financial statements for the first time and the disclosures it requires have been presented for both the current and comparative period. The amendment to FRS 17 also requires that quoted securities are valued at their current bid-price rather than their mid-market value. The comparative numbers have not been restated on the basis that the effect of this change was not material.

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on page 1. The company's ultimate parent undertaking is General Electric Company which is a parent undertaking of a group of companies engaged in delivering goods and services within energy infrastructure, technology infrastructure, NBC Universal, capital finance and consumer and industrial segments.

Notwithstanding the net liabilities position of the company at the year end, these financial statements have been prepared on a going concern basis which the directors believe to be appropriate for the following reasons. Subsequent to the year end the company completed a refinancing exercise which resulted in a reduction of the intercompany creditors of £164,768,000 and an increase of issued share capital of £91,913,000. Consequently the company, at the date of signing these financial statements, has total intercompany financing balances of £6,388,000. Subsequent to this refinancing the company meets its day to day working capital requirements through a group cash pooling facility, which allows cash to be utilised throughout the group headed by General Electric Company, and through cash generated by operations.

The current economic conditions create an element of uncertainty over demand for the company's products and services, but the company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company is expected to have a sufficient level of financial resources available and therefore the directors believe that the company is well placed to manage its business risks successfully despite the economic uncertainty.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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.

Pll Limited

Notes to the financial statements

1. Accounting policies (continued)

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.

Other intangible assets include development costs which are amortised over their useful economic life of 3 to 10 years.

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:

Buildings	-	50 years
Plant & machinery	-	5 years
Computer equipment	-	3 years
Inspection vehicles	-	3 to 10 years

Freehold land is not depreciated.

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.

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.

PII Limited

Notes to the financial statements

1. Accounting policies (continued)

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.

PII 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 reserves'.

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 2005.

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 profit/(loss)

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

	2008 £000	2007 £000
Amortisation - intangible fixed assets	3,310	3,131
Depreciation of tangible fixed assets:		
- owned by the company	4,456	3,908
Operating lease rentals:		
- plant and machinery	126	201
- buildings	210	340
Difference on foreign exchange	(10,210)	275
Loss/(profit) on sale of tangible assets	4,025	(196)
Royalties receivable	(2,735)	(1,346)
Research and development expenditure (net of third party contributions)	623	(1,018)
Impairment of tangible fixed assets	808	-
Impairment of intangible fixed assets	1,127	-
	<u>1,127</u>	<u>-</u>

4. Other exceptional expenses

The exceptional expense of £nil (2007: £995,000) incurred in the year represents redundancy costs incurred as a result of restructuring the business.

5. Auditors' remuneration

	2008 £000	2007 £000
Fees payable to the company's auditor for the audit of the company's annual accounts	78	85
Fees payable to the company's auditor and its associates in respect of:		
All other services	8	1
	<u>8</u>	<u>1</u>

PII Limited

Notes to the financial statements

6. Staff costs

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

	2008 £000	2007 £000
Wages and salaries	13,107	11,631
Social security costs	1,018	1,063
Other pension costs (note 22)	1,037	2,567
	<u>15,162</u>	<u>15,261</u>

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

	2008 No.	2007 No.
Operations	108	98
Administration and selling	122	114
	<u>230</u>	<u>212</u>

7. Directors' remuneration

	2008 £000	2007 £000
Emoluments	<u>694</u>	<u>107</u>

During the year retirement benefits were accruing to 4 directors (2007: 3) in respect of defined benefit pension schemes.

The highest paid director received remuneration of £275,000 (2007: £55,000).

8. Interest receivable and similar income

	2008 £000	2007 £000
On amounts owed from group undertakings	2,532	794
Bank interest receivable	10	23
	<u>2,542</u>	<u>817</u>

PII Limited

Notes to the financial statements

9. Interest payable and similar charges

	2008 £000	2007 £000
On bank loans and overdrafts	-	2
On overdue tax	-	215
On loans from group undertakings	12,867	15,551
Other interest payable	361	111
	<u>13,228</u>	<u>15,879</u>

10. Taxation

	2008 £000	2007 £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	968	643
Total current tax	<u>968</u>	<u>643</u>
Deferred tax		
Origination and reversal of timing differences	1,092	3,118
Movement in deferred tax not provided	3,946	(4,023)
Effect of decreased tax rate	(19)	191
	<u>5,019</u>	<u>(714)</u>
Adjustment in respect of prior years	(3,489)	-
Total deferred tax	<u>1,530</u>	<u>(714)</u>
Tax on loss on ordinary activities	<u>2,498</u>	<u>(71)</u>

PII Limited

Notes to the financial statements

10. Taxation (continued)

Factors affecting current tax charge for the year

The current tax assessed for the year is higher than (2007: higher than) the standard rate of corporation tax in the UK 28.5% (2007: 30%). The differences are explained below:

	2008 £000	2007 £000
Loss on ordinary activities before tax	(2,614)	(19,351)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007: 30%)	(745)	(5,805)
Effects of:		
Expenses not deductible for tax purposes	692	726
Capital allowances for year in excess of depreciation not recognised	(913)	(3,091)
Short term timing differences not recognised	(179)	(27)
Group relief surrendered	1,145	8,197
Overseas taxation	968	643
Current tax charge for the year (see note above)	968	643

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.

PII Limited

Notes to the financial statements

11. Intangible fixed assets

	Others £000	Purchased goodwill £000	Total £000
Cost			
At 1 January 2008	4,595	57,005	61,600
Additions	2,063	-	2,063
At 31 December 2008	6,658	57,005	63,663
Amortisation			
At 1 January 2008	256	27,992	28,248
Charge for the year	460	2,850	3,310
Impairment charge	-	1,127	1,127
At 31 December 2008	716	31,969	32,685
Net book value			
At 31 December 2008	5,942	25,036	30,978
At 31 December 2007	4,339	29,013	33,352

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.

During the year the directors undertook an impairment review in relation to purchased goodwill. The purchased goodwill was split between the cash generating units to which it relates, and the impairment review was carried out on this basis. The purchased goodwill was compared to its value in use which was calculated based on projected future cash flows and a discount rate of 5%. This resulted in an impairment charge of £1,127,000 in the current year which has been included in operating profit.

PII 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 2008	3,262	61,005	64,267
Additions	-	3,343	3,343
Disposals	(44)	(4,471)	(4,515)
At 31 December 2008	<u>3,218</u>	<u>59,877</u>	<u>63,095</u>
Depreciation			
At 1 January 2008	1,302	31,770	33,072
Charge for the year	67	4,389	4,456
On disposals	-	(490)	(490)
Impairment charge	-	808	808
At 31 December 2008	<u>1,369</u>	<u>36,477</u>	<u>37,846</u>
Net book value			
At 31 December 2008	<u>1,849</u>	<u>23,400</u>	<u>25,249</u>
At 31 December 2007	<u>1,960</u>	<u>29,235</u>	<u>31,195</u>

At the year end the directors have reviewed the carrying value of tangible fixed assets. Certain assets included within plant, machinery, computer equipment and inspection vehicles have subsequently been impaired to their net realisable value. This has been calculated using a discount rate of 5% and projected cash flows until the useful economic life of the associated assets.

An impairment charge of £808,000 has been recognised in the current year in relation to plant, machinery, computer equipment and inspection vehicles and is included within depreciation in the operating profit.

13. Stocks

	2008 £000	2007 £000
Work in progress	2,351	1,571
Inspection vehicle spares and consumables	3,508	4,075
	<u>5,859</u>	<u>5,646</u>

PII Limited

Notes to the financial statements

14. Debtors

	2008 £000	2007 £000
<i>Due after more than one year</i>		
Amounts owed by group undertakings	29,319	27,116
Deferred tax asset (note 17)	600	1,790
	<u>29,919</u>	<u>28,906</u>
	2008 £000	2007 £000
<i>Due within one year</i>		
Trade debtors	9,419	6,752
Amounts owed by group undertakings	18,065	5,163
Other taxes and social security	130	-
Other debtors	2,148	3,661
Prepayments and accrued income	96	2,330
Amounts recoverable on long term contracts	1,100	2,710
	<u>30,958</u>	<u>20,616</u>

15. Creditors: Amounts falling due within one year

	2008 £000	2007 £000
Trade creditors	1,193	1,138
Amounts owed to group undertakings	109,602	76,614
Overseas tax payable	2,612	2,483
Other creditors and accruals	15,494	14,048
	<u>128,901</u>	<u>94,283</u>

On 23 November 2009 the company was refinanced, which has resulted in a significant reduction in the level of intercompany creditors, as described in note 25.

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

	2008 £000	2007 £000
Amounts owed to group undertakings	87,537	114,173

On 23 November 2009 the company was refinanced, which has resulted in a significant reduction in the level of intercompany creditors, as described in note 25.

PII Limited

Notes to the financial statements

17. Deferred taxation

	2008 £000	2007 £000
At beginning of year	1,790	997
(Charge)/credit for the year	(1,531)	714
Amount relating to deferred tax liability on pension scheme asset	341	79
At end of year	<u>600</u>	<u>1,790</u>

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

	Recognised 2008 £000	Potential asset 2008 £000	Recognised 2007 £000	Potential asset 2007 £000
Difference between accumulated depreciation and capital allowances	600	4,671	1,790	2,079
Short term timing differences	-	325	-	(1,014)
	<u>600</u>	<u>4,996</u>	<u>1,790</u>	<u>1,065</u>

The pension surplus in note 22 is stated after providing for a deferred tax liability of £600,000 (2007: £1,790,000). A deferred tax asset of £600,000 (2007: £1,790,000) has also been recognised in debtors. The overall deferred tax asset at 31 December 2008 is £4,996,000 (2007: £1,065,000) this has not been recognised 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

	2008 £000	2007 £000
Authorised, allotted, called up and fully paid		
1,000,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

On 23 November 2009 the company increased its authorised share capital by 91,913,000 £1 ordinary shares. These were entirely subscribed by PII Group Limited, the company's immediate parent undertaking, at nominal value for a total cash consideration of £91,913,000.

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Notes to the financial statements

19. Reserves

	Other reserves £000	Profit and loss account £000
At 1 January 2008	49	(83,873)
Loss for the year	-	(5,112)
Pension reserve movement	-	(3,934)
Equity compensation expense recognised during the year	3	-
	<u>52</u>	<u>(92,919)</u>
At 31 December 2008		

20. Reconciliation of movement in shareholders' deficit

	2008 £000	2007 £000
Opening shareholders' deficit	(82,824)	(65,556)
Loss for the year	(5,112)	(19,280)
Other recognised gains and losses during the year	(3,934)	2,051
Equity compensation expense recognised /(written back) during the year	3	(15)
Recharges made by GE Company in respect of share options exercised during the year	-	(24)
	<u>(91,867)</u>	<u>(82,824)</u>
Closing shareholders' deficit		

21. Capital commitments and contingencies

At 31 December 2008 the company had capital commitments as follows:

	2008 £000	2007 £000
Contracted for but not provided in these financial statements	<u>220</u>	<u>-</u>

In the normal course of business the company has entered into guarantees in respect of export finance, performance bonds and minor miscellaneous items totalling £220,000.

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Notes to the financial statements

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 2008, relating to pensions, are based on a full actuarial valuation dated 31 December 2005 and updated to 31 December 2008 by a qualified independent actuary.

The main financial assumptions used in the actuarial valuation were:

	2008 %	2007 %	2006 %
Inflation	2.75	3.25	3.00
Rate of increase in salaries	4.00	4.50	4.00
Rate of increase for pensions	2.75	3.25	3.00
Discount rate for liabilities	6.00	5.75	5.00

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

	Long-term rate of return expected at 2008 %	Fair value at 2008 £000	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
Equities	6.75	30,422	7.00	37,519	6.30	36,581
Bonds	4.00	15,188	4.50	16,339	4.30	13,121
Gilts	2.00	138	4.25	178	4.00	173
Total market value of assets		45,748		54,036		49,875
Present value of scheme liabilities		(43,604)		(47,643)		(46,551)
Surplus in the scheme		2,144		6,393		3,324
Related deferred tax liability		(600)		(1,790)		(997)
Net pension asset		1,544		4,603		2,327

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Notes to the financial statements

22. Pension commitments (continued)

The following amounts have been recognised in the financial statements in the year to 31 December 2008 and 31 December 2007 under the requirements of FRS 17:

	2008 £000	2007 £000
Operating profit/(loss)		
Current service cost	1,014	1,359
Past service cost	-	1,177
Total operating charge	1,014	2,536
Other finance income		
Expected return on pension scheme assets	3,394	2,877
Interest on pension scheme liabilities	(2,749)	(2,356)
Net return	645	521
Analysis of amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)		
Actual return less expected return on pension scheme assets	(12,524)	371
Experience gains and losses arising on the scheme liabilities	(126)	(67)
Changes in assumptions underlying the present value of the scheme liabilities	7,185	2,461
Actuarial (loss)/gain recognised in STRGL	(5,465)	2,765
	2008 £000	2007 £000
Movements in surplus during the year:		
Surplus in scheme at beginning of year	6,393	3,324
Current year service cost	(1,014)	(1,359)
Contributions	1,585	2,319
Past service cost	-	(1,177)
Net return on assets	645	521
Actuarial (loss)/gain recognised in STRGL	(5,465)	2,765
Surplus in scheme at end of year	2,144	6,393

PII Limited

Notes to the financial statements

22. Pension commitments (continued)

History of experience gains and losses in the scheme

	2008	2007	2006
Difference between the expected and actual return on scheme assets:			
Amount (£)	(12,524)	371	2,270
Percentage of scheme assets	(27.38)%	0.69 %	4.55 %
Experience gains and losses on scheme liabilities:			
Amount (£)	(126)	(67)	(1,642)
Percentage of the present value of the scheme liabilities	(0.29)%	(0.14)%	(3.53)%
Total amount recognised in Statement of Total Recognised Gains and Losses (STRGL)			
Amount (£)	(5,465)	2,765	(2,677)
Percentage of the present value of the scheme liabilities	(12.53)%	5.80 %	(5.75)%

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 £23,000 (2007: £31,000) to the scheme.

23. Operating lease commitments

At 31 December 2008 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2008	2007	2008	2007
	£000	£000	£000	£000
Expiry date:				
Within 1 year	8	-	-	20
Between 2 and 5 years	-	-	68	52

PII Limited

Notes to the financial statements

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:

	2008 Weighted average exercise price £	2008 Number of options No	2007 Weighted average exercise price £	2007 Number of options No
Outstanding at the beginning of the year	20.34	14,325	19.33	22,500
Granted during the year	14.70	8,000	19.37	500
Forfeited during the year	17.25	(300)	18.71	(2,160)
Exercised during the year	-	-	19.78	(5,990)
Employee transfers	18.08	(700)	10.81	(525)
Outstanding at the end of the year	18.34	21,325	20.34	14,325

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Notes to the financial statements

24. Share based payments (continued)

	2008 Weighted average exercise price £	2008 Number of options No	2007 Weighted average exercise price £	2007 Number of options No
Exercisable at the end of the year	<u>21.02</u>	<u>10,315</u>	<u>21.13</u>	<u>9,545</u>
		£		£
For share options exercised during the year weighted average share price on date of exercise		-		26.23
	Minimum £	Maximum £	Minimum £	Maximum £
Range of exercise price for outstanding options	<u>14.48</u>	<u>30.67</u>	<u>16.94</u>	<u>30.67</u>
		Years		Years
Weighted average remaining contractual life of outstanding options in the year		6.58		5.84

Fair value of 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:

	2008	2007
Weighted average fair value at measurement date	£2.75	£4.76
Share price	£14.70	£19.37
Exercise price	£14.70	£19.37
Expected volatility (weighted average volatility)	26.10%	26.90%
Option life (expected weighted average life)	6.77 years	6.90 years
Expected dividends	4.33%	3.07%
Risk free interest rate	3.72%	4.16%

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 the grant date fair value.

PIL Limited

Notes to the financial statements

24. Share based payments (continued)

(b) Restricted units

The number of restricted units is as follows:

	2008 Number	2007 Number
Outstanding at the beginning of the year	972	1,672
Granted during the year	2,673	-
Forfeited during the year	(34)	(232)
Exercised during the year	-	(602)
Employee transfers	67	134
	<hr/>	<hr/>
Outstanding at the end of the year	3,678	972
	<hr/>	<hr/>
Exercisable at the end of the year	-	-
For restricted units exercised during the year weighted average share price on date of exercise	-	£20.81
Weighted average remaining contractual life of outstanding restricted units	8.91 years	8.04 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 the determination of the grant date fair value

	2008 £	2007 £
Weighted average fair value at measurement date for restricted units granted during the year	14.70	-
	<hr/>	<hr/>

(c) Expense arising from share based payment transactions

	2008 £000	2007 £000
Share options	(3)	(15)
Restricted units	6	(24)
	<hr/>	<hr/>
	3	(39)
	<hr/>	<hr/>

PII Limited

Notes to the financial statements

25. Post balance sheet events

On 23 November 2009 the company increased its authorised share capital by 91,913,000 £1 ordinary shares. These were entirely subscribed by PII Group Limited, the company's immediate parent undertaking, at nominal value for a total cash consideration of £91,913,000.

Subsequently, on 23 November 2009 the company received waivers for £71,308,000 of intercompany creditors. A further £93,460,000 of intercompany creditors was repaid at the same date.

As a result of the above transactions, on 23 November 2009, the company has a reduction in creditors of £164,768,000, of which £158,844,000 were outstanding at 31 December 2008.

26. 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.