COMPANIES HOUSE
23 DEC 1999

GE Caledonian Limited

Directors' report and financial statements

64580

31 December 1998

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Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

Principal activities

The principal activity of the company continues to be the repair and refurbishment of aero-engines and related components.

Business review

The operating profit for the year before interest and taxation as shown in the profit and loss account, was \$17,525,000 (1997 - \$8,770,000, fifteen month period) and the result for the year after taxation was a profit of \$9,679,000 (1997 - \$2,184,000, fifteen month period) which has been transferred to reserves.

The company's core business remains the repair and overhaul of General Electric CF6 and CFM1, CFM56 engine series. The company continues servicing a world wide market and has been awarded four Queen's Awards for export.

The directors' envisage continued growth in the airline services industry for the foreseeable future and are confident that the company is well positioned to capitalise on this growth. The company continues to market actively throughout the world and has secured new business in 1999 and expects to win further business beyond.

The company's mission statement is:

We are the customer driven company that provides the most efficient value added services and products to the aviation and aeroderivative turbine engine markets worldwide.

Our company is built upon a foundation of quality and engineering excellence, leading the industry by providing innovative solutions to technological challenges, processes and product support to meet ever changing customer expectations.

With a passion for our industry and the success of our customers, GE Caledonian Limited strives to be the company most admired and respected by our people, the industry and our shareholders.

Year 2000

An assessment has been made by the company of the impact of the Year 2000 issue. Issues are being considered including issues with suppliers and customers and steps are being taken to enable readiness for this event. The costs of actions already taken and the plans identified are not significant and are being absorbed within the normal activities of the company, unless they relate to new equipment which will be capitalised.

Policy and practice on payment of creditors

The company policy is to pay creditors in accordance with agreed terms of business. The number of days credit taken by the company at the year end was 48 days *(1997: 45)*.

Directors' report *(continued)*

Employees

The company is committed to the continued involvement and participation by all employees in the performance of the business through a policy of communication and consultation.

The company's policy for training and career development is to give full and fair consideration to any suitable person, including disabled persons, for all vacancies and opportunities.

Directors and directors' interests

The directors who held office during the year and to the date of this report were as follows:

TG Hammoor (President and Managing Director)	(appointed 3 June 1999)
J Horsburgh	*(resigned 27 May 1999)*
A Paterson	(resigned 3 June 1999)
S Rodden	(appointed 1 August 1999)
D Crews	
S Thomson	
T Torbeck (USA) (chairman)	
J Landrum (USA)	
S Henderson (USA) (joint company secretary)	
R Goldman (USA) (joint company secretary)	

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company, its ultimate holding company or any fellow subsidiary company.

Political and charitable contributions

The company made no political contributions during the year *(1997: Nil)*. Donations to UK charities amounted to $9,872 *(1997: $6,640)*.

Auditors

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

By order of the board

S Rodd

S Rodden
Director

Monument Crescent
Shawfarm Industrial Estate
Prestwick
Ayrshire
KA9 2RX

December 1999]

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They 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.*

KPMG

24 Blythswood Square
Glasgow
G2 4QS
United Kingdom

Report of the auditors to the members of GE Caledonian Limited

We have audited the financial statements on pages 5 to 18.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

22 December 1999

Profit and loss account
for the year ended 31 December 1998

	Note	**Year to 31 December 1998 $000**	15 months to 31 December 1997 $000
Turnover	*2*	**378,547**	371,479
Cost of sales		**(343,804)**	(342,864)
Gross profit		**34,743**	28,615
Distribution costs		**(5,231)**	(6,698)
Administrative expenses		**(11,987)**	(13,147)
Operating profit		**17,525**	8,770
Net interest payable	*6*	**(6,729)**	(5,035)
Profit on ordinary activities before taxation	*3*	**10,796**	3,735
Tax on profit on ordinary activities	*7*	**(1,117)**	(1,551)
Profit for the financial year	*16*	**9,679**	2,184

Details of movements in reserves are shown in note 16.

The turnover and results for both periods relate to continuing activities.

Balance sheet
at 31 December 1998

	Note	1998 $000	1998 $000	1997 $000	1997 $000
Fixed assets					
Tangible assets	*8*		**64,796**		63,171
Current assets					
Stocks	*9*	**77,944**		56,920	
Debtors	*10*	**84,586**		52,969	
Cash at bank and in hand		**1,858**		1,704	
		164,388		111,593	
Creditors: amounts falling due within one year	*11*	**(159,379)**		(115,515)	
Net current assets/(liabilities)			**5,009**		(3,922)
Total assets less current liabilities			**69,805**		59,249
Creditors: amounts falling due after more than one year	*12*		**(290)**		(352)
Accruals and deferred income	*13*		**(1,553)**		(1,614)
Provisions for liabilities and charges	*14*		**(1,000)**		-
Net assets			**66,962**		57,283
Capital and reserves					
Called up share capital	*15*		**23,632**		23,632
Share premium account	*16*		**3,031**		3,031
Revaluation reserve	*16*		**2,940**		3,018
Profit and loss account	*16*		**37,359**		27,602
Equity shareholders' funds			**66,962**		57,283

These financial statements were approved by the board of directors on 21 December 1999 and were signed on its behalf by:

S Rodden
Director

Statement of total recognised gains and losses
for the year ended 31 December 1998

	Year to 31 December 1998 $000	15 months to 31 December 1997 $000.
Profit for the financial period	**9,679**	2,184
Prior period adjustment	-	(27,281)
Total gains and losses recognised since last annual report	**9,679**	(25,097)

Note of historical cost profits and losses
for the year ended 31 December 1998

	Year to 31 December 1998 $000	15 months to 31 December 1997 $000
Reported profit on ordinary activities before taxation	**10,796**	3,735
Difference between the historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	**78**	78
Historical cost profit on ordinary activities before taxation	**10,874**	3,813
Historical cost profit for the year retained after taxation	**9,757**	2,262

Reconciliation of movements in shareholders' funds
for the year ended 31 December 1998

	Year to 31 December 1998 $000	15 months to 31 December 1997 $000
Profit for the financial period	**9,679**	2,184
Net increase in shareholders' funds	**9,679**	2,184
Opening shareholders' funds	**57,283**	55,099
Closing shareholders' funds	**66,962**	57,283

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting convention as modified to include the revaluation of certain fixed assets.

The company regards the US dollar as its functional currency.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation less depreciation.

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

Freehold buildings	-	8 to 40 years
Plant and equipment	-	5 to 20 years
Leased plant	-	8 years

No depreciation is provided on freehold land. Assets in the course of construction are not depreciated.

Foreign currencies

Transactions in foreign currencies are recorded using the appropriate rate of exchange. Monetary assets and liabilities denominated in foreign currencies are translated into US dollars using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over the shorter of its estimated useful life or the primary term of the lease. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as "operating leases" and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Pension costs

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

Notes *(continued)*

Accounting policies (continued)

Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials the weighted average purchase price is used. For work in progress, cost comprises direct materials, direct labour and an appropriate proportion of manufacturing 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. Provision is made for any losses as soon as they are foreseen.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Government grants

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

Turnover

Turnover represents the value of work completed during the year in respect of the repair and refurbishment of aero engines and related components.

Cash flow statement

The directors have taken advantage of the exemptions contained within FRS1 (revised) and not prepared a cash flow statement.

Notes *(continued)*

2 Segment information

The company derives all its turnover and profit before taxation from its principal activity of repair and refurbishment of aero-engines and related components. The company's turnover and profit before taxation originates in the United Kingdom and an analysis of turnover by destination is set out in the table below.

	Year to 31 December 1998 $000	15 months to 31 December 1997 $000
Turnover		
North America	**249,723**	190,727
United Kingdom	**55,480**	61,740
Other	**73,344**	119,012
	378,547	371,479

Net assets are situated in the United Kingdom and derive from the company's principal activity.

3 Profit on ordinary activities before taxation

	Year to 31 December 1998 $000	15 months to 31 December 1997 $000
Profit on ordinary activities before taxation is stated		
after charging		
Auditors' remuneration:		
Audit	**112**	56
Depreciation of tangible fixed assets:		
Owned	**6,698**	9,290
Leased	**11**	11
Hire of plant and equipment	**66**	39
Other operating lease rentals	**192**	288
Assets written off	**-**	(1,080)
Foreign exchange losses	**(1,119)**	-
after crediting		
Regional development grants released (note 13)	**61**	78
Foreign exchange gains	**-**	613

Notes *(continued)*

4 Remuneration of directors

	Year to 31 December 1998 $000	15 months to 31 December 1997 $000
Directors' emoluments:		
Fees	-	16
Emoluments	670	743
Pension contributions	114	36
Compensation for loss of office	170	-
	954	795

The emoluments, excluding pension contributions, of the highest paid director were $220,479 *(1997: $251,647)*. The accrued pension benefit in respect of the highest paid director as at the year end was $37,200 *(1997: $28,541)* per annum and his accrued lump sum was $49,280 *(1997: $40,089)*, leaving a residual pension of $33,088 *(1997: $25,200)* per annum.

During the year five *(1997: four)* directors were members of the company's defined benefit pension scheme.

5 Staff numbers and costs

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

	Number of employees	
	Year to 31 December 1998	15 months to 31 December 1997
Production staff	998	872
Sales and marketing staff	2	5
Administration staff	104	123
	1,104	1,000

The aggregate payroll costs of these persons were as follows:

	$000	$000
Wages and salaries	43,629	47,009
Social security costs	3,953	3,775
Other pension costs (note 18)	2,043	2,180
	49,625	52,964

Notes *(continued)*

6 Interest payable and similar charges (net)

	Year to 31 December 1998 $000	15 months to 31 December 1997 $000
Interest payable:		
Amounts payable to parent and fellow subsidiary undertakings	**6,815**	4,213
Amounts payable on bank loans and overdrafts	**203**	827
	7,018	5,040
Interest receivable	**(289)**	(5)
	6,729	5,035

7 Taxation

	Year to 31 December 1998 $000	15 months to 31 December 1997 $000
UK corporation tax at 31% *(1997: 31.8%)*	**2,073**	3,457
Adjustment relating to earlier years	**(1,956)**	(1,356)
Deferred taxation:		
- current year	**1,000**	-
- prior year	**-**	(550)
	1,117	1,551

The corporation tax charge for the prior period reflects the impact of certain items of expenditure which have been disallowed for tax purposes.

Notes *(continued)*

8 Tangible fixed assets

	Freehold land	Freehold buildings	Plant and equipment	Leased plant	Total
	$000	$000	$000	$000	$000
Cost/valuation					
At beginning of year	461	20,310	100,322	6,310	127,403
Additions	-	4,835	5,880	-	10,715
Disposals	-	-	(3,409)	-	(3,409)
At end of year	461	25,145	102,793	6,310	134,709
Depreciation					
At beginning of year	-	4,866	53,269	6,097	64,232
Charge for year	-	567	6,131	11	6,709
Disposals	-	-	(1,028)	-	(1,028)
At end of year	-	5,433	58,372	6,108	69,913
Net book value					
At 31 December 1998	**461**	**19,712**	**44,421**	**202**	**64,796**
At 31 December 1997	461	15,444	47,053	213	63,171

Buildings were revalued on an open market value for existing use basis as at 31 October 1986.

	1998	1997
	$000	$000
Buildings:		
At valuation	**10,515**	10,515
Aggregate depreciation thereon	**(2,745)**	(2,535)
Net book value	**7,770**	7,980
Historical cost of revalued assets	**6,639**	6,639
Aggregate depreciation thereon	**(1,809)**	(1,677)
Historical cost net book value	**4,830**	4,962

Notes *(continued)*

9 Stocks

	1998 $000	1997 $000
Raw materials and consumables	26,791	28,525
Work in progress	51,153	28,395
	77,944	56,920

10 Debtors

	1998 $000	1997 $000
Trade debtors	49,601	48,104
Amounts owed by parent undertaking	21,155	1,882
Other debtors	4,487	786
Prepayments and accrued income	934	788
	76,177	51,560
Debtors due after one year:		
Trade debtors	1,344	1,409
Corporation tax recoverable	7,065	-
	84,586	52,969

11 Creditors: amounts falling due within one year

	1998 $000	1997 $000
Bank loan - current instalment	68	67
Bank overdrafts	-	2,447
Trade creditors	32,061	31,502
Amounts due to parent and fellow subsidiary undertakings	118,719	72,054
Other creditors	89	7
Corporation tax	2,909	3,489
Other taxation and social security	1,640	1,396
Accruals	3,893	4,553
	159,379	115,515

Notes *(continued)*

11 Creditors: amounts falling due within one year *(continued)*

The bank loan is repayable in 84 monthly instalments which commenced on 4 March 1997. Interest at 1.75% above bank base rate is payable on the outstanding balance. The bank loan is secured over a property of the company.

All inter company borrowings are repayable on demand.

12 Creditors: amounts falling due after more than one year

	1998 $000	1997 $000
Bank loan	**290**	352

The bank loan is repayable:

	$000	$000
- within one year	**68**	67
- between one and two years	**67**	67
- between two and five years	**223**	202
- over five years	**-**	83
	358	419

The repayment terms and interest payable on the bank loan are described in note 11.

13 *Accruals and deferred income*

	1998 $000	1997 $000
Regional development grants:		
Balance at beginning of year	**1,614**	1,692
Released to profit and loss account	**(61)**	(78)
Balance at end of year	**1,553**	1,614

Notes *(continued)*

14 Provisions for liabilities and charges

The amounts provided for deferred taxation and the amounts not provided are set out below:

	1998		1997	
	Provided	**Unprovided**	Provided	Unprovided
	$000	**$000**	$000	$000
Difference between accumulated depreciation and capital allowances	**1,000**	**7,542**	-	8,274
Other timing differences	**-**	**(687)**	-	(1,521)
	1,000	**6,855**	-	6,753

	$000
Movement in deferred tax during the year	
At 1 January 1998	-
Profit and loss account	1,000
At 31 December 1998	**1,000**

15 Called up share capital

	1998	1997
	$000	$000
Authorised		
1,000,000 'A' ordinary shares of £1 each	**1,563**	1,563
36,000,000 'B' ordinary shares of $1 each	**36,000**	36,000
	37,563	37,563
Allotted, called up and fully paid		
1,000,000 'A' ordinary shares of £1 each	**1,563**	1,563
22,069,272 'B' ordinary shares of $1 each	**22,069**	22,069
	23,632	23,632

The rights of the 'A' and 'B' ordinary shares are summarised as follows:

(a) Recommended dividends are apportioned so that each 'A' ordinary share is entitled to 1.8 times the amount distributable to the 'B' ordinary shares.

(b) On a winding up of the company the 'A' ordinary shares are entitled to 1.8 times any amounts due to the 'B' shares.

(c) Each 'A' ordinary share has 1.8 votes and each 'B' ordinary share has 1 vote.

Notes *(continued)*

16 Share premium and reserves

	Share premium account $000	Revaluation reserve $000	Profit and loss account $000
At beginning of year	3,031	3,018	27,602
Profit for the financial year	-	-	9,679
Transfers	-	(78)	78
At end of year	3,031	2,940	37,359

17 Commitments

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

	1998 $000	1997 $000
Contracted	**588**	-

b) The company has the following annual commitments at 31 December 1998 in respect of operating leases due to expire in the undernoted periods from the balance sheet date:

	1998 $000	1997 $000
Within one year	**23**	23
Between one and five years	**340**	340
After five years	**9**	-
	372	363

Notes *(continued)*

18 Pension scheme

As explained in the accounting policies set out in note 1, the company provides defined final salary benefits, which are contracted-out of the State Earnings Related Pension Scheme, for all of its employees. The benefits are funded by means of assets held under a tax exempt trust. Contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The funding policy is for the company to pay contributions as recommended by the actuary based on the results of the plan using the projected unit method. The pension cost has been assessed by a professionally qualified actuary based on the results of a formal actuarial valuation carried out at 30 November 1996. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that investment returns would be 8.5% per annum, that salary increases would average 6% per annum and that present and future pensions would increase at the rate of 5% per annum.

The pension charge for the year is $2,043,000 *(1997: $2,180,000)*. This includes a credit of $184,000 in respect of amortisation of a surplus disclosed at the review of the scheme as at 30 November 1996.

The most recent actuarial statement showed that the market value of the scheme's assets was $46.7 million and that the actuarial value of those assets represented 108% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees recommended by the actuary are 7.1% and 5.75% of earnings respectively, which anticipate no deficiency on a current funding basis.

At 31 December 1998 there was $Nil *(1997: $17,160)* prepaid pension contributions.

19 Related party disclosures

Separate disclosures relating to transactions and balances with companies in General Electric Inc. Group in terms of Financial Reporting Standard No 8 are not made since the company has taken advantage of the exemption in paragraph 3(c) of the standard.

20 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of General Electric Inc. incorporated in the United States of America.

The financial statements of General Electric Inc. are available to the public and may be obtained from General Electric Inc., 3135 Eastern Turnpike, Fairfield, Connecticut.