

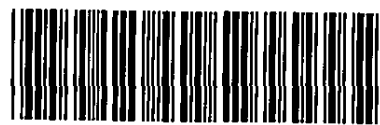
International Military Services Limited

(Registered Number: 924462)

Annual Report and Financial Statements

For the year ended 31 December 2009

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International Military Services Limited

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International Military Services Limited

Directors Report for the year ended 31 December 2009

Business review and principal activities

The Company is still 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 has been pursuing setting aside proceedings in the Netherlands in relation to this award.

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 sufficient to meet the Award by way of security was paid into the UK High Court - this payment was made in December 2002.

In December 2006, the Dutch Appeal Court set aside a relatively small part of the 2001 award. The Company was dissatisfied with the size of the reduction and as a consequence submitted a further appeal to the Dutch Supreme Court in April 2008. This appeal was rejected, as was a counter appeal by the Iranian authorities, on 24 April 2009. A number of issues now need to be resolved in the UK Courts before final settlement, which itself will be caught by the current sanctions imposed on Iran, can be made.

In accordance with FRS 12 "Provisions and Contingent Liabilities", the Directors have included in the attached financial statements a provision sufficient to meet the sums due under the Supreme Court ruling. Company funds will be sufficient to meet the legal and other costs associated with the further litigation.

The Directors do not believe that there are any risks and uncertainties facing the Company, other than those disclosed above.

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 £20.1m.

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.

Results and dividends

Details of the Company's results are set out in the attached financial statements. The results after taxation for the year was a loss of £253,000 (2008: profit £589,000). The directors do not propose the payment of a dividend for 2009 (2008: nil).

The state of affairs of the Company is set out in the attached balance sheet and related notes, showing capital and reserves of £30,252,000 (2008: £30,505,000).

International Military Services Limited

Directors Report for the year ended 31 December 2009 (continued)

Directors

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

Sir Roger Jackling (Chairman)
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

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 (2008 £nil)

Statement of directors' responsibilities

The directors are responsible for preparing the Directors 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary

International Military Services Limited

Directors Report for the year ended 31 December 2009 (continued)

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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to Auditors

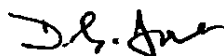
Each of the persons who is a director at the date of approval of this report confirms that

- (1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (2) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

The 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
Company Secretary

19 May 2010

Registered Office
St George's Court
2nd Floor, Zone E
2 – 12 Bloomsbury Way
London WC1A 2SH

International Military Services Limited

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

We have audited the financial statements of International Military Services Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 2 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

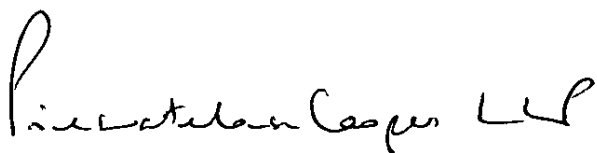
Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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

**Independent auditors' report to the members of International Military Services Limited
(continued)**

- 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, or
- the directors were not entitled to prepare financial statements and the directors' report in accordance with the small company regime



Clifford Tompsett (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

19 May 2010

International Military Services Limited

Company profit and loss account for the year ended 31 December 2009

	Note	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Turnover		-	-
Cost of sales		-	-
Gross profit		-	-
Administrative expenses	3	(527)	(727)
Operating loss		(527)	(727)
Interest receivable and similar income		182	1,523
(Loss)/Profit on ordinary activities before taxation	3	(345)	796
Tax (credit)/charge on (loss)/profit on ordinary activities	6	(92)	207
(Loss)/Profit for the financial year		(253)	589

There were no recognised gains and losses other than the loss for the current year and profit for the previous year and therefore no separate statement of total recognised gains and losses is presented

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 8 to 13 form part of these financial statements

International Military Services Limited

Company balance sheet as at 31 December 2009

	Note	2009 £'000	2008 £'000
Fixed assets			
Tangible assets	7	-	-
Current assets			
Debtors	8	492,075	486,065
Investments	9	30,017	30,535
Cash at bank and in hand		7	26
		<u>522,099</u>	<u>516,626</u>
Creditors - amounts falling due within one year	10	(49)	(287)
Net current assets		<u>522,050</u>	<u>516,339</u>
Total assets less current liabilities		522,050	516,339
Provisions for liabilities and charges	12	(491,798)	(485,834)
Net assets		<u>30,252</u>	<u>30,505</u>
Capital and reserves			
Called up share capital	13	20,000	20,000
Profit and loss account		10,252	10,505
Shareholders' funds	15	<u>30,252</u>	<u>30,505</u>

The financial statements on pages 6 to 13 were approved by the Board on 19 May 2009 and signed on its behalf by:



D G Jones

The notes on pages 8 to 13 form part of these financial statements

International Military Services Limited

Notes to the financial statements for the year ended 31 December 2009

1. Accounting policies

The principal accounting policies adopted by the Company are as follows

Basis of preparation

The financial statements have been prepared in accordance with the historical cost convention and in accordance with applicable accounting standards. Group accounts are no longer prepared. 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 11). Provision has not been made for future operating costs as these will be met out of Company resources.

The principal accounting policies which have been applied consistently throughout the year, are set out below

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.

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.

Leases

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

Cash flow statement

The Company 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 444 of the Companies Act 2006.

Notes on the financial statements for the year ended 31 December 2009 (continued)

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 has been pursuing setting aside proceedings in the Netherlands in relation to this award.

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 sufficient to meet the Award by way of security was paid into the UK High Court. This payment was made in December 2002.

In December 2006, the Dutch Appeal Court set aside a relatively small part of the 2001 award. The Company was dissatisfied with the size of the reduction and as a consequence submitted an appeal to the Dutch Supreme Court in April 2008. This appeal was rejected on 24 April 2009. A number of issues now need to be resolved in the UK Courts before final settlement, which itself will be caught by the current sanctions imposed on Iran, can be made.

In accordance with FRS 12 "Provisions and Contingent Liabilities", the directors have included in the attached financial statements a provision which more than covers the sum awarded by the Dutch Supreme Court (see notes 7 and 11). This provision includes interest calculated up to 31 December 2009.

Company funds will be sufficient to meet the legal and other costs associated with the extended period of litigation.

Future costs in connection with the dispute will be met out of the Company's resources. Funds remaining in Court after settlement of the Award will be returned to the shareholder and sub-contractor.

3. Operating profit and profit on ordinary activities before taxation

	2009 £'000	2008 £'000
Profit on ordinary activities before taxation is stated after charging		
Wages and salaries	53	53
Social security costs	5	5
Staff costs	58	58
Operating lease rentals – other	61	62
- plant and machinery	-	-
Fees paid to auditors comprise		
Audit fees	13	13
Fees payable for other services – tax compliance	6	6
- Professional advice	5	-

International Military Services Limited

Notes to financial statements for the year ended 31 December 2009 (continued)

4. Directors emoluments

The emoluments of the directors were as follows

	2009 £'000	2008 £'000
Fees as directors	30	30
Emoluments for management services	23	23
Aggregate emoluments	<u>53</u>	<u>53</u>
Highest paid Director	<u>33</u>	<u>33</u>

5. Employees

During the year ended 31 December 2009 the Company had 3 employees (2008 3) At 31 December 2009 the Group had 3 employees (2008 3) based in the UK

6. Taxation on (loss)/profit on ordinary activities

	2009 £'000	2008 £'000
Corporation tax on the (loss)/profit for the year		
Current Tax:		
UK corporation tax on (loss)/profits for the period at 28% (2008 28.5%)	(92)	213
Prior year adjustment	-	(7)
Total current tax	<u>(92)</u>	<u>206</u>
Deferred taxation (note 8)	-	1
Tax on (loss)/profit on ordinary activities	<u>(92)</u>	<u>207</u>

The tax for the period is lower (2008.lower) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2009 of 28% (2008. 28.5%) The differences are explained below

	2009 £'000	2008 £'000
(Loss)/Profit on ordinary activities before tax	<u>(345)</u>	<u>796</u>
(Loss)/Profit on ordinary activities before tax multiplied by by standard rate of corporation tax in the UK of 28% (2008 28.5%)	(96)	227
Adjustments to tax charge in respect of prior year	-	(7)
Small companies marginal relief	4	(14)
Current tax (credit)/charge for the period	<u>(92)</u>	<u>206</u>
Factors that may affect future tax charges		

The standard rate of Corporation Tax in the UK changed to 28% with effect from 01 April 2008

International Military Services Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

7. Tangible assets

All tangible assets were scrapped and disposed off at nil value prior to the office relocation to furnished accommodation in 2007

There was no capital expenditure authorised and contracted but not provided for at 31 December 2009 (2008 nil)

8. Debtors

	31 December 2009 £'000	31 December 2008 £'000
Interest receivable	9	54
Other debtors	491,959	485,995
Corporation tax	92	-
Deferred tax	1	1
Prepayments and accrued income	14	15
	<hr/>	<hr/>
	492,075	486,065
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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. The security deposit will be used in settlement of the company's liability (see note 11) and surplus funds returned to the shareholder and sub-contractor.

Deferred taxation

	2009 £'000	2008 £'000
Tangible assets	(1)	(1)
	<hr/>	<hr/>
	(1)	(1)
	<hr/>	<hr/>

Provision for deferred tax balances for the Company 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 28% (2008: 28%)

Movement on deferred taxation

	2009 £'000
Opening balance	(1)
	<hr/>
Closing balance	(1)
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International Military Services Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

9. Investments

	31 December 2009 £'000	31 December 2008 £'000
Short term deposits and liquid investments	30,017	30,535
	<u>30,017</u>	<u>30,535</u>

No listed securities were held at 31 December 2009 and 31 December 2008

10. Creditors: amounts falling due within one year

	31 December 2009 £'000	31 December 2008 £'000
Trade creditors	13	20
Corporation tax	-	213
Accruals & deferred income	34	52
Social Security and payroll taxation balances	2	2
	<u>49</u>	<u>287</u>

11. Operating lease commitments

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

	<u>Land and Buildings</u>	
	31 December 2009 £'000	31 December 2008 £'000
Less than one year	61	60
Between two and five years	-	-
	<u>61</u>	<u>60</u>

In January 2007, a lease was entered into with the company's shareholder and subcontractor, the UK Ministry of Defence. This lease may be terminated at three months notice by either party. A total of £61,683 was paid to the UK Ministry of Defence during the year, of which £14,225 is recorded as a rent prepayment.

International Military Services Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

12. Provision for liabilities and charges

	31 December 2009 £'000	31 December 2008 £'000
Provisions relating to contracts	491,768	485,804
Provision for closure costs	30	30
	<u>491,798</u>	<u>485,834</u>

Information relating to the major contract provisions is given in note 2 and note 7. The timing of settlement will depend upon the finalisation of enforcement proceedings in the UK Courts. The provision includes interest earned on the security deposit, the surplus ultimately being repayable to the sub-contractor and shareholder.

Movements on contract provisions

	2009 £'000	2008 £'000
Provisions brought forward	485,804	466,829
Provision relating to contracts (note 2)	5,964	18,975
Provisions carried forward	<u>491,768</u>	<u>485,804</u>

13. Called up share capital

	2009 £'000	2008 £'000
Authorised, allotted and fully paid Ordinary shares of £1 each	<u>20,000</u>	<u>20,000</u>

14. Ownership of share capital

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

15. Reconciliation of movements in shareholders' funds

	31 December 2009 £'000	31 December 2008 £'000
(Loss)/Profit for the financial year	(253)	589
Opening shareholders' funds	<u>30,505</u>	<u>29,916</u>
Closing shareholders' funds	<u>30,252</u>	<u>30,505</u>

16. Related Party Transactions

The only related party is the UK Ministry of Defence (UK MOD). Transactions with the UK MOD are disclosed in these accounts.