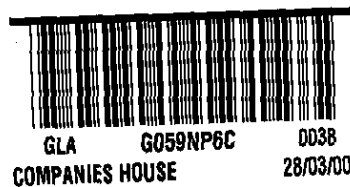


GE Caledonian Limited

Directors' report and financial statements

Registered Number 64580

28 February 1999



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Directors' report

The directors present their annual report and the audited financial statements for the two month period ended 28 February 1999 following a change in the company's accounting reference period due to a group reorganisation. The accounting reference period has subsequently been changed to 31 December hence the next financial statements will be for the ten month period to 31 December 1999.

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 loss for the 2 month period ended 28 February 1999 before interest and taxation as shown in the profit and loss account was \$13,734,000 (12 months ended 1998: \$17,525,000 profit) and the result for the period after taxation was a loss of \$11,294,000 (12 months ended 1998: \$9,679,000 profit) which has been applied against reserves. The significant operating loss in the current period arose as a result of low output of engines, resulting in an under-recovery of overheads, and the re-evaluation of certain repair and overhaul contract commitments.

In the period subsequent to the period end the operational matters causing the low outputs had been resolved. The directors envisage that the growth in the aircraft engine overhaul industry will continue and are confident that the company will benefit from this growth going forward.

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

The company has completed its review of all computer and date sensitive systems. All main group computer systems were millennium compliant by 31 December 1999 and the changeover to the new millennium went off without any significant disruptions.

The Year 2000 project included awareness of the potential for disruption due to the Year 2000 being a leap year. The company has not experienced any disruption to its systems on or after 29 February 2000.

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 55 days (1998: 48).

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 period 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)	(resigned 27 October 1999)
P Elion (assistant secretary)	(appointed 7 February 2000)

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 period (1998: Nil). Donations to UK charities amounted to \$1,196 (1998: \$9,872).



S Rodden
Director

Monument Crescent
Shawfarm Industrial Estate
Prestwick
Ayrshire
KA9 2RX

27 March 2000

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.



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 28 February 1999 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

28 March 2000

Profit and loss account

for the two month period ended 28 February 1999

	<i>Note</i>	2 month period ended 28 February 1999 \$000	Year ended 31 December 1998 \$000
Turnover	2	48,268	378,547
Cost of sales		(59,097)	(343,804)
		<hr/>	<hr/>
Gross (loss)/profit		(10,829)	34,743
Distribution costs		(893)	(5,231)
Administrative expenses		(2,012)	(11,987)
		<hr/>	<hr/>
Operating (loss)/profit		(13,734)	17,525
Net interest credit/(charge)	6	2,440	(6,729)
		<hr/>	<hr/>
(Loss)/profit on ordinary activities before taxation	3	(11,294)	10,796
Tax on (loss)/profit on ordinary activities	7	-	(1,117)
		<hr/>	<hr/>
(Loss)/profit for the financial period/year	15	(11,294)	9,679
		<hr/> <hr/>	<hr/> <hr/>

Details of movements in reserves are shown in note 15.

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

Balance sheet
at 28 February 1999

	<i>Note</i>	28 February 1999		31 December 1998	
		\$000	\$000	\$000	\$000
Fixed assets					
Tangible assets	8		64,344		64,796
Current assets					
Stocks	9	97,091		77,944	
Debtors	10	80,230		84,586	
Cash at bank and in hand		1,774		1,858	
		<u>179,095</u>		<u>164,388</u>	
Creditors: amounts falling due within one year	11	<u>(185,228)</u>		<u>(159,379)</u>	
Net current (liabilities)/assets			(6,133)		5,009
Total assets less current liabilities			<u>58,211</u>		<u>69,805</u>
Creditors: amounts falling due after more than one year			-		(290)
Accruals and deferred income	12	(1,543)		(1,553)	
Provisions for liabilities and charges	13	(1,000)		(1,000)	
Net assets			<u>55,668</u>		<u>66,962</u>
Capital and reserves					
Called up share capital	14	23,632		23,632	
Share premium account	15	3,031		3,031	
Revaluation reserve	15	2,927		2,940	
Profit and loss account	15	26,078		37,359	
Equity shareholders' funds			<u>55,668</u>		<u>66,962</u>

These financial statements were approved by the board of directors on 27 March 2000 and were signed on its behalf by:



S Rodden
Director

Note of historical cost profits and losses
for the two month period ended 28 February 1999

	2 month period ended 28 February 1999 \$000	Year ended 31 December 1998 \$000
Reported (loss)/profit on ordinary activities before taxation	(11,294)	10,796
Difference between the historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	13	78
	<hr/>	<hr/>
Historical cost (loss)/profit on ordinary activities before taxation	(11,281)	10,874
	<hr/>	<hr/>
Historical cost (loss)/profit for the period / year retained after taxation	(11,281)	9,757
	<hr/>	<hr/>

Reconciliation of movements in shareholders' funds
for the two month period ended 28 February 1999

	2 month period ended 28 February 1999 \$000	Year ended 31 December 1998 \$000
(Loss)/profit for the financial period/year	(11,294)	9,679
	<hr/>	<hr/>
Net (decrease)/increase in shareholders' funds	(11,294)	9,679
Opening shareholders' funds	66,962	57,283
	<hr/>	<hr/>
Closing shareholders' funds	55,668	66,962
	<hr/>	<hr/>

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.

Certain repair and refurbishment contracts undertaken cover several years duration. The results for each period reflect the turnover and the relevant costs for the engines repaired and/or refurbished during the period. Full provision is made in the financial statements where the anticipated outcome of the remainder of such contracts can be assessed with reasonable certainty and where a loss is likely to be incurred on subsequent engines.

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.

	2 month period ended 28 February 1999 \$000	Year ended 31 December 1998 \$000
Turnover		
North America	27,367	249,723
United Kingdom	2,608	55,480
Other	18,293	73,344
	<hr/>	<hr/>
	48,268	378,547
	<hr/>	<hr/>

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

3 (Loss)/profit on ordinary activities before taxation

	2 month period ended 28 February 1999 \$000	Year ended 31 December 1998 \$000
<i>(Loss)/profit on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Auditors' remuneration:		
Audit	50	112
Non audit services	3	-
Depreciation of tangible fixed assets:		
Owned	1,300	6,698
Leased	1	11
Hire of plant and equipment	8	66
Other operating lease rentals	29	192
Foreign exchange losses	-	(1,119)
<i>after crediting</i>		
Regional development grants released (note 13)	10	61
Foreign exchange gains	359	-

Notes (continued)

4 Remuneration of directors

	2 month period ended 28 February 1999 \$000	Year ended 31 December 1998 \$000
Directors' emoluments:		
Emoluments	90	670
Pension contributions	11	114
Compensation for loss of office	-	170
	<hr/>	<hr/>
	101	954
	<hr/> <hr/>	<hr/> <hr/>

The emoluments, excluding pension contributions, of the highest paid director were \$31,741 (1998: \$220,479). The accrued pension benefit in respect of the highest paid director as at the period end was \$37,200 (1998: \$37,200) per annum and his accrued lump sum was \$49,280 (1998: \$49,280), leaving a residual pension of \$33,088 (1998: \$33,088) per annum.

During the period four (1998: five) 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 period, analysed by category, was as follows:

	Number of employees 2 month period ended 28 February 1999	Year ended 31 December 1998
Production staff	1,034	998
Administration staff	104	106
	<hr/>	<hr/>
	1,138	1,104
	<hr/> <hr/>	<hr/> <hr/>

The aggregate payroll costs of these persons were as follows:

	\$000	\$000
Wages and salaries	7,972	43,629
Social security costs	688	3,953
Other pension costs (note 17)	245	2,043
	<hr/>	<hr/>
	8,905	49,625
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

6 Interest payable and similar charges

	2 month period ended 28 February 1999 \$000	Year ended 31 December 1998 \$000
Interest payable:		
Amounts payable to parent and fellow subsidiary undertakings		
- current charge	363	6,815
- adjustment relating to prior period	(2,789)	-
Amounts payable on bank loans and overdrafts	-	203
	<hr/>	<hr/>
Interest receivable	(2,426) (14)	7,018 (289)
	<hr/>	<hr/>
Net (credit)/charge for period/year	(2,440)	6,729
	<hr/> <hr/>	<hr/> <hr/>

7 Taxation

	2 month period ended 28 February 1999 \$000	Year ended 31 December 1998 \$000
UK corporation tax at 30% (1998: 31%)	-	2,073
Adjustment relating to earlier years	-	(1,956)
Deferred taxation:		
- current year	-	1,000
- prior year	-	-
	<hr/>	<hr/>
	-	1,117
	<hr/> <hr/>	<hr/> <hr/>

No tax charge has arisen due to losses in the current period.

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 period	461	25,145	102,793	6,310	134,709
Additions	-	66	851	-	917
Disposals	-	-	(82)	-	(82)
At end of period	461	25,211	103,562	6,310	135,544
Depreciation					
At beginning of period	-	5,433	58,372	6,108	69,913
Charge for period	-	101	1,199	1	1,301
Disposals	-	-	(14)	-	(14)
At end of period	-	5,534	59,557	6,109	71,200
Net book value					
At 28 February 1999	461	19,677	44,005	201	64,344
At 31 December 1998	461	19,712	44,421	202	64,796

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

	28 February 1999 \$000	31 December 1998 \$000
Buildings:		
At valuation	10,515	10,515
Aggregate depreciation thereon	(2,780)	(2,745)
Net book value	7,735	7,770
Historical cost of revalued assets	6,639	6,639
Aggregate depreciation thereon	(1,831)	(1,809)
Historical cost net book value	4,808	4,830

Notes (continued)

9 Stocks

	28 February 1999 \$000	31 December 1998 \$000
Raw materials and consumables	26,773	26,791
Work in progress	70,318	51,153
	<u>97,091</u>	<u>77,944</u>

10 Debtors

	28 February 1999 \$000	31 December 1998 \$000
Trade debtors	58,617	49,601
Amounts owed by parent undertaking	10,419	21,155
Other debtors	3,440	4,487
Prepayments and accrued income	689	934
	<u>73,165</u>	<u>76,177</u>
Debtors due after one year:		
Trade debtors	-	1,344
Corporation tax recoverable	7,065	7,065
	<u>80,230</u>	<u>84,586</u>

11 Creditors: amounts falling due within one year

	28 February 1999 \$000	31 December 1998 \$000
Bank loan - current instalment	-	68
Bank overdrafts	1,107	-
Trade creditors	31,391	32,061
Amounts due to parent and fellow subsidiary undertakings	143,357	118,719
Corporation tax	2,509	2,909
Other taxation and social security	1,220	1,640
Accruals	5,644	3,982
	<u>185,228</u>	<u>159,379</u>

The bank loan is secured over a property of the company.

All inter company borrowings are repayable on demand.

Notes (continued)

12 Accruals and deferred income

	28 February 1999 \$000	31 December 1998 \$000
Regional development grants:		
Balance at beginning of period	1,553	1,614
Released to profit and loss account	(10)	(61)
	<hr/>	<hr/>
Balance at end of period	1,543	1,553
	<hr/>	<hr/>

13 Provisions for liabilities and charges

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

	28 February 1999		31 December 1998	
	Provided \$000	Unprovided \$000	Provided \$000	Unprovided \$000
Difference between accumulated depreciation and capital allowances	1,000	7,595	1,000	7,542
Other timing differences	-	(3,799)	-	(687)
	<hr/>	<hr/>	<hr/>	<hr/>
	1,000	3,796	1,000	6,855
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

14 Called up share capital

	28 February 1999 \$000	31 December 1998 \$000
<i>Authorised</i>		
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
	<u>37,563</u>	<u>37,563</u>
<i>Allotted, called up and fully paid</i>		
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
	<u>23,632</u>	<u>23,632</u>

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.

15 Share premium and reserves

	Share premium account \$000	Revaluation reserve \$000	Profit and loss account \$000
At beginning of period	3,031	2,940	37,359
Loss for the financial period	-	-	(11,294)
Transfers	-	(13)	13
	<u>3,031</u>	<u>2,927</u>	<u>26,078</u>
At end of period	<u>3,031</u>	<u>2,927</u>	<u>26,078</u>

Notes (continued)

16 Commitments

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

	28 February 1999 \$000	31 December 1998 \$000
Contracted	1,744	588

- b) The company has the following annual commitments at 28 February 1999 in respect of operating leases due to expire in the undernoted periods from the balance sheet date:

	28 February 1999 \$000	31 December 1998 \$000
Within one year	-	23
Between one and five years	590	340
After five years	43	9
	<u>633</u>	<u>372</u>

17 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 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.

The pension charge for the period is \$245,000 (1998: \$2,043,000). This includes a credit of \$31,000 in respect of amortisation of a surplus disclosed at the review of the scheme as at 30 November 1996.

At 28 February 1999 there was \$Nil (1998: \$Nil) prepaid pension contributions.

Notes *(continued)*

18 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.

19 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.