

PII Limited
Directors' report and financial statements

for the 12 months ending 31 December 2014
Registered number: 03424425

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P11 LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
For the year ended 31 DECEMBER 2014

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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.

The directors anticipate no significant change in the company's activities in the foreseeable future.

Business model

The business invests in technology to provide assurance to oil and gas pipeline owners and operators. Primarily tools are developed to inspect pipelines allowing the business to provide an assessment over the integrity and condition of the pipelines. The business seeks to differentiate itself from competitors through the quality of their service.

Research and development activities

We continue to invest in the latest technological developments in the pipeline inspection field and integrity services. The directors regard the investment in research and development as key to driving the future success of the business.

Business review and results

There was a profit for the year after taxation amounting to £811,000 (2013: £3,804,000) and sales of £46,826,000 (2013: £46,810,000).

As at 31 December 2014 the company had net assets of £54,079,000 (2013: £57,061,000).

The directors cannot recommend the payment of a dividend.

Key Performance Indicators (KPI's)

	2014	2013	Definition, method of calculation
Growth in sales (%)	0.0%	1.5%	Year on year sales growth expressed as a percentage. The growth in sales is in line with our expectations due to the contract nature of the business.
Gross margin (%)	50.5%	56.8%	Gross margin is the ratio of gross profit before exceptional items and goodwill amortisation to sales expressed as a percentage.
Return on invested capital (%)	3.2%	7.2%	Operating profit/(loss) on continuing operations expressed as a percentage of net assets.

Principal risks and uncertainties

The management of the business and the execution of the group'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 for the company. Under these circumstances, this may have a negative impact on the recoverability of investments and the ability to pay dividends.

Financial risk management

Please refer to financial risk management disclosures in note 18.

Future outlook

During 2014, 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 whilst delivering cost effective products to the market.

This report was approved by the board and signed on its behalf.



S Chadda
Director

Atley Way
Cramlington
Northumberland
NE23 1WW

Date: 12/5/2015

PII LIMITED
DIRECTORS' REPORT

The directors present their report together with the audited financial statements for the year ended 31 December 2014.

Directors

The present membership of the Board is set out below:

M Bellamy

I Boccola (resigned 3rd March 2015)

S Chadda

K Johnson

Disclosure of information to the auditor

The Directors confirm that:

- so far as each of the Directors are aware there is no relevant audit information of which the company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

KPMG Audit Plc resigned as auditor following the completion of the prior year audit pursuant to section 516 of the Companies Act 2006. Subsequently the directors appointed KPMG LLP as auditor of the Company. Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

This report was approved by the board and signed on its behalf.



S Chadda

Director

Atley Way
Cramlington
Northumberland
NE23 1WW

Date: 12/5/2015

PII LIMITED**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

For the year ended 31 DECEMBER 2014

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and as issued by the International Accounting Standards Board. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and 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 accounting estimates that are reasonable and prudent;
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PII LIMITED

We have audited the financial statements of PII Limited for the year ended 31 December 2014. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

PII LIMITED
INDEPENDENT AUDITOR'S REPORT

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

M. R. Thompson.

Mick Thompson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

KPMG LLP
Quayside House
110 Quayside
Newcastle Upon Tyne
NE1 3DX

Date: *12 May 2015*

PII LIMITED
INCOME STATEMENT
For the year ended 31 DECEMBER 2014

	Note	2014 £'000	2013 £'000 Restated
Revenue	1	46,826	46,810
Cost of sales		<u>(23,175)</u>	<u>(20,239)</u>
Gross profit		23,651	26,571
Administrative costs		(21,965)	(22,525)
Other operating income	2	<u>26</u>	<u>64</u>
Operating profit	3	1,712	4,110
Financial income	6	146	59
Financial expense	7	<u>(31)</u>	<u>(34)</u>
Profit before taxation		1,827	4,135
Taxation	8	<u>(1,016)</u>	<u>(331)</u>
Profit for the year		<u><u>811</u></u>	<u><u>3,804</u></u>

All transactions arise from continuing operations.

PII LIMITED**STATEMENT OF TOTAL COMPREHENSIVE INCOME**

For the year ended 31 DECEMBER 2014

	Note	2014 £'000	2013 £'000
Profit for the year		<u>811</u>	<u>3,804</u>
Other comprehensive income			
Re-measurement of defined benefit liability	17	(4,187)	2,157
Total other comprehensive income		<u>(4,187)</u>	<u>2,157</u>
Total comprehensive income for the year		<u><u>(3,376)</u></u>	<u><u>5,961</u></u>

P11 LIMITED
BALANCE SHEET
As at 31 DECEMBER 2014

	Note	2014 £'000	2013 £'000
Non-current assets			
Intangible assets	9	22,255	23,432
Plant property and equipment	10	11,784	11,598
Deferred taxes	11	1,890	750
Other financial assets	12	8,139	-
Investment in subsidiaries	13	16,561	16,561
		<u>60,629</u>	<u>52,341</u>
Current assets			
Inventories	14	9,464	9,567
Trade and other receivables	15	12,873	14,330
Cash and cash equivalents		1,712	3,160
		<u>24,049</u>	<u>27,057</u>
Total assets		<u>84,678</u>	<u>79,398</u>
Current liabilities			
Trade and other payables	16	(23,567)	(18,523)
Non-Current liabilities			
Defined benefit scheme liability	17	(7,032)	(3,814)
Total liabilities		<u>(30,599)</u>	<u>(22,337)</u>
Net assets		<u>54,079</u>	<u>57,061</u>
Equity			
Share capital	20	60,675	60,675
Share based payment reserve		283	(111)
Retained earnings		(6,879)	(3,503)
Total equity		<u>54,079</u>	<u>57,061</u>

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



S Chadda
Director

Date: 18/5/2015

Company registration no. 03424425

PH LIMITED
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 DECEMBER 2014

	Share capital	Share based payment reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000
At 1 January 2013	60,675	255	(9,464)	51,466
Share based payment expense	-	104	-	104
Ultimate parent company recharges	-	(470)	-	(470)
Total transactions with owners	-	(366)	-	(366)
Profit for the year	-	-	3,804	3,804
Other Comprehensive Income	-	-	2,157	2,157
Total comprehensive income for the year	-	-	5,961	5,961
At 31 December 2013	<u>60,675</u>	<u>(111)</u>	<u>(3,503)</u>	<u>57,061</u>
At 1 January 2014	60,675	(111)	(3,503)	57,061
Share based payment expense	-	394	-	394
Ultimate parent company recharges	-	-	-	-
Total transactions with owners	-	394	-	394
Profit for the year	-	-	811	811
Other Comprehensive Income	-	-	(4,187)	(4,187)
Total comprehensive income for the year	-	-	(3,376)	(3,376)
At 31 December 2014	<u>60,675</u>	<u>283</u>	<u>(6,879)</u>	<u>54,079</u>

PII LIMITED
STATEMENT OF CASH FLOWS
As at 31 DECEMBER 2014

	2014 £'000	2013 £'000
Cash flows from operating activities		
Operating profit for the year	1,712	4,110
<i>Adjustments for:</i>		
Depreciation, amortisation and impairment	3,405	3,479
Loss on disposal of property, plant and equipment	366	1,015
<i>Working capital changes:</i>		
Decrease in trade and other receivables	1,458	1,350
Decrease in inventories	103	554
Increase/(decrease) in trade and other payables	3,676	(3,610)
Decrease in provisions and employee benefits	(575)	(1,376)
Tax paid	(789)	(672)
Net cash from operating activities	9,356	4,850
Cash flows from investing activities		
Interest received	146	59
Loan issued to fellow subsidiary	(8,139)	-
Acquisition of property, plant and equipment	(2,352)	(2,171)
Acquisition of other intangible assets	(428)	(615)
Net cash from investing activities	(10,773)	(2,727)
Cash flows from financing activities		
Interest paid	(31)	(34)
Net cash from financing activities	(31)	(34)
Net (decrease)/ increase in cash and cash equivalents	(1,448)	2,089
Cash and cash equivalents at 1 January	3,160	1,071
Cash and cash equivalents at 31 December	1,712	3,160

1. Accounting Policies

Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention and prepared in accordance with the accounting policies detailed below.

These financial statements are presented in Pound Sterling (£), which is also the functional currency of the company.

Adoption of new and revised standards

At the date of authorisation of these accounts, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the company. Management anticipates that all of the relevant pronouncements will be adopted in the company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the company's financial statements are provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the company's financial statements.

- the consolidation suite of standards (IFRSs 10 to 12, IAS 27, 28) along with the transition guidance and investment entities amendments
- IAS 32 amendments: offsetting financial assets and financial liabilities
- IAS 36 amendments: recoverable amount disclosures for non-financial assets
- IAS 39 amendments: novation of derivatives and continuation of hedge accounting
- IFRIC 21 Levies

It is anticipated that there will be minimal impact on the financial statements from the adoption of these new and revised standards.

Presentation of financial statements in accordance with IAS1 (Amended 2011)

These financial statements are presented in accordance with IAS1 Presentation of Financial Statements (Amended 2011). The company has elected to present the 'Statement of Comprehensive Income' in two statements.

Restatement of prior year balances

A presentational change has been made to the income statement reallocating other operating income, cost of sales and administrative costs. There is no impact on net profit. As a result the comparative figures for 2013 have been restated as follows:

- cost of sales have reduced from £26,909,000 to £20,239,000;
- other operating income has reduced from £7,248,000 to £64,000;
- administrative costs have reduced from £23,039,000 to £22,525,000.

Critical accounting estimates and judgements

The company makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the carrying value of intangible assets in the statements of financial position.

Carrying value of intangibles

The carrying value of goodwill and indefinite life intangibles are assessed at least annually to ensure that there is no need for impairment. Other intangibles are assessed where there is an indicator of impairment. Performing this assessment requires management to estimate future cash flows to be generated by the related cash generating unit, which entails making judgements including the expected rate of growth of sales, margins expected to be achieved, the level of future capital expenditure required to support these outcomes and the appropriate discount rate to apply when valuing future cash flows.

Impairment of goodwill

The company is required to test, at least annually, whether goodwill has suffered any impairment. The recoverable amount is determined based on the value in use calculations. The use of this method requires the estimation of future cash flows attributable to the acquired cash-generating unit and the choice of a suitable discount rate in order to calculate the present value of these cash flows.

Capitalisation of internally developed software

Distinguishing the research and development phases of a new customised software project and determining whether the recognition requirements for the capitalisation of development costs are met requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired.

Revenue

Revenue comprises income recognised by the company in respect of goods and services supplied, exclusive of Value Added Tax and trade discounts. This is measured on the following basis:

- revenue from fixed price contracts is recognised in proportion to the value of work performed and includes attributable profit. Depending on the nature of the contract, revenue is recognised as contractually agreed-upon milestones are reached, as reports are delivered or as the work progresses;
- revenue from sales of products and licencing technology is recognised on acceptance by the customer and when the amount of revenue can be measured reliably.

Depreciation and amortisation of tangible and intangible assets

Depreciation and amortisation is provided to write down the assets to their residual values over their useful estimated lives as set out below.

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation. Depreciation on other property, plant and equipment is provided at rates calculated to write off the cost of those assets, less their estimated residual value over their expected useful lives on the following basis:

Buildings	- 50 years
Plant and machinery	- 5 to 20 years
Computer equipment	- 3 years
Inspection vehicles	- 3 to 10 years

Freehold land is not depreciated.

Intangible assets and amortisation

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the company and that its cost can be measured reliably. The asset is deemed to be identifiable when it is separable or when it arises from contractual or other legal rights.

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 subject to annual impairment reviews in accordance with applicable accounting standards.

Other intangible assets include development costs, internal software and purchased intangibles which are amortised over their useful economic life of 3 to 10 years.

Expenditure on the research phase of projects to develop new customised software for use in revenue generating activities is recognised as an expense as incurred.

Costs that are directly attributable to a project's development phase are recognised as intangible assets, provided they meet the following recognition requirements:

- the development costs can be measured reliably;
- the project is technically and commercially feasible;
- the company intends to and has sufficient resources to complete the project;
- the company has the ability to use or sell the software;
- the software will generate probable future economic benefits;
- development costs not meeting these criteria for capitalisation are expensed as incurred.

Directly attributable costs include employee costs incurred on software development along with an appropriate portion of relevant overheads and borrowing costs.

Amortisation charges are allocated to administrative expenses.

At each balance sheet date, the company reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement.

Investments in subsidiaries

Investments in subsidiaries are shown at cost less provision for impairment.

Inventory and works in progress

Inventory 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. The cost of inventories is based on the weighted average cost method and includes all direct costs and an appropriate proportion of fixed and variable 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 costs incurred, less those transferred to the income statement, 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.

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, together with other short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of change in value.

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash on hand and cash in bank net of bank overdraft, if any.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Taxation

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax as and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries, associates and joint ventures is not provided if reversal of these temporary differences can be controlled by the company and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided those rates are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilised against future taxable income. This is assessed based on the company's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

Foreign currencies

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

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

Exchange gains and losses are recognised in the income statement.

Share-based payments

Share options and restricted units over the shares of General Electric Company, the ultimate controlling party are granted to certain employees and executives of the group. The fair value of options and units granted is recognised as an employee expense with a corresponding increase in equity, the 'share based payment 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 'share based payment 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 controlling party, General Electric Company, with the group matching the employee's purchases. The company's costs of these purchases are charged to the income statement as incurred.

Pensions

The company operates a UK defined benefit pension scheme - Pipeline Integrity International Group Pension Scheme and the pension charge is based on a full actuarial valuation dated 31 December 2011.

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 other comprehensive income, actuarial gains and losses.

The company is also a member of a larger pension scheme providing benefits on final pensionable pay. The group pension scheme, GE Pension Plan, covers a number of United Kingdom subsidiary companies of General Electric Company. As PII Limited is not under common control by General Electric, this scheme does not constitute a group pension plan. This scheme is therefore deemed to be a multi-employer pension scheme. Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by IAS 19 'Retirement benefits', the scheme has been accounted for in these financial statements as if the scheme was a defined contribution scheme.

The company also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

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.

Financial Instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the Financial Instrument and are measured initially at fair value adjusted for transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities is described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement financial assets, other than those designated and effective as hedging instruments, are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss (FVTPL).

All financial assets except for those at FVTPL are reviewed for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

The company's financial liabilities include borrowings, trade and other payables. Financial liabilities are measured subsequently at amortised cost using the effective interest method.

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost less provision for any impairment.

Derivative Financial Instruments

Derivative financial instruments are valued at fair value through profit and loss (FVTPL). Assets in this category are measured at fair value with gains and losses recognised in profit or loss. The fair value of financial assets in this category are determined by reference to active transactions or using a valuation technique where no active market exists.

Equity and reserves

Share capital represents the nominal value of shares that have been issued.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Other components of equity include the following:

- remeasurement of net defined benefit liability - comprises the actuarial losses from changes in demographic and financial assumptions and the return on plan assets;
- share based payment reserve where the credit entry has been taken to equity.

Retained earnings includes all current and prior period retained profits and share-based employee remuneration.

All transactions with owners of the parent are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

Going Concern

The Directors have reviewed the company's forecasts and projections. Taking into account reasonable possible changes in trading performance, and after making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence into the foreseeable future. Accordingly, the Directors view it as appropriate to adopt the going concern basis in preparing the Annual Report and Accounts.

The company meets its day to day working capital through cash flow control. The company is reliant upon the group for financial support. Based upon cash flow projections, the group considers the existing resources to be sufficient to meet its short term commitments.

PII LIMITED
NOTES TO THE FINANCIAL STATEMENTS

2. Other operating income

	2014	2013
	£'000	£'000
EU research and development grant	-	(64)
Office space rental income	(26)	-
	<u>(26)</u>	<u>(64)</u>

3. Operating profit

The operating profit is stated after:

	2014	2013
	£'000	£'000
Amortisation of intangibles	1,605	1,516
Depreciation of tangible fixed assets	1,800	1,963
Operating lease payments	384	546
Difference on foreign exchange	(475)	(66)
Loss on disposal of tangible assets	366	1,015
Auditor's Remuneration	76	68
Royalties and management charges receivable	(6,610)	(7,184)
Research and Development expenditure	<u>2,549</u>	<u>2,934</u>

4. Staff numbers and costs

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

	2014	2013
	Number	Number
Operations	133	126
Administration	94	92
	<u>227</u>	<u>218</u>

The aggregate payroll costs of these persons were as follows:

	2014	2013
	£'000	£'000
Wages and salaries	12,424	13,016
Social security costs	928	899
Other pension costs (note 17)	1,912	1,979
	<u>15,264</u>	<u>15,894</u>

PH LIMITED
NOTES TO THE FINANCIAL STATEMENTS

5. Directors' remuneration

	2014	2013
	£'000	£'000
Directors' emoluments	689	819
Company pension contributions	146	178
	835	997

During the year retirement benefits were accruing to 4 directors (2013: 4) in respect of defined benefit pension schemes.

The highest paid Director received remuneration of £317,000 (2013: £339,000).

The total accrued pension provision of the highest paid director at 31 December 2014 amounted to £52,000 (2013: £61,000).

Key management personnel emoluments:

	2014	2013
	£'000	£'000
Salaries	575	474
Other compensation, including short-term benefits	443	550
	1,018	1,024

6. Financial income

	2014	2013
	£'000	£'000
Bank interest income	-	1
Interest income from group undertakings	146	58
	146	59

7. Financial expense

	2014	2013
	£'000	£'000
Interest expense from group undertakings	31	34

PII LIMITED
NOTES TO THE FINANCIAL STATEMENTS

8. Taxation

Recognised in the income statement:

	2014	2013
	£'000	£'000
Current year tax credit	(127)	(79)
Foreign tax on income for the year	2,311	1,160
Adjustments in respect of prior periods	(28)	-
Current tax expense	<u>2,156</u>	<u>1,081</u>
Deferred tax credit	<u>(1,140)</u>	<u>(750)</u>
Total tax expense	<u>1,016</u>	<u>331</u>

The income tax expense is reconciled to the standard corporation tax rate applicable in the United Kingdom as follows:

	2014	2013
	£'000	£'000
Profit for the year	1,827	4,135
Tax using the United Kingdom corporation tax rate of 21.5% (2013: 23.25%)	393	961
Effects of:		
Adjustments in respect of prior periods	(28)	-
Expenses disallowable for tax purposes	74	104
Group relief claim	(37)	(32)
Non-taxable income	-	(848)
Overseas tax	2,311	1,161
Deduction for overseas tax suffered	(138)	(153)
Research & development enhanced deduction	(127)	(79)
Effect of previously unrecognised deferred tax	(1,064)	(602)
Effect of unrecognised deferred tax on timing differences	(258)	(174)
Schedule 23 deduction on exercise of share options	(110)	(7)
Total tax expense	<u>1,016</u>	<u>331</u>

Factors that may affect future tax changes

Deferred tax assets and liabilities on all temporary differences have been calculated at 20%, being the rate of UK corporation tax that was enacted at the balance sheet date, including those expected to reverse in the year ended 31 December 2014 (the overall average rate for which would otherwise be 21.5%). The impact of this, and that of the below changes in the corporation tax rate, on the financial statements is not considered to be material.

The UK corporation tax rate was reduced from 23% to 21% on 1 April 2014. It was announced that this rate would be further reduced to 20% with effect from 1 April 2015. This is the rate which was enacted at the balance sheet date. There are no other factors that may significantly affect future tax charges.

9. Intangible fixed assets

	Other	Purchased	Software	
	£'000	goodwill	assets	Total
		£'000	£'000	£'000
Cost				
At 1 January 2013	11,008	57,005	9,192	77,205
Additions	-	-	615	615
At 31 December 2013	11,008	57,005	9,807	77,820
Additions	-	-	428	428
Disposals	-	-	(5,735)	(5,735)
At 31 December 2014	11,008	57,005	4,500	72,513
Amortisation				
At 1 January 2013	4,557	40,246	8,069	52,872
Charge for the year	1,169	-	347	1,516
At 31 December 2013	5,726	40,246	8,416	54,388
Charge for the year	1,169	-	436	1,605
Disposals	-	-	(5,735)	(5,735)
At 31 December 2014	6,895	40,246	3,117	50,258
Net book value at 31 December 2014	4,113	16,759	1,383	22,255
Net book value at 31 December 2013	5,282	16,759	1,391	23,432

Impairment testing

Goodwill and indefinite life intangible assets considered significant in comparison to the Company's total carrying amount of such assets are recovered through the income and cash generated by multiple companies across the PII group. As the assets are used globally across all the entities within the PII Group then the group itself is considered to be the smallest cash generating unit for the purposes of impairment testing.

Goodwill and intangible assets are tested annually for impairment with the recoverable amount being determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate, growth rates and forecasted income and costs.

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NOTES TO THE FINANCIAL STATEMENTS

	2014	2013
Period on which management approved forecasts are based	1	1
Growth rate applied beyond approved forecast period	2%	2%
Discount rate	14%	14%

Amortisation and impairment charge

The amortisation and impairment charge is recognised in administrative costs.

10. Property, plant and equipment

	Freehold land £'000	Buildings £'000	Tools, machinery equipment £'000	Total £'000
Cost				
At 1 January 2013	890	2,189	52,658	55,737
Additions	-	-	2,171	2,171
Disposals	-	-	(3,542)	(3,542)
At 31 December 2013	<u>890</u>	<u>2,189</u>	<u>51,287</u>	<u>54,366</u>
Additions	-	-	2,352	2,352
Disposals	-	-	(18,564)	(18,564)
At 31 December 2014	<u>890</u>	<u>2,189</u>	<u>35,075</u>	<u>38,154</u>
Depreciation				
At 1 January 2013	-	1,703	41,629	43,332
Charge for the year	-	63	1,900	1,963
Disposals	-	-	(2,527)	(2,527)
At 31 December 2013	<u>-</u>	<u>1,766</u>	<u>41,002</u>	<u>42,768</u>
Charge for the year	-	63	1,737	1,800
Disposals	-	-	(18,198)	(18,198)
At 31 December 2014	<u>-</u>	<u>1,829</u>	<u>24,541</u>	<u>26,370</u>
Net book value at 31 December 2014	<u>890</u>	<u>360</u>	<u>10,534</u>	<u>11,784</u>
Net book value at 31 December 2013	<u>890</u>	<u>423</u>	<u>10,285</u>	<u>11,598</u>

11. Deferred tax

The movement in the company's deferred taxation during the year was:

	2014 £'000	2013 £'000
Current period credit	<u>1,140</u>	<u>750</u>

PII LIMITED
NOTES TO THE FINANCIAL STATEMENTS

The provision for deferred taxation consists of the tax effect of temporary differences in respect of:

	2014 £'000	2013 £'000
Capital allowances in excess of depreciation	<u>1,890</u>	<u>750</u>

Potential deferred tax assets not recognised:

	2014 £'000	2013 £'000
Capital allowances in excess of depreciation	2,170	3,249
Short term timing differences	6	52
Pension liability	1,406	763
Share based payments	<u>43</u>	<u>123</u>
	<u>3,625</u>	<u>4,187</u>

12. Other financial assets

	2014 £'000	2013 £'000
Non-current assets		
Loan to other group undertakings (note 24)	<u>8,139</u>	<u>-</u>

On 23rd July 2014 PII Limited granted an interest bearing 2 year loan to its immediate parent undertaking PII Group Limited. As at 31st December 2014 the Due From balance consisted of £8,058,352.25 principal loan amount and £80,473.13 of accrued interest based on a rate of 2.25% per annum.

13. Investment in subsidiary

	2014 £'000	2013 £'000
Cost		
At 1 January and 31 December	16,561	16,561
Amounts written off (impairment)		
At 1 January and 31 December	-	-
Net book value at 31 December	<u><u>16,561</u></u>	<u><u>16,561</u></u>

PII LIMITED
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Details of the company's subsidiary are listed below:

Name and nature of business	Principle activity	Country of incorporation	Class of shares held	Percentage of shares held
PII Pipetronix Gmbh	Pipeline inspection & reporting	Germany	Ordinary	100%

14. Inventory

	2014	2013
	£'000	£'000
Work in progress	6,413	5,249
Inspection vehicle spares and consumables	3,763	4,678
Less: provision for obsolescence	(712)	(360)
	<u>9,464</u>	<u>9,567</u>

15. Trade and other receivables

	2014	2013
	£'000	£'000
Trade receivables	8,347	4,658
Amounts owed by group undertakings (note 24)	274	6,474
Amounts owed by other related parties (note 24)	2,510	1,348
Other receivables	1,524	1,767
Prepayments and accrued income	218	83
	<u>12,873</u>	<u>14,330</u>

The carrying values are considered to be a reasonable approximation of fair value. The effect of discounting trade and other receivables has been assessed and is deemed to be immaterial to the results.

All trade receivable amounts are expected to be recovered in less than 12 months. All of the company's trade and other receivables have been reviewed for indicators of impairment and, where necessary, a provision for impairment provided.

Trade receivables

	2014	2013
	£'000	£'000
Trade receivables	8,347	4,753
Trade receivables provision	-	(95)
	<u>8,347</u>	<u>4,658</u>

PII LIMITED
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As at 31 December 2014, the ageing of receivables past due was as follows:

	2014	2013
	£'000	£'000
Less than 60 days	7,472	4,069
61 to 90 days	345	410
91 to 120 days	70	5
Greater than 120 days	460	174
	8,347	4,658

Trade receivables provision

	£'000
At 1 January 2014	(95)
Movement in provision in the year	95
Balance carried forward at 31 December 2014	-

16. Trade and other payables

	2014	2013
	£'000	£'000
Trade payables	3,954	1,975
Amounts owed to group undertakings (note 24)	5,537	3,979
Amounts owed to other related parties (note 24)	746	1,231
Social security and other taxes	761	41
Other payable and accrued expenses	12,569	11,297
	23,567	18,523

The carrying values are considered to be a reasonable approximation of fair value. The effect of discounting trade and other payables has been assessed and is deemed to be immaterial to the results.

The average credit period taken for trade purchases was December 2014: 42 days (December 2013: 31 days).

17. Defined benefit pension scheme liability

The company operates a defined benefit pension scheme, namely the Pipeline Integrity International Group Pension Scheme, providing benefits based on final pensionable pay.

Pensions benefits are linked to the members' final pensionable salaries and service at their retirement (or date of leaving if earlier). The scheme commenced on 1 January 1999 and is now closed to new entrants.

The most recent formal actuarial valuation was carried out as at 31 December 2011. An actuarial valuation for IAS 19 purposes was carried out as at 31 December 2014. The significant assumptions used were as follows:

	2014	2013
Discount rate at 31 December	3.70%	4.60%
Retail price index inflation (pre-retirement)	3.10%	3.40%
Retail price index inflation (post-retirement)	3.10%	3.40%

Other actuarial assumptions

	2014	2013
Future salary increases	3.10%	3.40%
Future pension increases - pensions accrued before 1 May 2009	3.10%	3.40%
Future pension increases - pensions accrued after 30 April 2009	3.00%	3.30%
Future pension increases - pensions accrued after 1 January 2012	2.30%	2.40%
Rate of increase for deferred pensioners	3.10%	3.40%

Description	2014	2013
Mortality (pre-retirement)	AMC00/ AFC00	AMC00/ AFC00
Mortality (post-retirement)	S1PMA/ S1PFA CMI 2013 model with long term rate of improvement of 1.25%	S1PMA/ S1PFA CMI 2012 model with long term rate of improvement of 1.25%
Cash commutation	Members are assumed to commute 20% of their pension	Members are assumed to commute 20% of their pension

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The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65 year old to live for a number of years as follows:

- current pensioner aged 65: 22.2 years (male), 24.4 years (female);
- future retiree upon reaching 65 in 20 years: 23.9 years (male), 26.3 years (female).

These assumptions were developed by management with the assistance of independent actuaries. Discount factors are determined close to each year-end by reference to market yields of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

The assets of the scheme are invested as follows:

	2014		2013	
	Market Value \$000	% of total scheme assets	Market Value \$000	% of total scheme assets
Equities	43,564	55%	41,694	59%
Bonds	7,535	10%	6,351	9%
Gilts	27,049	34%	22,817	32%
Cash	593	1%	221	0%
Total	78,741	100%	71,083	100%
Actual return on assets	7,916		2,754	

The amounts recognised in the statement of financial position are as follows:

	2014	2013
	£'000	£'000
Fair value of scheme assets	78,741	71,083
Present value of funded obligations	(85,773)	(74,897)
Net liability	(7,032)	(3,814)

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Changes in the present value of the defined benefit obligation are as follows:

	2014 £'000	2013 £'000
Opening defined benefit obligation	74,897	74,638
Current service cost	1,056	1,068
Interest cost	3,414	3,273
Contributions by scheme participants	32	50
Remeasurement of defined benefit asset/liability	8,839	(2,506)
Benefits paid	(2,465)	(1,626)
Closing defined benefit obligation	<u>85,773</u>	<u>74,897</u>

Changes in the fair value of scheme assets are as follows:

	2014 £'000	2013 £'000
Opening fair value of scheme assets	71,083	67,657
Interest income	3,264	2,994
Remeasurement of defined benefit asset/liability	4,652	(349)
Contributions by employer	2,249	2,293
Contributions by scheme participants	32	50
Benefits paid	(2,465)	(1,626)
Administration costs	(74)	64
Closing fair value of scheme assets	<u>78,741</u>	<u>71,083</u>

The amounts recognised in profit or loss are as follows:

	2014 £'000	2013 £'000
Current service cost	1,056	1,068
Administration costs	74	(64)
Net interest cost	150	279
Amount charged to profit and loss	<u>1,280</u>	<u>1,283</u>

Amounts recognised in other comprehensive income:

	2014	2013
	£'000	£'000
Remeasurement of defined benefit liability	<u>(4,187)</u>	<u>2,157</u>

The plan exposes the company to actuarial risks such as interest rate risk, investment risk, longevity risk and inflation risk.

Interest rate risk

The present value of the defined benefit liability is calculated using a discount rate determined by reference to market yields of high quality corporate bonds. The estimated term of the bonds is consistent with the estimated term of the defined benefit obligation and is denominated in sterling. A decrease in market yield on high quality corporate bonds will increase the company's defined benefit liability, although it is expected that this would be offset partially by an increase in the fair value of the plan assets.

Investment risk

The plan assets at 31 December 2014 are predominantly equity and debt instruments. The fair value of the plan assets are therefore directly exposed to movements in associated markets.

Longevity risk

The company is required to provide benefits for life for the members of the defined benefit liability. Increase in the life expectancy of the members will increase the defined benefit liability, as pension payments are linked to CPI.

Inflation risk

A significant proportion of the defined benefit liability is linked to inflation. An increase in the inflation rate will increase the company's liability.

Defined contribution scheme

The company is also a member of a larger GE group wide pension scheme providing benefits based on final pensionable pay. The GE group pension scheme, GE Pension Plan, covers a number of United Kingdom subsidiary companies of General Electric Company. As the company is not under common control by General Electric, this scheme is considered to be a multi-employer scheme. Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, 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 and Wales.

The last full actuarial valuation was carried out at 5 April 2009 by a qualified independent actuary. At this date there was a funding deficit of £695 million and a funding level of 66.7%.

During the year the company contributed £632,000 (2013:£696,000) to the GE Pension Plan.

18. Financial instruments

Financial risk management

The company's financial instruments comprise cash and short term deposits, bank overdrafts and various items such as trade receivables and trade payables that arise directly from its operations. The principal financial risks faced by the Company are liquidity, foreign currency, credit and interest rate risks. The policies and strategies for managing these risks are summarised as follows:

Liquidity risk

Liquidity risk represents the company's ability to meet its contractual obligations. The company evaluates its liquidity requirements on an on-going basis and as part of the wider group. In general, the group generates sufficient cash flows from its operating activities to meet its financial liabilities.

The company meets its day to day working capital through cash flow control. The company is reliant upon the group for financial support. Based upon cash flow projections, the group considers the existing resources to be sufficient to meet its short term commitments.

The company's exposure to liquidity risk arises from trade accounts payable. All contractual cash flows from trade accounts payable are the same as the carrying value of the liability due to their short-term nature.

The company only holds significant funds in institutions with high credit ratings in accordance with Standard and Poor's classification. The company held the following funds with the following institutions:

	Rating	2014 £'000	2013 £'000
Barclays	A-1	1,485	3,113
HSBC (Middle East)	Not Rated	226	44
SocGen Algeria	Not Rated	1	3
		<u>1,712</u>	<u>3,160</u>

Foreign currency risk

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. The company utilises forward contracts where necessary to provide certainty.

All gains and losses are recognised in the income statement on translation at the balance sheet date.

The company had the following exposure to foreign currency.

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2014

	Cash and Cash Equivalents	Trade Receivables	Trade Payables	Due to related parties	Due from related parties	Forward Exchange Contracts	Balance Sheet Exposure
AED	0.1	114.0	(2.1)				112.0
AUD	164.8	457.7	(59.9)	(9.3)			553.3
CAD	279.3		(8.2)	(6.8)	43.9		308.2
DKK	0.4	1.1				(25.8)	(24.3)
DZD	1.7						1.7
EGP	0.5	132.6					133.1
EUR	62.0	548.0	(660.4)	(5,122.7)	8.1	4,763.6	(401.4)
MYR				(65.9)			(65.9)
NGN							0.0
QAR	209.9	2,208.5	(10.2)	(145.0)		(2,508.2)	(245.0)
SAR		16.5					16.5
USD	1,002.1	4,997.3	(1,194.5)	(235.2)	96.5	(777.5)	3,888.7

2013

	Cash and Cash Equivalents	Trade Receivables	Trade Payables	Due to related parties	Due from related parties	Forward Exchange Contracts	Balance Sheet Exposure
AED		272.3	(1.5)	(15.6)			255.2
AUD	6.5	153.5	(13.9)	(15.0)		(382.6)	(251.5)
CAD	479.0		(29.3)	(48.3)	103.7	(441.7)	63.4
DKK	40.6	28.4					69.0
DZD	2.7						2.7
EGP	0.1	54.0					54.1
EUR	729.0	519.0	(368.7)	(509.6)	34.5	934.9	1,339.1
MYR				(78.6)			(78.6)
NGN							0.0
QAR	31.8	1,004.6	(0.2)	(160.0)		(51.1)	825.1
SAR		71.2					71.2
USD	1,870.2	2,865.1	(1,017.1)	(467.5)	138.2	(6,461.5)	(3,072.6)

Sensitivity analysis

The table below illustrates the estimated impact on profit or loss as a result of market movements in exchange rate.

Impact on income statement and equity

	2014	2013
	£'000	£'000
10% increase in favour of AED	11.2	25.5
10% increase in favour of AUD	55.3	(25.2)
10% increase in favour of CAD	30.8	6.3
10% increase in favour of DKK	(2.4)	6.9
10% increase in favour of DZD	0.2	0.3
10% increase in favour of EGP	13.3	5.4
10% increase in favour of EUR	(40.1)	133.9
10% increase in favour of MYR	(6.6)	(7.9)
10% increase in favour of NGN	0.0	0.0
10% increase in favour of QAR	(24.5)	82.5
10% increase in favour of SAR	1.7	7.1
10% increase in favour of USD	<u>388.9</u>	<u>(307.3)</u>

Credit risk

In the normal course of its business, the company incurs risk from cash and trade receivables. The company has a credit policy that is used to manage this exposure to credit risk. The company's financial instruments do not have significant concentration of risk with any single party.

Interest rate risk

The company does not have a significant exposure to interest rate fluctuations as it has no borrowings or loans.

No sensitivity modelling has been presented in this report as the company's exposure to interest rate fluctuations is minimal.

PII LIMITED
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Financial assets and liabilities

The IAS 39 categories of financial assets and liabilities included in the balance sheet are as follows:

	Loans and receivables £'000	Amortised cost £'000	Fair value through profit and loss £'000	Total £'000
31 December 2014				
Current assets				
Cash	1,712	-	-	1,712
Trade receivables	8,347	-	-	8,347
Amounts owed by group undertakings	274	-	-	274
Amounts owed by other related parties	2,510	-	-	2,510
Other receivables	1,334	-	-	1,335
Prepayments and accrued income	218	-	-	218
Fair value of derivative instruments	-	-	191	191
Current liabilities				
Trade accounts payable	-	(3,954)	-	(3,954)
Amounts owed to group undertakings	-	(5,537)	-	(5,537)
Amounts owed to other related parties	-	(746)	-	(746)
Social security and other taxes	-	(761)	-	(761)
Other payable and accrued expenses	-	(12,387)	-	(12,387)
Fair value of derivative instruments	-	-	(182)	(182)
31 December 2013				
Current assets				
Cash	3,160	-	-	3,160
Trade receivables	4,658	-	-	4,658
Amounts owed by group undertakings	6,474	-	-	6,474
Amounts owed by other related parties	1,348	-	-	1,348
Other receivables	1,730	-	-	1,730
Prepayments and accrued income	83	-	-	83
Fair value of derivative instruments	-	-	37	37
Current liabilities				
Trade accounts payable	-	(1,975)	-	(1,975)
Amounts owed to group undertakings	-	(3,979)	-	(3,979)
Amounts owed to other related parties	-	(1,231)	-	(1,231)
Social security and other taxes	-	(41)	-	(41)
Other payables	-	(10,998)	-	(10,998)
Fair value of derivative instruments	-	-	(299)	(299)

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 : inputs other than quoted prices included within level 1 that are observable for the assets or liabilities either directly or indirectly.
- Level 3 : unobservable inputs for the assets or liability.

The derivatives in the company relates to US\$ dominated contracts where it is not the functional currency of the company nor the other party. This has been deemed to be a level 2 financial investment.

The company also holds forward rate exchange contracts that are classed as level 2.

19. Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and other stakeholders and to maintain a capital structure that optimises the cost of capital.

20. Share capital

	2014 £'000	2013 £'000
Allotted, called up and fully paid		
60,675,140 ordinary shares of £1 each	<u>60,675</u>	<u>60,675</u>

21. Contingent assets/liabilities

In the course of business the company has provided guarantee bonds to certain customers. £5,294,718 was outstanding under these bonds at the end of the financial year (2013: £3,007,389).

22. Operating leases

At the year end the company's total future minimum lease payments by period in which payable under non-cancellable operating leases are set out below:

	2014 £'000	2013 £'000
Within one year	73	168
Between one and five years	2	16
Over 5 years	-	-
	<u>75</u>	<u>184</u>

Leases as lessor

The inspection tools and equipment are leased under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

	2014	2013
	£'000	£'000
Within one year	306	128
Between one and five years	766	511
Over 5 years	-	32
	<u>1,072</u>	<u>671</u>

23. Share based payments charge

Certain employees of the company are selected to participate in share options and restricted stock units of General Electric Company under the terms of the General Electric Company Long Term Incentive Plan. Share options expire 10 years from the grant date and vest over a period ranging from one to five years. The option price is usually set as the closing day share price on the grant date. Restricted stock units give the participants the right to receive shares in General Electric Company for no consideration. Restricted stock units vest over various service periods beginning three years from the 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.

For further details on stock options and restricted stock units please refer to the GE annual report available at www.ge.com.

a) Share options

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

	2014		2013	
	Weighted average exercise price \$	Number of options	Weighted average exercise price \$	Number of options
Outstanding at the beginning of the year	18.48	199,225	17.93	181,600
Granted during the year	26.10	26,000	23.78	21,000
Forfeited during the year	22.80	(7,100)	30.30	(1,575)
Exercised during the year	14.65	(68,850)	15.20	(1,800)
Employee transfers	-	-	-	-
Outstanding at the end of the year	<u>21.36</u>	<u>149,275</u>	<u>18.48</u>	<u>199,225</u>

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The fair value of employee share options is measured by using the Black-Scholes Model. Measurement inputs and assumptions are as follows:

	2014	2013
Weighted average share price	26.28	23.32
Exercise price	20.05	17.93
Expected volatility (expressed as a percentage used in the modelling under Black-Scholes model)	26%	28%
Expected dividends	3%	4%
Option life (maximum)	7.3 years	7.5 years
Risk free interest rate (based on national government bonds)	2.3%	2.5%

The expected volatility is wholly based on the historic volatility (calculated based on the weighted average remaining life of the share options).

All options are share settled and there are no performance conditions attached to the options.

Amounts expensed for the year from share-based payments are as follows:

	2014 £'000	2013 £'000
Options granted in the year	70	96
Restricted stock units granted in the year	-	8
	<u>70</u>	<u>104</u>

The share-based payments charge is a non-cash item.

b) Restricted stock units

The total number of restricted stock units granted during the year was nil (2013: nil).

The fair value of each restricted stock unit is the market price of our stock on the date of grant. The weighted average grant date fair value of the RSUs granted during 2014 and 2013 was \$26.08 and \$24.54 respectively.

The average monthly exchange rate during the year was \$1.65:£1.

The opening exchange rate was \$1.61:£1.

The closing exchange rate was \$1.57:£1.

24. Related parties

Related parties represent the shareholders and key management personnel of the company, and companies of which they are principal owners. Pricing policies and terms of transactions with related parties are approved by the company's management.

Related party transactions with General Electric (JV Partner in the ultimate parent company, PII Group Limited) for the year ended 31 December 2014 included in the statement of income are as follows:

	2014		2013	
	Revenue	Cost	Revenue	Cost
	£'000	£'000	£'000	£'000
GE	<u>13</u>	<u>9,375</u>	<u>11</u>	<u>8,069</u>

Balances with General Electric at 31 December 2014 are as follows:

	2014		2013	
	Due to	Due from	Due to	Due from
	£'000	£'000	£'000	£'000
GE	<u>586</u>	<u>2</u>	<u>1,055</u>	<u>-</u>

Related party transactions with Qatar Petroleum (JV Partner in the ultimate parent company, PII Group Limited) and its subsidiaries for the year ended 31 December 2014 included in the statement of comprehensive income are as follows:

	2014		2013	
	Revenue	Cost	Revenue	Cost
	£'000	£'000	£'000	£'000
Dolphin Energy Limited	141	-	166	-
Qatar Gas Operating Company Ltd	1,185	-	1,238	-
Qatar Petroleum Development Co Ltd	3,199	677	374	702
Ras Laffan Liquified Natural Gas Co Ltd	<u>2,322</u>	<u>-</u>	<u>1,992</u>	<u>-</u>
	<u>6,847</u>	<u>677</u>	<u>3,770</u>	<u>702</u>

Balances with Qatar Petroleum and its subsidiaries at 31 December 2014 are as follows:

	2014		2013	
	Due to	Due from	Due to	Due from
	£'000	£'000	£'000	£'000
Dolphin Energy Limited	-	107	-	85
Qatar Gas Operating Company Ltd	-	172	-	211
Qatar Petroleum Development Co Ltd	160	2,001	176	492
Ras Laffan Liquified Natural Gas Co Ltd	<u>-</u>	<u>228</u>	<u>-</u>	<u>560</u>
	<u>160</u>	<u>2,508</u>	<u>176</u>	<u>1,348</u>

PII LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

Related party transactions with PII Group Companies for the year ended 31 December 2014 included in the statement of income are as follows:

	2014		2013	
	Revenue	Cost	Revenue	Cost
	£'000	£'000	£'000	£'000
PII Pipetronix GmbH	1,947	3,646	1,684	3,951
PII (Canada) Ltd	2,990	1,475	2,991	1,069
PII North America LLC	8,653	3,305	8,650	2,745
	13,590	8,426	13,325	7,765

Balances with PII Group Companies at 31 December 2014 are as follows:

	2014		2013	
	Due to	Due from	Due to	Due from
	£'000	£'000	£'000	£'000
PII Pipetronix GmbH	5,132	18	3,872	35
PII Group Ltd	210	8,139	-	6,206
PII (Canada) Ltd	69	105	44	98
PII North America LLC	126	151	63	135
	5,537	8,413	3,979	6,474

None of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

There are no other related party transactions.

25. Ultimate parent company

The Company's immediate parent undertaking and controlling party is PII Group Limited, a company registered in England and Wales. PII Group Limited is a joint venture between General Electric Company and Qatar Petroleum. In the opinion of the directors the ultimate controlling party is General Electric Company.

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

The smallest group in which the results of the company are consolidated is that headed by PII Group Limited. The consolidated financial statements of this group are available to the public and may be obtained from Atley Way, North Nelson Industrial Estate, Cramlington, Northumberland, NE23 1WW, UK.