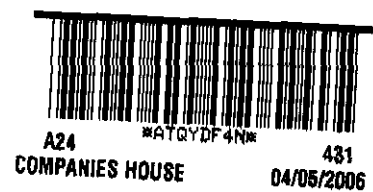


RTS Innovation Limited

Directors' report and financial
statements

Registered number 4109440

31 December 2005



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Directors' report

The directors present their annual report together with the audited financial statements for the year ended 31 December 2005.

Results and dividends

The profit and loss account is set out on page 6 and shows the result for the year.

An interim dividend of £2,000,000 has been paid during the year (2004: £nil). The directors do not recommend the payment of a final dividend.

Principal activities, review of business and future developments

The company's principal activity is nuclear engineering with particular emphasis on decommissioning.

The directors are satisfied with the results for the year and believe further progress can be achieved during the current period.

The company's ultimate parent company, Robotic Technology Systems PLC, announced on 29 March 2006 that it intends to demerge RTS Innovation Limited by means of an exempt distribution, creating International Nuclear Solutions PLC, which will apply to be quoted on AIM.

Charitable and political contributions

During the year the company made charitable donations of £350 (2004: £300) and no political contributions (2004: £nil).

Directors and directors' interests

The directors who served during the year and their beneficial interests in the ordinary share capital of the ultimate parent company, Robotic Technology Systems PLC, were as follows:

	Option price pence	Number of share options held	
		31 December 2005	1 January 2005
P B Johnson <i>(resigned 6 December 2005)</i>	160	-	40,000
	160	120,000	120,000
	95.5	494,000	494,000
	32	100,000	100,000
A Moore	160	-	9,000
	107	30,000	30,000
	32	50,000	50,000
S J McGowan	160	-	9,000
	107	30,000	30,000
	32	50,000	50,000
G J Mellor	160	-	9,000
	93	15,000	15,000
	32	15,000	15,000
D Kirk	-	-	-
J E Hewitt	592	20,000	20,000
	107	10,000	10,000

The directors have no other interest required to be disclosed under Schedule 7 of the Companies Act 1985.

During the year under review the following share options lapsed:

- Options over 40,000 ordinary shares @ 160p per share granted to Mr Johnson
- Options over 9,000 ordinary shares @ 160p per share granted to Mr Moore
- Options over 9,000 ordinary shares @ 160p per share granted to Mr McGowan
- Options over 9,000 ordinary shares @ 160p per share granted to Mr Mellor

Directors' report *(continued)*

In addition, since the end of the year options over a further 120,000 ordinary shares @ 160p per share granted to Mr Johnson have lapsed.

Auditors

In accordance with Section 384 of the Companies Act 1985 a resolution for the reappointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board


G J Mellor
Director

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 elected to prepare the company financial statements in accordance with UK Accounting Standards.

The company financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss for that period.

In preparing these financial statements, the directors are required to:

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

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

The directors' are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

ABCD

KPMG Audit Plc

St James' Square
Manchester
M2 6DS
United Kingdom

Report of the independent auditors to the members of RTS Innovation Limited

We have audited the company financial statements (the "financial statements") of RTS Innovation Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

**Independent auditors' report to the members of Robotic Technology Systems
PLC** *(continued)*

Opinion

In our opinion:

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

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

20 April 2006

Profit and loss account

for the year ended 31 December 2005

	<i>Note</i>	2005 £'000	2004 £'000
Turnover	2	24,610	24,772
Cost of sales		(19,823)	(20,646)
Gross profit		4,787	4,126
Administrative expenses		(2,549)	(2,987)
Operating profit	3	2,238	1,139
Interest receivable	6	15	6
Interest payable	7	(1)	-
Profit on ordinary activities before taxation		2,252	1,145
Taxation on profit on ordinary activities	8	(303)	104
Profit on ordinary activities after taxation for the year	14	1,949	1,249

All amounts relate to continuing activities.

All recognised gains and losses in the current and prior year are included in the profit and loss account.

The notes on pages 8 to 15 form part of these financial statements.

Balance sheet
at 31 December 2005

	<i>Note</i>	2005	2004
		£'000	£'000
Fixed assets			
Tangible assets	10	66	106
Current assets			
Debtors	11	10,872	8,250
Cash at bank and in hand		364	2,150
		11,236	10,400
Creditors: amounts falling due within one year	12	(8,871)	(8,024)
Net current assets		2,365	2,376
Net assets		2,431	2,482
Capital and reserves			
Called up share capital	13	-	-
Profit and loss account	14	2,431	2,482
Equity shareholder's funds		2,431	2,482

These financial statements were approved by the board of directors on 20th April 2006 and were signed on its behalf by:


G J Mellor
Director

The notes on pages 8 to 15 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The following principal accounting policies have been applied.

Cash flow statement

The company has taken advantage of the exemption conferred by Financial Reporting Standard 1 'Cash Flow Statements (Revised 1996)' not to prepare a cash flow statement on the grounds that at least 90% of the voting rights in the company are controlled within the group headed by Robotic Technology PLC and the company is included in the consolidated financial statements.

Basis of preparation

The directors have prepared the financial statements on a going concern basis.

Turnover

Net sales are derived from the design and installation of equipment and systems and the provision of design services, either under fixed price contracts or reimbursable contracts. Revenue is recognised on long-term contracts as a proportion of the total contract value on a percentage of cost complete basis. Net sales are also derived from maintenance contracts and are recognised on a time apportioned basis. All sales are stated net of sales related taxes.

Pre-contract costs

Pre-contract costs are recognised as expenses as incurred and charged to the profit and loss account.

Tangible fixed assets

Depreciation is provided to write-off the cost or valuation, less the estimated residual value, of all fixed assets on a straight line basis, except freehold land, over their expected useful economic lives. It is calculated at the following annual rates.

Plant and machinery	- 20%
Office equipment	- 20%

Warranty provisions

Provisions for warranty costs are based upon estimates of liabilities expected to arise and are accrued throughout the life of each relevant contract. Warranty costs incurred are then charged against the provision.

Deferred taxation

Deferred taxation is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or rights to pay less tax in the future, have occurred by the balance sheet date.

In considering whether deferred tax assets should be recognised, the directors form a judgement as to recoverability.

Deferred tax is calculated using the rates of tax that have been enacted by the balance sheet date.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated to sterling at the rates of exchange at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

Notes (continued)

1 Accounting policies (continued)

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is calculated as the cost of materials, direct labour and appropriate production overheads. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Long-term contracts

Amounts recoverable on long-term contracts are stated at cost plus attributable profits, less provision for any known or anticipated losses and payments on account, and are included in debtors. Payments on account in excess of amounts recoverable on long-term contracts are included in creditors.

Lease and hire purchase contracts

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account over the period of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital element reduces the amounts payable to the lessor.

Hire purchase contracts are treated identically to finance leases. All other leases are treated as operating leases. Rentals due under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

Pension costs

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable.

Financial Instruments

The company does not hold or issue derivative financial instruments for trading purposes.

The company has not adopted amendments to Financial Reporting Standard 26 in relation to financial guarantee contracts which will apply for periods commencing on or after 1 January 2006. Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements, and accounts for them as such. In this respect, the company treats the guarantee as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee. The company does not expect the amendments to Financial Reporting Standard 26 to have any impact on the financial statements for the period commencing 1 January 2006.

Notes (continued)

2 Turnover

	2005 £'000	2004 £'000
<i>Analysis by geographical market:</i>		
United Kingdom	24,610	24,768
Rest of the world	-	4
	<u>24,610</u>	<u>24,772</u>

Turnover is wholly attributable to the principal activity of the company.

The directors have taken advantage of the exemption provided by Statement of Standard Accounting Practice 25 paragraph 43, from disclosing operating profit before interest and tax and net assets attributable to each class of business and area on the basis that it would be seriously prejudicial to the interests of the company.

3 Operating profit

	2005 £'000	2004 £'000
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Hire of other assets – operating leases	56	43
Depreciation of tangible fixed assets	52	51
Auditor's remuneration	15	15
	<u> </u>	<u> </u>

4 Staff numbers and costs

The aggregate payroll costs of these persons were as follows:

	2005 £'000	2004 £'000
Wages and salaries	3,502	2,982
Social security costs	402	338
Other pension and healthcare costs	120	93
	<u>4,024</u>	<u>3,413</u>

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

	Number of employees	
	2005	2004
Administration	17	9
Engineering specialists	81	75
	<u>98</u>	<u>84</u>

Notes *(continued)*

5 Remuneration of directors

	2005 £'000	2004 £'000
Directors' emoluments	456	360
Company contributions to money purchase pension schemes	9	8
	<u> </u>	<u> </u>

There were 5 directors in the company's defined contribution pension scheme during the current year (2004: 2).

6 Interest receivable

	2005 £'000	2004 £'000
Bank interest receivable	15	6
	<u> </u>	<u> </u>

7 Interest payable

	2005 £'000	2004 £'000
Bank interest payable	(1)	-
	<u> </u>	<u> </u>

Notes (continued)

8 Taxation on profit on ordinary activities

	2005 £'000	2004 £'000
<i>Current tax</i>		
UK corporation tax on profits of the year	300	-
Adjustments in relation to prior periods	-	(74)
	<hr/>	<hr/>
Total current tax	300	(74)
<i>Deferred tax</i>		
Origination and reversal of timing differences	1	6
Adjustment in respect of prior periods	2	(36)
	<hr/>	<hr/>
Taxation on profit on ordinary activities	303	(104)
	<hr/>	<hr/>

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2004: lower) than the standard rate of corporation tax in the UK (30%, 2004: 30%). The differences are explained below:

	2005 £'000	2004 £'000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	2,252	1,145
	<hr/>	<hr/>
Current tax at 30% (2004: 30%)	676	343
<i>Effects of:</i>		
(Income not taxable)/Expenses not deductible for tax purposes	(49)	(48)
Capital allowances for period in excess of depreciation	(1)	(6)
Group relief for which no payment is made	(326)	(289)
Adjustments to tax charge in respect of previous periods	-	(74)
Other timing differences	-	-
	<hr/>	<hr/>
Total current tax charge (see above)	300	(74)
	<hr/>	<hr/>

At the year end the company has recognised a deferred tax asset of £32,000 (2004 – £35,000). This is made up of the following items:

	2005 £'000
Accelerated capital allowances	30
Short term timing differences	2
	<hr/>
	32
	<hr/>

Notes *(continued)*

9 Dividend paid

	2005 £'000	2004 £'000
Dividend paid	2,000	-

10 Tangible fixed assets

	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost			
At 1 January 2005	28	245	273
Additions	-	12	12
	<hr/>	<hr/>	<hr/>
At 31 December 2005	28	257	285
	<hr/>	<hr/>	<hr/>
Depreciation			
At 1 January 2005	21	146	167
Charge for the year	5	47	52
	<hr/>	<hr/>	<hr/>
At 31 December 2005	26	193	219
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 2005	2	64	66
	<hr/>	<hr/>	<hr/>
At 31 December 2004	7	99	106
	<hr/>	<hr/>	<hr/>

Notes (continued)

11 Debtors

	2005 £'000	2004 £'000
Trade debtors	2,387	3,747
Amounts recoverable on long term contracts	2,568	4,033
Amounts owed by group undertakings	5,705	398
Deferred tax recoverable	32	35
Prepayments and accrued income	173	37
Other debtors	7	-
	<hr/>	<hr/>
	10,872	8,250
	<hr/>	<hr/>

All amounts shown under debtors fall due for payment within one year.

12 Creditors: amounts falling due within one year

	2005 £'000	2004 £'000
Payments on account	23	-
Trade creditors	2,436	3,817
Amounts owed to group undertakings	3,936	370
Taxation and social security	364	574
Corporation tax	300	-
Accruals and deferred income	1,788	3,263
Other creditors	24	-
	<hr/>	<hr/>
	8,871	8,024
	<hr/>	<hr/>

13 Called up share capital

	2005 £'000	2004 £'000
<i>Authorised</i>		
Equity: 1,000 Ordinary shares of £1 each	1	1
	<hr/>	<hr/>
	£	£
<i>Allotted, called up and fully paid</i>		
Equity: 1 Ordinary shares of £1 each	1	1
	<hr/>	<hr/>

Notes (continued)

14 Reconciliation of movements in shareholders' funds

	2005 £'000	2004 £'000
Profit for the financial year	1,949	1,249
Dividend paid	(2,000)	-
	<hr/>	<hr/>
Net (reduction)/addition to shareholders' funds	(51)	1,249
Opening shareholders' funds	2,482	1,233
	<hr/>	<hr/>
Closing shareholders' funds	2,431	2,482
	<hr/>	<hr/>

15 Contingent liabilities

The company is party to composite guarantees in relation to the banking facilities of Robotic Technology Systems PLC and its subsidiary undertakings. At the year end there were no liabilities covered by these guarantees.

The company has provided a guarantee for liabilities arising under a United Kingdom VAT grouping with other fellow subsidiaries. At the year end the liabilities covered by this guarantee totalled £292,000 (2004: £493,000).

16 Pensions

The company 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 pension charge represents contributions payable by the company to the fund and amounted to £96,659 (2004: £74,933). There was £20,628 (2004: £16,635) due to the pension scheme at the year end. The average number of employees participating in the scheme during the year was 97 (2004: 88).

17 Related party disclosures

The company has taken advantage of the exemption conferred by Financial Reporting Standard 8 "Related party disclosures" not to disclose transactions with members of the group headed by Robotic Technology Systems PLC on the grounds that at least 90% of the voting rights in the company are controlled within that group and that the group is included in consolidated financial statements.

18 Ultimate parent company and parent undertaking of large group

The company's ultimate parent company is Robotics Technology Systems PLC and the immediate parent undertaking is RTS Thurnall (Holdings) PLC.

Copies of the consolidated financial statements of Robotic Technology Systems PLC are available from Companies House.

19 Post balance sheet events

The company's ultimate parent company, Robotic Technology Systems PLC, announced on 29 March 2006 that it intends to demerge RTS Innovation Limited by means of an exempt distribution, creating International Nuclear Solutions PLC, which will apply to be quoted on AIM.