

Registration number: SC064580

GE Caledonian Limited
Annual Report and Financial Statements
for the Year Ended 31 December 2017



GE Caledonian Limited

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GE Caledonian Limited

Directors' Report

The directors present their report and the financial statements for the year ended 31 December 2017.

Principal activity

The principal activity of the company continues to be the overhaul of aircraft engines.

Results and dividends

The profit for the year, after taxation, amounted to \$56,694,000 (2016: \$51,861,000).

The directors do not recommend the payment of a dividend (2016: \$nil).

Directors of the company

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

J T Beck (resigned 28 March 2018)

G Adams

M L Deacon

S Watters

M D Terribilini (appointed 28 March 2018)

Financial instruments

The company monitors closely short, medium and long term exchange rates and has a policy of hedging against currency fluctuations.

Political donations

The company made no political contributions during the year. Donations to UK charities during the year amounted to \$2,159 (2016: \$10,089).

Employee involvement

The company is committed to the continued involvement and participation of 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' liabilities

One or more of the directors have benefited from qualifying third party indemnity provisions in place during the financial year and subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provisions remain in force as at the date of approving the directors' report.

Disclosure of information to the auditor

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

GE Caledonian Limited

Directors' Report

Reappointment of auditors

The auditor, KPMG LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 23 August 2018 and signed on its behalf by:



.....
S Watters
Director

GE Caledonian Limited

Strategic Report

The directors present their strategic report for the year ended 31 December 2017.

Business review

As a Maintenance, Repair and Overhaul (MRO) facility, the number of shop visits (SVs), which is the number of engines which are overhauled by the company during any given year, is a key driver of revenue for the company.

Following the trend in the past few years, the number of CF6-80C overhaul SVs has decreased and the competition amongst aircraft engine overhaul shops has increased. This ongoing downturn in the global CF6-80C engine market continues to impact on the company. In 2017 we have seen 47 CF6 SVs through the shop - a 32% reduction in comparison to 2016. The revenue generated from these shop visits was \$210m (2016: \$280m).

Whilst the number of CF6 SVs decreased, the number of GENx SVs has jumped to 97 in 2017 (2016: 74) as we see growth in line with our operating plan. The GENx is GE's turbofan engine and will power medium-capacity, long-range aircraft for the foreseeable future. This increase in GENx SVs has generated revenue of \$498m, an increase of \$212m from 2016. In addition to this, the company has supported the GE MRO network with 134 module repairs and 30 engine test only services, with revenue attributed to module repairs \$82m during 2017.

Overall, the company achieved a profit before taxation of \$56.7m in the year to 31 December 2017 (2016: \$51.8m), with the GENx volume increase being the main driver of this.

During 2017, the company has invested further in expanding the infrastructure and acquiring tooling, this has enhanced the overall capability and flexibility to repair and overhaul both GENx 1B and GENx 2B models. With these changes, the company has maintained itself as a competitive MRO shop supporting both the CF6 and GENx engine models and has strengthened its position from a safety, quality, delivery and cost stand point.

GE Caledonian Limited

Strategic Report

Future Outlook

From 2018 aircraft parts sourced from GE companies will be supplied on a consignment basis. This change will not impact the volume of engines overhauled by the company but it is likely to result in a reduction in turnover and profitability.

CF6-80C engines

We expect that the downturn in the global CF6-80C engine overhaul market will continue and forecast a further decline in shop visits to Caledonian with 42 SV's planned in 2018. Additionally, the market for these shop visits continues to be very competitive and other CF6 engine models such as the CF6-6, CF6-50, and CF6-80A are expected to see further declines in volume which will continue to drive increased competition for CF6-80C shop visits.

GENx engines

As stated above, GENx engine SV volumes continue to grow with 97 SVs in 2017 which were a mix of light, heavy, and PIP upgrade work scopes, this is forecast to increase to 104 SVs in 2018 with the projected mix of SVs expected to move towards more heavy or PIP upgrade work scopes. The company will also continue to support the GE MRO network with additional module level repair and engine test only services in the short to medium term, as the GE MRO network expand servicing capacity to support the growing need of GENx customers. GENx worldwide SVs are expected to rapidly grow to over 400 SVs by 2019 this will be heavily supported by GE Caledonian and other GENx GE sites and partners.

Challenges

The key focus in 2018 continues to be GENx integration, including workforce re-alignment and re-training. In addition, the company will focus resources and capital investment on GENx capacity, repair development and turnaround time improvement to support the change in SV mix with the increasing volume of GENx SVs offsetting with the reducing volume of CF6-80C SVs.

Financing

GE Caledonian Limited being part of GE Company benefits from the advantage of funding which is managed centrally by GE Corporate Treasury. The directors of GE Caledonian Limited review cash forecasts and plans on an ongoing basis and are satisfied that GE Caledonian Limited, in the context of the group cash pool arrangement, will be able to operate within its available funding levels.

GE Caledonian Limited

Strategic Report

Principal risks and uncertainties

The principal risks and uncertainties affecting the business include the following:

Foreign currency exchange: the company monitors closely short, medium and long term exchange rates and has a policy of hedging against currency fluctuations relating to trading transactions to minimise foreign exchange risk.

Environmental, health and safety risks: the company places considerable emphasis upon environmental compliance and not only seeks to ensure ongoing compliance with relevant legislation but also strives to ensure that environmental best practice is incorporated into its key processes. The company continues to pursue ways of ensuring that a safe and healthy working environment is progressively improved.

Customers: the company maintains strong relationships with each of its key customers and has established credit control parameters. Appropriate credit terms are agreed with all customers and these are closely managed. The company factors most of its invoices via GE Capital. In addition to this, the majority of factored invoices are insured thus limiting the company's exposure to any unforeseen bad debt risk.

Major disruption/disaster: business continuity planning is reviewed regularly. In addition to this, a formal Business Continuity Plan has been trialled and implemented.

The effect of legislation or other regulatory activities: the company monitors forthcoming and current legislation regularly.

Litigation: the company is subject to litigation from time to time. The outcome of legal action is always uncertain and there is always a risk that it may prove more costly and time consuming than expected. There is a risk that litigation could be instigated in the future, which could materially impact the company.

Sales and Marketing: new and replacement business is won continually, new markets have been developed in line with the company's strategy; key customer relationships are monitored on a regular basis.

Production: new repairs continue to be developed for both existing and development components; production efficiencies have been gained and new initiatives for process and efficiency improvements are constantly being developed.

Competitive advantage: the company focuses on areas where it has a competitive advantage including faster turnaround time and excellent quality which places it well in terms of superior long term income and cash flow growth potential.

GE Caledonian Limited

Strategic Report

Key Financial performance indicators

These include the monitoring of the management profitability and working capital.

Financial	2017	2016	Measure
Inventory turns	7	5	Cost of sales / raw material + material WIP)
Debtor days	69	116	Trade debtors / average turnover *365
Creditor days	27	34	Trade creditors / average purchases *365
Sales per employee (\$ 000)	1,565	1,420	Turnover / average employees
Operating profit/(loss) per employee (\$ 000)	102	98	Operating profit / average employees

Key non - financial performance indicators

These include the monitoring of our employees' health and safety in addition to the company's environmental impact and energy consumption.

Non-financial	2017	2016	Measure
Reportable accidents	2	1	Number of accidents reported
SV inputs	145	148	Number of engines inducted
SV outputs	144	143	Number of engines output

Approved by the Board on 23 August 2018 and signed on its behalf by:



S Watters
Director

GE Caledonian Limited

Statement of Directors' Responsibilities

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 judgements and estimates that are reasonable and prudent ;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 GE Caledonian Limited

Opinion

We have audited the financial statements of GE Caledonian Limited (the 'company') for the year ended 31 December 2017, which comprise the Profit and Loss Account and Statement of 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 2017 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.

Going concern

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. We have nothing to report in these respects.

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 Directors' 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.

Independent Auditor's Report to the Members of GE Caledonian Limited

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 their statement set out on page 7, 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 are 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.

Independent Auditor's Report to the Members of GE Caledonian Limited

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.



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Gordon Herbertson (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

319 St Vincent Street
Glasgow
G2 5AS

Date: 7 September 2018

GE Caledonian Limited

Profit and Loss Account for the Year Ended 31 December 2017

	Note	2017 \$ 000	2016 \$ 000
Turnover	4	924,961	789,783
Cost of sales		<u>(857,408)</u>	<u>(716,033)</u>
Gross profit		67,553	73,750
Selling and distribution costs		(2,908)	(2,848)
Administrative expenses		<u>(4,119)</u>	<u>(16,300)</u>
Operating profit	5	60,526	54,602
Interest receivable and similar income	7	139	223
Interest payable and similar expenses	8	<u>(3,971)</u>	<u>(2,964)</u>
Profit before tax		56,694	51,861
Tax on profit	11	<u>-</u>	<u>-</u>
Profit for the year		<u><u>56,694</u></u>	<u><u>51,861</u></u>

The above results were derived from continuing operations.

GE Caledonian Limited

Statement of Comprehensive Income for the Year Ended 31 December 2017

	Note	2017 \$ 000	2016 \$ 000
Profit for the year		56,694	51,861
Items that may be reclassified subsequently to profit or loss			
Gain on cash flow hedging		<u>-</u>	<u>707</u>
Total comprehensive income for the year		<u>56,694</u>	<u>52,568</u>

GE Caledonian Limited

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Balance Sheet as at 31 December 2017

	Note	2017 \$ 000	2016 \$ 000
Fixed assets			
Tangible assets	12	39,019	41,648
Investments	13	<u>1,038,000</u>	<u>1,038,000</u>
		<u>1,077,019</u>	<u>1,079,648</u>
Current assets			
Stocks	14	66,528	89,481
Debtors: amounts falling due within one year	15	206,055	143,565
Cash at bank and in hand		<u>35,807</u>	<u>18,946</u>
		308,390	251,992
Creditors: Amounts falling due within one year	16	<u>(100,596)</u>	<u>(103,507)</u>
Net current assets		<u>207,794</u>	<u>148,485</u>
Net assets		<u>1,284,813</u>	<u>1,228,133</u>
Capital and reserves			
Called up share capital	17	514,278	514,278
Share premium account		542,758	542,758
Revaluation reserve		1,458	1,536
Employee share based payments reserve		390	404
Profit and loss account		<u>225,929</u>	<u>169,157</u>
Shareholders' funds		<u>1,284,813</u>	<u>1,228,133</u>

Approved by the Board on 23 August 2018 and signed on its behalf by:



S Watters
Director

GE Caledonian Limited

Statement of Changes in Equity for the Year Ended 31 December 2017

	Called up share capital \$ 000	Share premium account \$ 000	Revaluation reserve \$ 000	Employee share based payments reserve \$ 000	Profit and loss account \$ 000	Total \$ 000
At 1 January 2017	514,278	542,758	1,536	404	169,157	1,228,133
Comprehensive income for the year						
Profit for the year	-	-	-	-	56,694	56,694
Total comprehensive income	-	-	-	-	56,694	56,694
Transfer from revaluation reserve to profit and loss account	-	-	(78)	-	78	-
Equity share based payment expense	-	-	-	4	-	4
Recharges made by GE Company on share options exercised during the year	-	-	-	(18)	-	(18)
At 31 December 2017	<u>514,278</u>	<u>542,758</u>	<u>1,458</u>	<u>390</u>	<u>225,929</u>	<u>1,284,813</u>

The notes on pages 16 to 32 form an integral part of these financial statements.
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GE Caledonian Limited

Statement of Changes in Equity for the Year Ended 31 December 2017

	Called up share capital \$ 000	Share premium account \$ 000	Revaluation reserve \$ 000	Derivative financial instruments reserve \$ 000	Employee share based payments reserve \$ 000	Profit and loss account \$ 000	Total \$ 000
At 1 January 2016	14,278	4,758	1,614	(707)	409	117,218	137,570
Comprehensive income for the year							
Profit for the year	-	-	-	-	-	51,861	51,861
Other comprehensive income	-	-	-	707	-	-	707
Total comprehensive income	-	-	-	707	-	51,861	52,568
Share capital issued during the year	500,000	-	-	-	-	-	500,000
Share premium on shares issued during the year	-	538,000	-	-	-	-	538,000
Transfer from revaluation reserve to profit and loss account	-	-	(78)	-	-	78	-
Equity share based payment expense	-	-	-	-	50	-	50
Recharges made by GE Company on share options exercised during the year	-	-	-	-	(55)	-	(55)
At 31 December 2016	<u>514,278</u>	<u>542,758</u>	<u>1,536</u>	<u>-</u>	<u>404</u>	<u>169,157</u>	<u>1,228,133</u>

The notes on pages 16 to 32 form an integral part of these financial statements.
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GE Caledonian Limited

Notes to the Financial Statements

1 General information

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

The address of its registered office is:
Monument Crescent
Shawfarm Industrial Estate
Prestwick
KA9 2RX
Scotland

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 under the historical cost convention and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006. The amendments to FRS 101 (2016/17 Cycle) issued in July 2017 have been applied.

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.

GE Caledonian Limited

Notes to the Financial Statements

2 Accounting policies (continued)

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 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, and
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment.
- 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.

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.

Turnover

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the company's activities. Turnover is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the company. The company recognises revenue when: The amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and specific criteria have been met for each of the company activities.

Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

Foreign currency transactions and balances

The accounts are presented in US dollar 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.

GE Caledonian Limited

Notes to the Financial Statements

2 Accounting policies (continued)

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

Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Asset class	Useful Life
Freehold buildings	8 to 40 years
Plant & equipment	5 to 20 years
Freehold land is not depreciated.	

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.

GE Caledonian Limited

Notes to the Financial Statements

2 Accounting policies (continued)

Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

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 is a member of a group pension plan providing benefits based on final pensionable pay. The group pension plan, 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.

GE Caledonian Limited

Notes to the Financial Statements

2 Accounting policies (continued)

Financial instruments

The directors consider that the fair value of the company's financial instruments which fall to be disclosed, which comprise cash, trade debtors and trade creditors is equivalent to carrying value as stated within these financial statements.

Classification

The company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets

The company recognises its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. Other than the financial assets in a qualifying hedging relationship, the company's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises only in-the-money derivatives. These are carried in the Balance sheet at fair value with changes in fair value recognised in the Profit and loss account.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Profit and loss account. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

GE Caledonian Limited

Notes to the Financial Statements

2 Accounting policies (continued)

Financial liabilities

The company classifies its financial liabilities into one of the categories discussed below, depending on the purpose for which the liability was acquired.

Fair value through profit or loss

This category comprises only out-of-the-money derivatives. They are carried in the Balance sheet at fair value recognised in the Profit and loss account.

At amortised cost

Financial liabilities at amortised cost including bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the Balance sheet.

Functional currency

The functional currency of the company is the US dollar. The company is expected to have a significant level of US dollar assets and transactions. The financial statements are therefore presented in US dollars.

3 Critical accounting judgements 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:

Stock provisioning

The company designs, manufactures and sells advanced technical products and is subject to changing consumer demands and technological advances. As a result it is necessary to consider the recoverability of the cost of stock and the associated provisioning required. When calculating the stock provision, management considers the nature and condition of the stock, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 14 for the net carrying amount of stock and associated provision.

GE Caledonian Limited

Notes to the Financial Statements

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment of trade debtors

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the credit rating of the debtor, the ageing profile of the debtors and historical experience. See note 15 for the net carrying amount of the receivables.

Agreements with fellow subsidiaries

Whilst continually seeking efficiencies and being challenged to do so, the company has an agreement with other group companies that result in it being remunerated on the basis of operating costs incurred for the services provided to both the Group and directly to customers. As a consequence, although any change in the useful economic life of fixed assets, stock provisioning or trade debtors will impact the relevant balance sheet account, there will be reduced risk on the reported profit.

Impairment of investments

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.

GE Caledonian Limited

Notes to the Financial Statements

4 Turnover

A geographical analysis of turnover is as follows:

	2017 \$ 000	2016 \$ 000
United Kingdom	112,899	88,844
Rest of European Union	176,174	85,059
USA	234,410	305,197
Other	401,478	310,683
	<u>924,961</u>	<u>789,783</u>

5 Operating profit

Operating profit is stated after charging/(crediting)

	2017 \$ 000	2016 \$ 000
Difference on foreign exchange	(3,917)	6,122
(Profit)/loss on sale of tangible fixed assets	<u>(40)</u>	<u>43</u>

6 Auditor's remuneration

	2017 \$ 000	2016 \$ 000
Audit of the financial statements	<u>72</u>	<u>64</u>

7 Interest receivable and similar income

	2017 \$ 000	2016 \$ 000
Interest income on bank deposits	139	-
Interest receivable from group companies	<u>-</u>	<u>223</u>
	<u>139</u>	<u>223</u>

GE Caledonian Limited

Notes to the Financial Statements

8 Interest payable and similar expenses

	2017	2016
	\$ 000	\$ 000
Interest payable to group undertakings	<u>3,971</u>	<u>2,964</u>

9 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2017	2016
	\$ 000	\$ 000
Wages and salaries	33,337	35,214
Social security costs	3,394	3,130
Other pension costs	2,542	2,657
Share-based payment expenses	<u>5</u>	<u>50</u>
	<u>39,278</u>	<u>41,051</u>

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

	2017	2016
	No.	No.
Production	538	503
Administration and support	26	27
Sales, marketing and distribution	<u>27</u>	<u>26</u>
	<u>591</u>	<u>556</u>

10 Directors' remuneration

The directors' remuneration for the year was as follows:

	2017	2016
	\$ 000	\$ 000
Remuneration	308	485
Company pension contributions	<u>42</u>	<u>130</u>
	<u>350</u>	<u>615</u>

GE Caledonian Limited

Notes to the Financial Statements

10 Directors' remuneration (continued)

During the year the number of directors who were receiving benefits was as follows:

	2017 No.	2016 No.
Accruing benefits under defined contribution pension scheme	<u>2</u>	<u>2</u>

In respect of the highest paid director:

	2017 \$ 000	2016 \$ 000
Remuneration	194	319
Company pension contributions	<u>27</u>	<u>88</u>

The company was recharged \$nil (2016: \$407,000) by a fellow group undertaking for the services of directors remunerated by them. Also included in the amount above is \$nil (2016: \$151,000) of remuneration which was borne by another group company on behalf of GE Caledonian Limited.

11 Taxation

Tax charged/(credited) in the profit and loss account

	2017 \$ 000	2016 \$ 000
Current taxation		
UK corporation tax	-	-
Deferred taxation		
Arising from origination and reversal of temporary differences	(747)	1,539
Arising from changes in tax rates and laws	87	170
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	3	(278)
Arising from amounts not recognised	<u>657</u>	<u>(1,431)</u>
Total deferred taxation	<u>-</u>	<u>-</u>
Tax expense/(receipt) in the profit and loss account	<u>-</u>	<u>-</u>

GE Caledonian Limited

Notes to the Financial Statements

11 Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (2016 - lower than the standard rate of corporation tax in the UK) of 19.25% (2016 - 20%).

The differences are reconciled below:

	2017 \$ 000	2016 \$ 000
Profit before tax	56,694	51,861
Corporation tax at standard rate	10,912	10,372
Decrease from effect of revenues exempt from taxation	-	(89)
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	9	248
Increase from temporary differences for which no deferred tax asset was recognised	657	(1,431)
Decrease arising from group relief tax reconciliation	(11,667)	(8,991)
Deferred tax expense (credit) from unrecognised temporary difference from a prior period	3	(278)
Deferred tax expense relating to changes in tax rates or laws	87	170
Other tax effects for reconciliation between accounting profit and tax expense (income)	(1)	(1)
Total tax charge/(credit)	-	-

Factors that may affect future tax charges

The UK corporation tax rate reduced from 20% to 19% on 1 April 2017. A further reduction to 17% (effective 1 April 2020) was substantively enacted at balance sheet date. This will reduce any current tax charges in future periods accordingly.

Deferred tax assets and liabilities on all temporary differences have been calculated at 17%.

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

GE Caledonian Limited

Notes to the Financial Statements

11 Taxation (continued)

Deferred tax

There are \$6,167,000 of deductible temporary differences (2016: \$5,511,000) for which no deferred tax asset is recognised in the balance sheet. The directors have assessed the unrecognised net deferred tax asset, which arises in respect of cumulative trading losses, for recoverability and have concluded that it is not yet probable that future taxable profits will be available against which the temporary difference can be utilised.

12 Tangible fixed assets

	Freehold buildings \$ 000	Freehold land \$ 000	Plant & equipment \$ 000	Total \$ 000
Cost				
At 1 January 2017	38,852	508	94,554	133,914
Additions	-	-	2,292	2,292
Disposals	-	-	(1,630)	(1,630)
At 31 December 2017	<u>38,852</u>	<u>508</u>	<u>95,216</u>	<u>134,576</u>
Depreciation				
At 1 January 2017	22,784	-	69,482	92,266
Charge for the year	1,145	-	3,428	4,573
On disposals	-	-	(1,282)	(1,282)
At 31 December 2017	<u>23,929</u>	<u>-</u>	<u>71,628</u>	<u>95,557</u>
Net book value				
At 31 December 2017	<u>14,923</u>	<u>508</u>	<u>23,588</u>	<u>39,019</u>
At 31 December 2016	<u>16,068</u>	<u>508</u>	<u>25,072</u>	<u>41,648</u>

GE Caledonian Limited

Notes to the Financial Statements

13 Fixed asset investments

	Investments in subsidiary companies \$ 000
Cost	
At 1 January 2017	1,038,000
At 31 December 2017	1,038,000
Impairment	
Charge for the year	-
At 31 December 2017	-
Net book value	
At 31 December 2017	1,038,000
At 31 December 2016	1,038,000

The directors of the company have undertaken a review of the company's investment in group undertaking as at 31 December 2017. There are no indications of impairment and the carrying value of the investment is correct.

Details of the company's subsidiary undertakings as at 31 December 2017 are as follows:

Name of subsidiary	Registered office	Class of shares held	Proportion of ownership interest
GE Infrastructure Aviation	Cheltenham Road, Bishops Cleeve, Cheltenham, GL52 8SF, United Kingdom	Ordinary	100%
GE Aviation Systems Limited*	Cheltenham Rd, Bishops Cleeve, Cheltenham, GL52 8SF, United Kingdom	Ordinary	100%
GE Aviation Systems Taleris Ltd.*	Cheltenham Rd, Bishops Cleeve, Cheltenham, GL52 8SF, United Kingdom	Ordinary	100%

GE Caledonian Limited

Notes to the Financial Statements

13 Fixed asset investments (continued)

Name of subsidiary	Registered office	Class of shares held	Proportion of ownership interest
Taleris Holdings Ltd*	Cheltenham Rd, Bishops Cleeve, Cheltenham, GL52 8SF, United Kingdom	Ordinary	53.04%
Taleris Global LLP*	Cheltenham Rd, Bishops Cleeve, Cheltenham, GL52 8SF, United Kingdom	Ordinary	65.06%
Taleris America LLC*	400 West 15th Street, Suite 1000, Austin, TX, 78701, United States	Ordinary	48.67%
Indirect holding*			

GE Caledonian Limited

Notes to the Financial Statements

14 Stocks

	2017 \$ 000	2016 \$ 000
Raw materials and consumables	12,568	20,335
Work in progress	53,960	69,146
	<u>66,528</u>	<u>89,481</u>

15 Debtors

	2017 \$ 000	2016 \$ 000
Trade debtors	41,756	53,445
Amounts owed by group undertakings	160,072	87,712
Prepayments and accrued income	894	815
Other debtors	1,901	1,371
Derivative financial instruments	1,432	222
	<u>206,055</u>	<u>143,565</u>

Amounts owed by group undertakings are unsecured and repayable on demand. Interest accrues on non-trading balances at variable rates linked to 3 months LIBOR rate.

16 Creditors: Amounts falling due within one year

	2017 \$ 000	2016 \$ 000
Trade creditors	13,732	13,754
Accruals and deferred income	5,265	14,856
Amounts owed to group undertakings	77,348	70,589
Social security and other taxes	2,058	2,001
Other creditors	2,193	870
Derivative financial instruments	-	1,437
	<u>100,596</u>	<u>103,507</u>

All intergroup borrowings are unsecured and are repayable on demand. Interest accrues on non-trading balances at a variable rate based on the 3 month LIBOR rate.

GE Caledonian Limited

Notes to the Financial Statements

17 Share capital

Allotted, called up and fully paid shares

	No. 000	2017 \$ 000	No. 000	2016 \$ 000
'A' ordinary shares of \$1 each	<u>514,278</u>	<u>514,278</u>	<u>514,278</u>	<u>514,278</u>

18 Share-based payments

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 grant date and vest over service periods ranging from one to five years. The option price is usually set as the closing day share price on grant date. Restricted 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 grant date through 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 consist 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.

The weighted average share price at the date of exercise of share options exercised during the year was \$nil (2016: \$30.89).

The options outstanding at the year end have an exercise price in the range of \$11.70 to \$28.71 and a weighted average contractual life of 3.64 years.

GE Caledonian Limited

Notes to the Financial Statements

19 Pension commitments

The company is a member of a group pension plan providing benefits based on final pensionable pay. The group pension plan, 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 last full actuarial valuation was carried out as at 31 March 2015 by a qualified independent actuary. At this date there was a funding deficit of £164 million and a funding level of 96.2%.

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.

The pension charge for the year was \$2,541,000 (2016: \$2,657,000), including \$223,000 (2016: \$149,000) in respect of the defined contribution scheme. There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

20 Ultimate parent undertaking and controlling party

The company's immediate parent is GE UK Group, a company registered at 3rd floor, 1 Ashley Road, Altrincham, Cheshire, WA 14 2DT.

The smallest and largest group in which the results of the company are consolidated is that headed by its ultimate parent undertaking, General Electric Company, a company registered at 41 Farnsworth Street, Boston, Massachusetts, 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.