

**Registration number: 03424425**

## **PII Limited**

### **Annual Report and Financial Statements**

**for the Year Ended 31 December 2018**



**P11 LIMITED**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
For the year ended 31 DECEMBER 2018

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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 £302,000 (2017: £226,000) and sales of £39,999,000 (2017: £45,866,000).

As at 31 December 2018 the company had net assets of £48,516,000 (2017: £49,106,000).

The directors cannot recommend the payment of a dividend.

### **Key Performance Indicators (KPI's)**

The company uses a range of KPI's to assess business performance. The principal financial KPI's are summarised below:

	<b>2018</b>	<b>2017</b>	<b>Definition, method of calculation</b>
Growth in sales (%)	<b>-12.8%</b>	-9.3%	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 (%)	<b>49.3%</b>	45.6%	Gross margin is the ratio of gross profit before exceptional items and goodwill amortisation to sales expressed as a percentage.
Return on invested capital (%)	<b>1.6%</b>	3.1%	Operating profit 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.

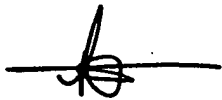
Future risks and uncertainties relating to the UK leaving the European Union (Brexit) exist. The company has reviewed and made provision for various Brexit scenarios in order to try and minimise the risk to its operations, however at this moment in time the full impact of Brexit remains unknown.

**Future outlook**

During 2018, 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.

In September 2019 General Electric Company reduced its shareholding in Baker Hughes, a GE Company, LLC to below 50%. Accordingly the Company is no longer ultimately controlled by General Electric Company and the ultimate controlling party is now Baker Hughes, a GE Company, LLC.

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



**S Chadda**  
Director

Atley Way  
Cramlington  
Northumberland  
NE23 1WW

Date: 12/11/2019

**PH LIMITED**  
**DIRECTORS' REPORT**

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The directors present their report together with the audited financial statements for the year ended 31 December 2018.

**Directors**

The present membership of the Board is set out below:

M Bellamy  
S Chadda  
K Johnson

**Political contributions**

The company made no political donations or incurred any political expenditure during the year (2017: £nil).

**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**

Under section 487 of the Companies Act 2006, KPMG LLP will be deemed to have been reappointed as auditors 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 and signed on its behalf.



**S Chadda**  
Director

Atley Way  
Cramlington  
Northumberland  
NE23 1WW

Date: 12/11/2019

**PH LIMITED**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**  
For the year ended 31 DECEMBER 2018

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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 Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101').

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 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 accounting 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PII LIMITED**

**Opinion**

We have audited the financial statements of PII Limited (the 'company') for the year ended 31 December 2018, which comprise the Income Statement, Statement of Total Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

**The impact of uncertainties due to UK exiting the European Union on our audit**

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the carrying value of intangibles, investments and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

**Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

**Strategic Report and Directors' Report**

The directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Director's Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

**Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

**Directors' responsibilities**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

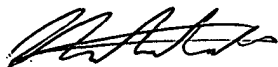
**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

**The purpose of our audit work and to whom we owe our responsibilities**

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.



**David Mitchell (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: 19/11/19



**PII LIMITED**  
**INCOME STATEMENT**  
For the year ended 31 DECEMBER 2018

	Note	2018 £'000	2017 £'000
Revenue	4	39,999	45,866
Cost of sales		<u>(20,273)</u>	<u>(24,949)</u>
<b>Gross profit</b>		<b>19,726</b>	<b>20,917</b>
Administrative costs		<b>(19,073)</b>	<b>(19,859)</b>
Other operating income	5	<u>135</u>	<u>448</u>
<b>Operating profit</b>	6	<b>788</b>	<b>1,506</b>
Financial income	9	145	178
Financial expense	10	<u>(371)</u>	<u>(146)</u>
<b>Profit before taxation</b>		<b>562</b>	<b>1,538</b>
Taxation	11	<u>(260)</u>	<u>(1,312)</u>
<b>Profit for the year</b>		<b><u>302</u></b>	<b><u>226</u></b>

All transactions arise from continuing operations.

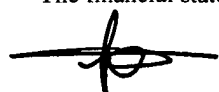
**P11 LIMITED**  
**STATEMENT OF TOTAL COMPREHENSIVE INCOME**  
For the year ended 31 DECEMBER 2018

	Note	2018 £'000	2017 £'000
Profit for the year		<u>302</u>	<u>226</u>
<b>Other comprehensive income</b>			
Re-measurement of defined benefit liability	21	(911)	3,436
<b>Total other comprehensive income</b>		<u>(911)</u>	<u>3,436</u>
<b>Total comprehensive income for the year</b>		<u><u>(609)</u></u>	<u><u>3,662</u></u>

**P11 LIMITED**  
**BALANCE SHEET**  
As at 31 DECEMBER 2018

			(restated, see note 29)
	Note	2018 £'000	2017 £'000
<b>Non-current assets</b>			
Intangible assets	12	20,551	21,012
Plant property and equipment	13	22,226	11,609
Investment in subsidiaries	14	18,125	18,021
Deferred taxes	15	1,890	1,890
Other financial assets	16	-	-
		<u>62,792</u>	<u>52,532</u>
<b>Current assets</b>			
Other financial assets	16	-	8,660
Inventories	17	4,904	3,364
Trade and other receivables	18	31,769	21,933
Cash and cash equivalents		<u>3,161</u>	<u>3,344</u>
		<u>39,834</u>	<u>37,301</u>
<b>Total assets</b>		<u>102,626</u>	<u>89,833</u>
<b>Current liabilities</b>			
Trade and other payables	19	(22,648)	(21,564)
Obligations under finance leases	20	<u>(328)</u>	<u>-</u>
		<u>(22,976)</u>	<u>(21,564)</u>
<b>Non-current liabilities</b>			
Obligations under finance leases	20	(10,098)	-
Defined benefit scheme liability	21	<u>(21,036)</u>	<u>(19,163)</u>
		<u>(31,134)</u>	<u>(19,163)</u>
<b>Total liabilities</b>		<u>(54,110)</u>	<u>(40,727)</u>
<b>Net assets</b>		<u>48,516</u>	<u>49,106</u>
<b>Equity</b>			
Share capital	22	60,675	60,675
Share based payment reserve		343	324
Retained earnings		<u>(12,502)</u>	<u>(11,893)</u>
<b>Total equity</b>		<u>48,516</u>	<u>49,106</u>

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



**S Chadda**

Director

Date: 12/11/19

Company registration no. 03424425

**PII LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 DECEMBER 2018

	<b>Share capital</b>	<b>Share based payment reserve</b>	<b>Retained earnings</b>	<b>Total</b>
	£'000	£'000	£'000	£'000
At 1 January 2017	60,675	56	(15,555)	45,176
Share based payment expense	-	268	-	268
Total transactions with owners	-	268	-	268
Profit for the year	-	-	226	226
Other comprehensive income	-	-	3,436	3,436
Total comprehensive income for the year	-	-	3,662	3,662
At 31 December 2017	<u>60,675</u>	<u>324</u>	<u>(11,893)</u>	<u>49,106</u>
At 1 January 2018	60,675	324	(11,893)	49,106
Share based payment expense	-	19	-	19
Total transactions with owners	-	19	-	19
Profit for the year	-	-	302	302
Other comprehensive income	-	-	(911)	(911)
Total comprehensive income for the year	-	-	(609)	(609)
At 31 December 2018	<u>60,675</u>	<u>343</u>	<u>(12,502)</u>	<u>48,516</u>

## **1. General information**

The company is a private company limited by share capital, registered in England, incorporated and domiciled in the United Kingdom.

The address of its registered office is:

Atley Way, North Nelson Industrial Estate, Cramlington, Northumberland, NE23 1WW.

## **2. Accounting Policies**

### **Summary of significant accounting policies and key accounting estimates**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **Basis of Preparation**

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101') and the Companies Act 2006. The amendments to FRS 101, issued in March 2018, have been applied except for the triennial review 2017 amendments issued in December 2017 as these are applicable with effect from 1 January 2019 and have not been early adopted.

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies (see note 3).

### **Exemption from preparing group accounts**

The company is itself a subsidiary company and is exempt from the requirement to prepare group accounts by virtue of section 401 of the Companies Act 2006. These financial statements therefore present information about the company as an individual undertaking and not about its group.

The results of the company are included in the consolidated financial statements of General Electric Company which are available from 41 Farnsworth Street, Boston, MA 02210, USA or at [www.ge.com](http://www.ge.com).

### **Basis of measurement**

The financial statements have been prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value:

Certain financial assets and financial liabilities (including derivatives) measured at fair value.

### **Changes in accounting policy**

In the current year the company has adopted new accounting standards IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers. An explanation of the impact of the adoption of these new standards is included in note 29.

### **Summary of disclosure exemptions**

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS15 Revenue from Contracts with Customers;
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73( e) of IAS 16 Property, Plant and Equipment, and
  - paragraph 118( e) of IAS 38 Intangible Assets.

- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 134(d)-134(f) and 135(c )-135(e ) of IAS 36 Impairment of Assets.

#### **Going Concern**

On the basis of their assessment of the company's financial position and resources, the directors believe that the company is well placed to manage its business risks. Therefore the company's directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### **Revenue**

The company earns revenue from the sale of Inline Inspection goods and services. This revenue is recognised in the accounting period when control of the good or service has transferred to the customer, at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations with customers. Revenue is stated exclusive of Value Added Tax and trade discounts.

Revenue is recognised on the following basis, in line with IFRS 15 Revenue from Contracts with Customers:

- Revenue from fixed price contracts is recognised at a point in time, when control of the good or service is passed to the customer. For inline inspection, this is as reports are delivered to the customer.
- Revenue from licensing technology is recognised in the same accounting period as when the assets are utilised by the customer.

#### **Foreign currency transactions and balances**

The accounts are presented in sterling which is the company's functional and presentational currency.

Transactions in foreign currencies are recorded using a monthly average operating exchange rate. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate ruling at the balance sheet date. The gains or losses arising are included in the Profit and Loss Account.

#### **Tax**

Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the company operates and generates income.

Full provision is made for deferred tax liabilities arising from all temporary 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 probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

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

Deferred tax assets and liabilities are not discounted.

**Tangible fixed assets**

Tangible fixed assets are stated at cost less depreciation and any accumulated losses.

**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**

Goodwill is the difference between amounts paid on the acquisition of a business and the fair value of the identifiable assets and liabilities. Goodwill is stated at cost less any accumulated impairment loss. As per IFRS3 Business Combination, goodwill is not amortised but is tested annually for impairment. Although this is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, which requires that all goodwill be amortised, the directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the financial statements of this departure.

**Other intangible assets**

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.

**Investments**

Investment in group undertakings are shown at cost less provision for impairment.

At each balance sheet date the company reviews the carrying amounts of its investments to determine whether there is any indication that those investments have suffered an impairment loss. If such indication exists, the recoverable amount of the investment estimated based on its fair value less costs of disposal (for which its net asset value may be used as a reasonable proxy) and value in use. Where the recoverable amount of the investment is less than the carrying value an impairment loss is recognised in Profit and Loss Account in the period.

**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.

**Operating leases**

Rentals paid under operating leases are charged to the profit or loss (net of any incentives received from the lessor) on a straight line basis over the period of the lease.

**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 2017.

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. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to participating entities, so the net defined benefit cost is recognised fully in the separate financial statements of the group entity that is legally the principal employer for the plan, which is GEH Holdings. The company recognises a cost equal to their contribution payable for the period. The contribution payable by the participating employers in the GE Pension Plan are based on the latest schedule of contributions agreed between the Trustee of the GE Pension Plan and the principal employer.

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.

**Share based payments**

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

The fair value is measured at grant date using the Black-Scholes option pricing model, and is recognised as an expense over the period the employees become unconditionally entitled to the options/units. The amount recognised as an expense is adjusted to reflect the actual number of options/units expected to vest. Any recharges by the ultimate parent entity are offset against the 'other reserve'.

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



**Derivative financial instruments and hedging activities**

The company has not applied hedge accounting and any derivatives are measured at fair value through profit and loss.

**Non-derivative financial instruments**

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

**Identification and measurement of impairment**

At each reporting date the company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restricting of a loan or advance by the company on terms that the company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the company.

The company considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. All individually significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics. Collective allowances are established using statistical methods based on historic loss rate experience. The estimate of loss arrived at on the basis of historical information is then reviewed to ensure that it appropriately reflects the economic conditions and actual loss experience at the reporting date.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. In estimating these cash flows, the company makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Losses are recognised in the profit and loss account and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the profit and loss account.

The company writes off loans and advances when they are determined to be uncollectable.

**Fair value of financial instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques.

The company uses a variety of methods and makes assumptions that are based on market conditions existing at balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for any long term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on terms and maturity of each contract using market interest rates for a similar instrument at measurement date.

The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The fair value of loans and other receivables is estimated by discounting the expected future cash flows at current market interest rates net of the impairment provision.

The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments.

### **3. Critical accounting judgments and key sources of estimation uncertainty**

The preparation of the financial statements requires the directors to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of the amount, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgment and complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below:

#### **Goodwill**

Goodwill is subject to impairment testing on an annual basis and at any time during the year if an indicator of impairment is considered to exist. The impairment testing process requires management to make significant judgements and estimates regarding the future cash flows expected to be generated by the use of and, if applicable, the eventual disposal of goodwill as well as other factors to determine the fair value. Management periodically evaluates and updates the estimates based on the conditions which influence these variables.

Where the carrying value exceeds the estimated recoverable amount (being the greater of fair value less costs of disposal and value-in-use), an impairment loss is recognised by writing down the goodwill to its recoverable amount. 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 for which the future cash flow estimates have not been adjusted. The estimates of future cash flows exclude cash inflows or outflows attributable to financing activities and income tax. Impairment losses arising in respect of goodwill are not reversed once recognised.

#### **Impairment of investments**

The principal activity of the company is to act as a holding company for underlying subsidiaries. As a result the main risk facing the company is the underlying trade of the investments not supporting the carrying value.

Investments are subject to impairment when there are indicators, such as, the net assets of the underlying company being less than the carrying value of the investments, adverse trade conditions in the underlying investments, cessation of trade in the underlying investments, significant losses in the year in the underlying investments and impairment of fixed assets in the underlying investments in the year.

Where the carrying value exceeds the estimated recoverable amount (being the greater of fair value less costs of disposal and value-in-use), an impairment loss is recognised by writing down the investments to its recoverable amount. 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 for which the future cash flow estimates have not been adjusted. The estimates of future cash flows exclude cash inflows or outflows attributable to financing activities and income tax. Impairment losses arising in respect of investments are not reversed once recognised.

#### 4. Revenue

The analysis of the company's revenue for the year from continuing operations is as follows:

	2018	2017
	£'000	£'000
Rendering of services	39,999	45,866
	<u>39,999</u>	<u>45,866</u>

A geographical analysis of revenue is as follows:

	2018	2017
	£'000	£'000
United Kingdom	4,223	5,153
Rest of European Union	8,067	8,944
USA	8,700	9,403
Other	19,009	22,366
	<u>39,999</u>	<u>45,866</u>

Assets and liabilities related to contracts with customers:

The company recognised £4.9m of contract liabilities at 31 Dec 2018 (2017: £4.8m). Contract liabilities for services have remained stable in the period due to maintained levels of operations and milestone billing on point in time contracts.

The company recognised £6.1m of assets from costs to fulfil a contract at 31 Dec 2018 (2017: £2.8m). Revenue for all services is recognised at a point in time, and therefore costs to fulfil a contract are expensed at the point in time when control transfers to the customer.

#### 5. Other operating income

	2018	2017
	£'000	£'000
Research and Development Enterprise Council credit	-	261
Office space rental income	135	187
	<u>135</u>	<u>448</u>

#### 6. Operating profit

The operating profit is stated after:

	2018	2017
	£'000	£'000
Amortisation of intangibles	1,229	1,510
Depreciation of tangible fixed assets	2,530	2,105
Operating lease payments	389	342
Difference on foreign exchange	710	256
Loss on disposal of tangible assets	134	178
Auditor's remuneration	87	80
Royalties and management charges receivable	(9,643)	(7,491)
Research and development expenditure	<u>2,767</u>	<u>3,744</u>

## 7: Staff numbers and costs

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

	2018 Number	2017 Number
Operations	106	128
Administration	78	87
	<u>184</u>	<u>215</u>

The aggregate payroll costs of these persons were as follows:

	2018 £'000	2017 £'000
Wages and salaries	10,275	10,096
Social security costs	845	907
Share based payment expense	27	54
Other pension costs (note 21)	1,925	2,425
	<u>13,072</u>	<u>13,482</u>

## 8. Directors' remuneration

	2018 £'000	2017 £'000
Directors' emoluments	636	564
Company pension contributions	121	114
	<u>757</u>	<u>678</u>

During the year retirement benefits were accruing to 3 directors (2017: 3) in respect of defined benefit pension schemes.

The highest paid Director received remuneration of £427,144 (2017: £372,323).

The total accrued pension provision of the highest paid director at 31 December 2018 amounted to £56,852 (2017: £54,677).

Key management personnel emoluments:

	2018 £'000	2017 £'000
Salaries	746	683
Other compensation, including short-term benefits	589	758
	<u>1,335</u>	<u>1,441</u>

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**9. Financial income**

	2018	2017
	£'000	£'000
Bank interest income	-	7
Interest income from group undertakings	145	171
	<u>145</u>	<u>178</u>

**10. Financial expense**

	2018	2017
	£'000	£'000
Interest on obligations under finance leases	257	-
Interest expense from group undertakings	114	146
	<u>371</u>	<u>146</u>

**11. Taxation**

Recognised in the income statement:

	2018	2017
	£'000	£'000
Current year tax charge	213	544
Foreign tax on income for the year	191	1,074
Double tax relief	-	(358)
Adjustments in respect of prior periods	(144)	52
Current tax expense	<u>260</u>	<u>1,312</u>

Deferred tax charge	<u>-</u>	<u>-</u>
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<b>Total tax expense</b>	<u>260</u>	<u>1,312</u>
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The income tax expense is reconciled to the standard corporation tax rate applicable in the United Kingdom as follows:

	2018 £'000	2017 £'000
Profit before taxation	562	1,538
Tax using the United Kingdom corporation tax rate of 19% (2017: 19.25%)	107	296
Effects of:		
Adjustments in respect of prior periods	(144)	52
Expenses disallowable/(income not taxable)	61	254
Group relief claim	(29)	(42)
Overseas tax	368	717
Research & development enhanced deduction	-	-
Effect of unrecognised deferred tax on timing differences	(103)	35
<b>Total tax expense</b>	<b>260</b>	<b>1,312</b>

***Factors that may affect future tax charges***

The UK corporation tax rate will reduce from 19% to 17% on 1 April 2020. This will reduce any current tax charges accordingly.

Deferred tax assets and liabilities on all timing differences have been calculated at 17%, including those expected to reverse in the years ending 31 December 2019 to 31 December 2021 (the overall average rate ranging from 19% to 17%). The impact of this on the financial statements is not considered material.

There are no other factors that may significantly affect future tax charges.

## 12. Intangible fixed assets

	Other £'000	Purchased goodwill £'000	Software assets £'000	Total £'000
<b>Cost</b>				
At 1 January 2018	11,008	57,005	7,872	75,885
Additions	-	-	768	768
At 31 December 2018	11,008	57,005	8,640	76,653
<b>Amortisation</b>				
At 1 January 2018	9,979	40,246	4,648	54,873
Charge for the year	489	-	740	1,229
At 31 December 2018	10,468	40,246	5,388	56,102
<b>Net book value at 31 December 2018</b>	<b>540</b>	<b>16,759</b>	<b>3,252</b>	<b>20,551</b>
Net book value at 31 December 2017	1,029	16,759	3,224	21,012

### 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.

	2018	2017
Period on which management approved forecasts are based	4 years	4 years
Growth rate applied beyond approved forecast period	2%	2%
Discount rate	10%	10%

### Amortisation and impairment charge

The amortisation and impairment charge is recognised in administrative costs.



### 13. Property, plant and equipment

	Freehold land £'000	Buildings £'000	Tools, machinery equipment £'000	Total £'000
<b>Cost</b>				
At 1 January 2018	462	2,189	40,224	42,875
Additions	-	10,999	2,282	13,281
Disposals	-	(2,189)	(9,007)	(11,196)
At 31 December 2018	462	10,999	33,499	44,960
<b>Depreciation</b>				
At 1 January 2018	-	1,912	29,354	31,266
Charge for the year	-	665	1,865	2,530
Disposals	-	(2,191)	(8,871)	(11,062)
At 31 December 2018	-	386	22,348	22,734
<b>Net book value at 31 December 2018</b>	<b>462</b>	<b>10,613</b>	<b>11,151</b>	<b>22,226</b>
Net book value at 31 December 2017	462	277	10,870	11,609

During 2018, the company disposed of an office building, bringing the value of Buildings within PPE temporarily to £nil. Later in 2018, the company commenced a 20 year finance lease for PII Limited's head office facility. At December 31 2018; the value of Buildings within PPE consists solely of this finance lease.

### 14. Investment in subsidiaries

	2018 £'000	2017 £'000
<b>Cost</b>		
At 1 January	18,021	18,021
Acquisitions	104	-
<b>Net book value at 31 December</b>	<b>18,125</b>	<b>18,021</b>

The £104,000 acquisitions cost was a capital injection made to PII Pipeline Science & Technology (Beijing) Co. Ltd. in 2018.

Details of the company's subsidiary are listed below:

Company	Registered office address	Principal activity	Class and percentage of shares held
PII-Pipetronix GmbH	AG Mannheim, HRB 702297, Germany.	Pipeline inspection and reporting	100% Ordinary
PII Pipeline Science & Technology (Beijing) Co., Ltd.	No. 5, 1st Xingmao Street, Tongzhou Logistics Base, Beijing, China.	Pipeline inspection and reporting	100% Ordinary

## 15. Deferred tax

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

	2018	2017
	£'000	£'000
Current period (charge)/credit	-	-

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

	2018	2017
	£'000	£'000
Capital allowances in excess of depreciation	1,890	1,890
Potential deferred tax assets not recognised:		
	2018	2017
	£'000	£'000
Capital allowances in excess of depreciation	2,404	2,613
Pension liability	3,728	3,258
Share based payments	-	118
	6,132	5,989

## 16. Other financial assets

	2018	2017
	£'000	£'000
<b>Current assets</b>		
Loan to other group undertakings	-	8,660

On 23rd July 2016 PII Limited granted an interest bearing 2 year loan to its immediate parent undertaking PII Group Limited. As at 31st December 2017 the Due From balance consisted of £8,425,058 principal loan amount and £234,935 of accrued interest based on a rate of 1.92% per annum.

On 23rd July 2018 this loan and its accrued interest was extended until 22nd July 2019 with a principal loan amount of £8,748,137 and an accrued interest rate of 1.66% per annum.

The principal loan amount and accrued interest totalling £8,797,074 was repaid early on 21st November 2018.

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<b>17. Inventories</b>	(restated, see note 29)	
	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Inspection vehicle spares and consumables	5,458	3,943
Less: provision for obsolescence	(554)	(579)
	<u>4,904</u>	<u>3,364</u>

<b>18. Trade and other receivables</b>	(restated, see note 29)	
	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Trade receivables	7,772	6,534
Contract asset	6,096	2,803
Amounts owed by group undertakings	13,824	7,528
Other receivables	3,697	4,538
Prepayments and accrued income	380	530
	<u>31,769</u>	<u>21,933</u>

<b>19. Trade and other payables</b>	(restated, see note 29)	
	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Trade payables	2,649	2,518
Contract liability	4,862	4,846
Amounts owed to group undertakings	8,095	8,194
Social security and other taxes	1,510	1,831
Other payable and accrued expenses	5,532	4,175
	<u>22,648</u>	<u>21,564</u>

**20. Obligations under finance leases**

Finance lease liabilities are payable as follows:-

	Future Minimum lease payments		Future Interest charges		Present value of minimum lease payments	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Less than one year	653	-	325	-	328	-
Between one and five years	2,649	-	1,193	-	1,456	-
Over 5 years	10,846	-	2,204	-	8,642	-
	<u>14,148</u>	<u>-</u>	<u>3,722</u>	<u>-</u>	<u>10,426</u>	<u>-</u>

The finance lease relates to PII Limited's head office facility in the United Kingdom. The remaining lease term at 31 December 2018 is 19 years.

## 21. 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 2017. An actuarial valuation for IAS 19 purposes was carried out as at 31 December 2018. The significant assumptions used were as follows:

	2018	2017
Discount rate at 31 December	2.70%	2.40%
Retail price index inflation (pre-retirement)	3.20%	3.10%
Retail price index inflation (post-retirement)	3.20%	3.10%
Other actuarial assumptions		
	2018	2017
Future salary increases	3.20%	3.10%
Future pension increases - pensions accrued before 1 May 2009	3.20%	3.10%
Future pension increases - pensions accrued after 30 April 2009	3.10%	3.00%
Future pension increases - pensions accrued after 1 January 2012	2.30%	2.30%
Rate of increase for deferred pensioners	3.20%	3.10%
Description	2018	2017
Mortality	S2PMA/ S2PFA CMI 2017 model with long term rate of improvement of 1.25%	S2PMA/ S2PFA CMI 2016 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: 21.9 years (male), 23.8 years (female);
- future retiree upon reaching 65 in 20 years: 23.3 years (male), 25.4 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:

	<b>2018</b>		<b>2017</b>	
	<b>Market Value £000</b>	<b>% of total scheme assets</b>	<b>Market Value £000</b>	<b>% of total scheme assets</b>
Equities	<b>44,854</b>	<b>53%</b>	47,552	53%
Bonds	<b>8,263</b>	<b>10%</b>	9,246	10%
Gilts	<b>29,787</b>	<b>36%</b>	30,794	35%
Insurance policies	<b>850</b>	<b>1%</b>	909	1%
Cash	<b>185</b>	<b>0%</b>	533	1%
Total	<b>83,939</b>	<b>100%</b>	89,034	100%
Actual return on assets	<b>(2,758)</b>		3,279	

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

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Fair value of scheme assets	<b>83,939</b>	89,034
Present value of funded obligations	<b>(104,975)</b>	(108,197)
Net liability	<b>(21,036)</b>	(19,163)

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

	2018 £'000	2017 £'000
Opening defined benefit obligation	108,197	108,106
Current service cost	1,127	1,172
Past service cost	104	-
Interest cost	2,553	2,795
Contributions by scheme participants	19	18
Actuarial losses/(gains): experience differing from that assumed	700	(641)
Actuarial gains: changes in demographic assumptions	(582)	(2,020)
Actuarial (gains)/losses: changes in financial assumptions	(4,112)	1,189
Benefits paid	(3,031)	(2,422)
Closing defined benefit obligation	<u>104,975</u>	<u>108,197</u>

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

	2018 £'000	2017 £'000
Opening fair value of scheme assets	89,034	86,244
Interest income	2,088	2,224
Actual return on assets less interest	(4,905)	1,964
Contributions by employer	963	1,195
Contributions by scheme participants	19	18
Benefits paid	(3,031)	(2,422)
Administration costs	(229)	(189)
Closing fair value of scheme assets	<u>83,939</u>	<u>89,034</u>

The amounts recognised in profit or loss are as follows:

	2018 £'000	2017 £'000
Current service cost	1,127	1,172
Past service cost	104	-
Administration costs	229	189
Net interest cost	<u>465</u>	<u>571</u>
Amount charged to profit and loss	<u>1,925</u>	<u>1,932</u>

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Amounts recognised in other comprehensive income:

	2018	2017
	£'000	£'000
Remeasurement of defined benefit asset/liability	(911)	3,436
Amount recognised in other comprehensive income	(911)	3,436

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 2018 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 GEH Holdings a company registered in England and Wales.

The last full actuarial valuation was carried out as at 31 March 2018 by a qualified independent actuary. At this date there was a funding surplus of £190 million and a funding level of 103.0%.

During the year the company contributed £493,000 (2017: £493,000) to the GE Pension Plan.

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**22. Share capital**

	2018	2017
	£'000	£'000
Allotted, called up and fully paid		
60,675,140 ordinary shares of £1 each	<u>60,675</u>	<u>60,675</u>

**23. Contingent liabilities**

In the course of business the company has provided guarantee bonds to certain customers. £4,559,042 was outstanding under these bonds at the end of the financial year (2017: £4,458,542).

**24. 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:

	2018	2017
	£'000	£'000
Within one year	280	244
Between one and five years	1,234	1,181
Over 5 years	-	-
	<u>1,514</u>	<u>1,425</u>



## **25. 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](http://www.ge.com).

The weighted average share price at the date of exercise of share options exercised during the year was \$0.00 (2017: \$29.78).

The options outstanding at the year end have an exercise price in the range of \$11.70 to \$29.62 and a weighted average contractual life of 4.90 years.

## **26. 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 Qatar Petroleum (JV Partner until 3 July 2017 in the ultimate parent company, P11 Group Limited) and its subsidiaries for the period 1st January to 3rd July 2017 included in the statement of comprehensive income are as follows:

	<b>2018</b>		<b>2017</b>	
	<b>Revenue</b>	<b>Cost</b>	<b>Revenue</b>	<b>Cost</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Dolphin Energy Limited	-	-	-	-
Qatar Gas Operating Company Ltd	-	-	559	-
Qatar Petroleum Development Co Ltd	-	-	259	267
Ras Laffan Liquefied Natural Gas Co Ltd	-	-	720	-
	<b>0</b>	<b>0</b>	<b>1,538</b>	<b>267</b>

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

**27. Ultimate parent company**

The Company's immediate parent is PII Group Limited, a company registered at Atley Way, North Nelson Industrial Estate, Cramlington, Northumberland, NE23 1WW, UK.

At the balance sheet date the smallest group in which they are consolidated is that headed by Baker Hughes, a GE company, LLC a company registered at 17021 Aldine Westfield Road, Houston, Texas, USA. The consolidated financial statements of this company are available to the public and may be obtained from the registered address or at [www.bhge.com](http://www.bhge.com).

At the balance sheet date the largest group in which the results of the company are consolidated is that headed by its ultimate parent undertaking, General Electric Company, a company registered at 41 Farnsworth Street, Boston, Massachusetts, MA, 02210, USA. The consolidated financial statements of this company are available to the public and may be obtained from the registered address or at [www.ge.com](http://www.ge.com).

**28. Post Balance Sheet Events**

In September 2019 General Electric Company reduced its shareholding in Baker Hughes, a GE Company, LLC to below 50%. Accordingly the Company is no longer ultimately controlled by General Electric Company and the ultimate controlling party is now Baker Hughes, a GE Company, LLC.

**29. Changes resulting from adoption of IFRS 9 and IFRS 15**

The company adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers with effect from 1 January 2018.

No transition adjustments were required on adoption of IFRS 9 and the transition to IFRS 9 had no material impact on the financial statements of the company.

The only transition adjustment required on adoption of IFRS 15 was the Balance Sheet reclassification of Work in Progress as a Contract asset. This resulted in a 2017 current assets restatement of £2,803,000, reclassified from Inventories (note 17) to Trade and other Receivables (note 18).