

International Military Services Limited

(Registered Number: 924462)

Financial statements

For the year ended 31 December 2005



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COMPANIES HOUSE 21/09/2006

International Military Services Limited

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International Military Services Limited

Report of the directors for the year ended 31 December 2005

Review of business

The Company continues to have contractual supply commitments for the maintenance of defence and related equipment and is awaiting the resolution of certain outstanding contractual matters.

On 2 May 2001, an award of damages plus interest was made against the Company in connection with a contractual dispute with the Government of Iran. The Company is pursuing setting aside proceedings in the Netherlands in relation to this award.

The directors consider that there are reasonable grounds for believing that the setting aside proceedings will eventually be successful. However, in accordance with FRS 12 "Provisions and Contingent Liabilities", the directors have included in the attached financial statements a provision for the maximum amount which would be required to be paid to settle the matter in accordance with the award, should their appeal be unsuccessful.

The Company reached agreement with the Government of Iran, through a formal Consent Order, that payment of the Award will not be pursued until the outcome of the appeals process is known provided that a sum by way of security was paid into the UK High Court - this payment was made in December 2002.

In January 2005 a Dutch Supreme Court decision was made in favour of the Company in respect of a disputed construction contract also with the Government of Iran. Action is in hand to enforce this ruling and recover the sum due of £18.2m.

Once the above issues have been resolved, the intention is to liquidate the Company. Full provision for the costs directly associated with the Company's final closure is reflected in the attached financial statements, which are no longer prepared on a going concern basis.

Details of the Group's results are set out in the attached financial statements. The Group result after taxation for the year was a profit of £554,000 (2004: loss £283,000). The directors do not propose the payment of a dividend for 2005 (2004: nil).

The state of affairs of the Group is set out in the attached consolidated balance sheet and related notes, showing capital and reserves of £28,686,000 (2004:£28,132,000).

Directors

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

Sir Roger Jackling	Chairman (Appointed 21 July 2005)
Sir Kenneth Macdonald	Chairman (Resigned 20 July 2005)
Mr D G Jones	
Mr C T Sandars	

In accordance with the Company's Articles all the directors retire from office at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

No director has any beneficial interest in the share capital of the Company or of any other company within the Group.

International Military Services Limited

Report of the directors for the year ended 31 December 2005 (continued)

None of the directors has any beneficial interest, other than in the ordinary course of business, in any contract to which the Company was party during the year.

Creditor payment terms

The Company settles creditor invoices as they fall due based on the terms of the invoice.

Charitable donations

Charitable donations in the year amounted to Nil (2004 nil).

Statement of directors' responsibilities

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

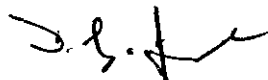
- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are both reasonable and prudent
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare 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 that disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

PricewaterhouseCoopers LLP have expressed their willingness to be re-appointed as auditors and a resolution for their re-appointment will be proposed at the Annual General Meeting.

By order of the Board



D G Jones
Secretary

27 April 2006

Registered Office:
King's Scholars House
230 Vauxhall Bridge Road
London SW1V 1AU

International Military Services Limited

Independent auditors' report to the shareholders of International Military Services Limited

We have audited the group and parent company financial statements (the "financial statements") of International Military Services Limited for the year ended 31 December 2005 which comprise the Group Profit and Loss Account and the Group and Company Balance Sheets and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with the applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 group's and 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.

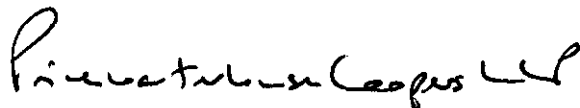
International Military Services Limited

Independent auditors' report to the shareholders of International Military Services Limited (Continued)

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
27 April 2006

1 Embankment Place
London
WC2N 6RH

International Military Services Limited

Consolidated profit and loss account for the year ended 31 December 2005

	Note	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Turnover		-	-
Cost of sales		(1)	(1)
Gross loss		<u>(1)</u>	<u>(1)</u>
Administrative expenses	3	(593)	(1,408)
Operating loss		<u>(594)</u>	<u>(1,409)</u>
Interest receivable and similar income		1,359	1,272
Profit/(loss) before tax	3	<u>765</u>	<u>(137)</u>
Taxation on profit/(loss) on ordinary activities	5	(211)	(146)
Profit/(Loss) for the financial year		<u>554</u>	<u>(283)</u>
Profit and loss account brought forward		8,132	8,415
Profit and loss account carried forward		<u><u>8,686</u></u>	<u><u>8,132</u></u>

There were no recognised gains and losses other than the profit/(loss) for the year in both the current and previous year.

There is no difference between the result for the period stated above and the result on an historical cost basis.

All results are derived from discontinuing operations.

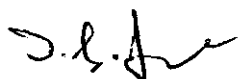
The notes on pages 7 to 14 form part of these financial statements.

International Military Services Limited

Consolidated balance sheet as at 31 December 2005

	Note	2005 £'000	2004 £'000
Fixed tangible assets	7	-	-
Current assets			
Debtors	8	431,631	414,908
Investments	9	28,992	28,973
Cash at bank and in hand		20	8
		<u>460,643</u>	<u>443,889</u>
Creditors - amounts falling due within one year	10	(336)	(518)
Net current assets		<u>460,307</u>	<u>443,371</u>
Total assets less current liabilities		460,307	443,371
Provisions for liabilities and charges	12	(431,621)	(415,239)
Net assets		<u>28,686</u>	<u>28,132</u>
Capital and reserves			
Called up share capital	13	20,000	20,000
Profit and loss account		8,686	8,132
Shareholders' funds	17	<u>28,686</u>	<u>28,132</u>

Approved by the Board on 27 April 2006 and signed on its behalf by:



D G Jones

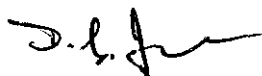
The notes on pages 7 to 14 form part of these financial statements

International Military Services Limited

Company balance sheet as at 31 December 2005

	Note	2005 £'000	2004 £'000
Fixed assets			
Tangible assets	7	-	-
Investments in subsidiary undertakings	14	-	-
		<u>-</u>	<u>-</u>
Current assets			
Debtors	8	431,631	414,908
Investments	9	28,992	28,973
Cash at bank and in hand		20	8
		<u>460,643</u>	<u>443,889</u>
Creditors - amounts falling due within one year	10	(335)	(517)
Net current assets		<u>460,308</u>	<u>443,372</u>
Total assets less current liabilities		460,08	443,372
Provisions for liabilities and charges	12	(431,621)	(415,239)
Net assets		<u>28,687</u>	<u>28,133</u>
Capital and reserves			
Called up share capital	13	20,000	20,000
Profit and loss account		8,687	8,133
Shareholders' funds	17	<u>28,687</u>	<u>28,133</u>

Approved by the Board on 27 April 2006 and signed on its behalf by:



D G Jones

The notes on pages 7 to 14 form part of these financial statements.

International Military Services Limited

Notes to the financial statements for the year ended 31 December 2005

1. Accounting policies

The principal accounting policies adopted by the Group are as follows:

Accounting convention

The financial statements have been prepared in accordance with the historical cost convention and in accordance with applicable accounting standards. The financial statements have not been prepared on a going concern basis as the decision has been taken to liquidate the Company once its remaining trading and contractual commitments have been completed. Provisions have been made for one-off closure costs, and professional fees in winding up the Company. (See note 12). Provision has not been made for future operating costs as these will be met out of income on investments.

Profit on long term contracts

Profit is taken on each long term contract as a proportion, based on the degree of performance in terms of turnover, of the latest estimate of the profit on completion. Profits relating to price variation claims are recognised in the same period as the related base price turnover. The profit estimates are based on the best information at the time the financial statements are prepared but necessarily involve considerable forecasting of future events. Full provision is made for anticipated future losses.

Turnover

Turnover represents the contract value, estimated where necessary, of goods and services supplied and fees chargeable during the period.

Cost of sales

"Cost of sales" represents all direct contract related costs, including distribution, together with the direct costs associated with staff responsible for operating contracts. Distribution costs, which mainly comprise freight charges, are all directly associated with particular contracts and are recovered as part of the contract sales prices. Accordingly, these costs are regarded as a cost of sales.

Administrative expenses

"Administrative expenses" represent all indirect overheads, including corporate management, accounting, legal, secretarial and office services functions and the cost of premises.

Interest receivable and similar income

This includes interest receivable and similar income and exchange gains and losses. These are recognised in the period in which they arise.

Amounts received in advance under contracts

Receipts from customers under the terms of contracts but in advance of contract performance are regarded as current items since in the normal course of business they will be settled by contract performance and not repayment.

International Military Services Limited

Notes to the financial statements for the year ended 31 December 2005 (continued)

1. Accounting policies (continued)

Foreign currencies

Foreign currency transactions are translated into sterling at the rate ruling when they take place, except for transactions subject to currency hedging arrangements which are accounted for at the rates implicit in the related hedge transactions. Assets and liabilities, except for amounts, matched by, or forming part of, hedging arrangements are accounted for at the exchange rate ruling at the balance sheet date and resulting differences are recognised in the profit and loss account.

Deferred taxation

Deferred tax is recognised in respect of timing differences that have originated but not reversed by the balance sheet date, but only when transactions or events that result in a right to pay less tax or an obligation to pay more tax in the future have occurred at the balance sheet date. The likelihood of these rights or obligations arising is based on the estimated probabilities of future events occurring. Deferred tax is measured on a non-discounted basis.

Tangible assets

All tangible assets are depreciated in full.

Leases

Rentals under operating leases are charged to the profit and loss account as incurred over the lease term.

Cash flow statement

The Group has claimed exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (Revised 1996) as it qualifies as a small company under the criteria of Section 246 of the Companies Act 1985.

2. Liabilities and provisions relating to contracts with the Government of Iran

On 2 May 2001, an award of damages plus interest was made against the Company in connection with a contractual dispute with the Government of Iran. The Company is pursuing setting aside proceedings in the Netherlands in relation to this award.

The directors consider that there are reasonable grounds for believing that the setting aside proceedings will eventually be successful. However, in accordance with FRS 12 "Provisions and Contingent Liabilities", the directors have included in the attached financial statements a provision for the maximum amount which would be required to be paid to settle the matter in accordance with the award, should their appeal be unsuccessful (see notes 8 and 12). This provision includes interest calculated up to 31 December 2005. The Company reached agreement with the Government of Iran, through a formal Consent Order, that payment of the Award will not be pursued until the outcome of the appeals process is known provided that a sum by way of security was paid into the UK High Court. This payment was made in December 2002.

Future costs in connection with the dispute will be met out of the Company's future resources. An increase in the amount required to settle the award in excess of the provision will result in a corresponding increase in the payment by the Company's shareholder and sub-contractor. Any funds remaining in Court after settlement of the Award will be returned to the shareholder and sub-contractor.

International Military Services Limited

Notes to financial statements for the year ended 31 December 2005 (continued)

3. Operating profit and profit on ordinary activities before taxation

	2005 £'000	2004 £'000
Profit on ordinary activities before taxation is stated after charging:		
Wages and salaries	49	47
Social security costs	4	4
Operating lease rentals - land and buildings	82	82
- plant and machinery	<u>1</u>	<u>1</u>
Administration expenses	963	1,408
Release of provision against arbitration costs	<u>(370)</u>	<u>-</u>
	<u>593</u>	<u>1,408</u>
Fees paid to auditors comprise:		
Audit fees	11	10
Non-audit fees	<u>4</u>	<u>4</u>

4. Emoluments of directors

The emoluments of the directors were as follows:

	2005 £'000	2004 £'000
Fees as directors	28	27
Emoluments for management services	21	20
Aggregate emoluments	<u>49</u>	<u>47</u>

International Military Services Limited

Notes to the financial statements for the year ended 31 December 2005 (continued)

5. Taxation on profit on ordinary activities

	2005 £'000	2004 £'000
Corporation tax on the profit for the year:		
Current at 30% (2004: 30%)	210	150
Deferred (note 12)	1	(1)
	<u>211</u>	<u>149</u>
Prior year adjustment	-	(3)
	<u>211</u>	<u>146</u>

The tax for the period is lower (2004: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2005 £'000	2004 £'000
Profit/(Loss) before tax	<u>765</u>	<u>(137)</u>
Profit/(Loss) before tax multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	230	(41)
Expenses not deductible for tax purposes	-	216
Prior year adjustment	-	(3)
Small companies marginal relief	(19)	(26)
	<u>211</u>	<u>146</u>

6. Profit and loss account

International Military Services Limited has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The amount of the consolidated result for the year dealt with in the accounts of the holding company was a profit of £554,000 (2004: loss of £283,000).

7. Tangible assets

All tangible assets, cost £32,000 (2004: £32,000) have been depreciated in full. The net realisable value at 31 December 2005 and 31 December 2004 was nil.

There was no capital expenditure authorised and contracted but not provided for at 31 December 2005 (2004: nil).

International Military Services Limited

Notes to the financial statements for the year ended 31 December 2005 (continued)

8. Debtors

	Group		Company	
	31 December 2005	31 December 2004	31 December 2005	31 December 2004
	£'000	£'000	£'000	£'000
Interest receivable	4,378	4,465	4,378	4,465
Other debtors	427,219	410,409	427,219	410,409
Prepayments and accrued income	34	34	34	34
	<u>431,631</u>	<u>414,908</u>	<u>431,631</u>	<u>414,908</u>

Other debtors comprise primarily amounts paid into the UK High Court as a security deposit against the company's potential liabilities in relation to the disputed contracts (see note 2) and interest thereon. In the event that the award against the company is set aside or reduced, amounts already paid by the subcontractor and shareholder will become repayable and the corresponding provision for the liability will reduce (see note 12). In the event that the company is unsuccessful in setting aside the award then the security deposit will be used in settlement of the company's liability (see note 12).

9. Investments

	Group		Company	
	31 December 2005	31 December 2004	31 December 2005	31 December 2004
	£'000	£'000	£'000	£'000
Short term deposits with local authorities and public utilities	19,054	28,100	19,054	28,100
Other short term deposits	9,938	873	9,938	873
	<u>28,992</u>	<u>28,973</u>	<u>28,992</u>	<u>28,973</u>

No listed securities were held at 31 December 2005 and 31 December 2004.

10. Creditors: amounts falling due within one year

	Group		Company	
	31 December 2005	31 December 2004	31 December 2005	31 December 2004
	£'000	£'000	£'000	£'000
Trade creditors	54	82	53	81
Corporation tax	210	150	210	150
Accruals & deferred income	70	284	70	284
Social Security and payroll taxation balances	2	2	2	2
	<u>336</u>	<u>518</u>	<u>335</u>	<u>517</u>

International Military Services Limited

Notes to the financial statements for the year ended 31 December 2005 (continued)

11. Operating lease commitments

Annual commitments under non-cancellable operating leases, analysed over the periods in which they expire, were as follows:

	31 December 2005		31 December 2004	
	Land and Buildings £'000	Plant and Machinery £'000	Land and Buildings £'000	Plant and Machinery £'000
Between two and five years	<u>82</u>	<u>1</u>	<u>82</u>	<u>1</u>

12. Provision for liabilities and charges

	Group		Company	
	31 December 2005 £'000	31 December 2004 £'000	31 December 2005 £'000	31 December 2004 £'000
Deferred taxation (see below)	6	5	6	5
Provisions relating to contracts	431,515	415,134	431,515	415,134
Provision for closure costs	100	100	100	100
	<u>431,621</u>	<u>415,239</u>	<u>431,621</u>	<u>415,239</u>

Information relating to the major contract provisions is given in note 2 and note 8. The timing of settlement will depend upon the resolution of the setting aside proceedings in the Netherlands. The provision includes interest earned on the security deposit, which if not needed to meet any potential increases in the amount of the award, will ultimately be repayable to the sub-contractor and shareholder.

Movements on contract provisions:

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Provisions brought forward	415,134	398,857	415,134	398,857
Provision relating to contracts (note 2)	16,381	16,277	16,381	16,277
Provisions carried forward	<u>431,515</u>	<u>415,134</u>	<u>431,515</u>	<u>415,134</u>

International Military Services Limited

Notes to the financial statements for the year ended 31 December 2005 (continued)

Deferred taxation:

	Group and Company	
	2005	2004
	£'000	£'000
Contract profits	8	8
Tangible assets	(2)	(3)
	<u>6</u>	<u>5</u>

Provision for deferred taxation for the Group represents estimated future tax on all items of income and expenditure which are recognised for tax purposes in periods different from those used for accounting purposes at the tax rate of 30% (2004: 30%)

13. Called up share capital

	Group and Company	
	2005	2004
	£'000	£'000
Authorised, allotted and fully paid:		
Ordinary shares of £1 each	20,000	20,000

14. Subsidiary undertakings

The Company owns all the ordinary share capital of the following subsidiary undertaking:

IMS (Iran) Limited

The subsidiary undertaking is incorporated in England and is now dormant.

15. Ownership of share capital

The share capital is beneficially owned by the Secretary of State for Defence.

16. Employees

During the year ended 31 December 2005 the Group had an average of 3 employees (2004: 3). At 31 December 2005 the Group had 3 employees (2004: 3) based in the UK.

17. Reconciliation of movements in shareholders' funds

	Group		Company	
	31 December	31 December	31 December	31 December
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Profit(Loss) for the financial year	554	(283)	554	(283)
Opening shareholders' funds	28,132	28,415	28,133	28,416
	<u>28,686</u>	<u>28,132</u>	<u>28,687</u>	<u>28,133</u>

18. Related Party Transactions

The only related party is the UK Ministry of Defence. No transactions have been made with the UK MOD in the financial year.