INS Innovation Limited

Directors' report and financial statements

Registered number 4109440

15 Months ended 31 March 2008

Contents

Company information

Directors	A Moore S J McGowan G J Mellor P Brown K Thomas A Bethel
Secretary	S Billiald
Registered office	2 Cavendish Square London W1G 0PX
Registered number	4109440
Auditors	PricewaterhouseCoopers LLP Donington Court Pegasus Business Park Castle Donington DE74 2UZ
Bankers	Barclays Bank PLC Manchester City Office P O Box 357 51 Mosley Street Manchester M60 2AU

Directors' report

The directors present their annual report together with the audited financial statements for the 15 months ended 31 March 2008

New group structure

On 18 March 2008, the company was acquired by Babcock International Group PLC Following further restructuring, as of 31 March 2008 the company is a direct subsidiary of Alstec Group Limited

Results and dividends

The profit and loss account is set out on page 7 and shows the result for the period No dividends were paid during the period (year ended 31 December 2006 £1,964,311)
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 period and believe further progress can be achieved during the current period

A more comprehensive review of business and future developments, together with details of the group's key performance indicators and it policies regarding matters such as health and safety, risk management and research and development can be found in the Annual Review of Babcock International Group PLC, the parent company

Directors

The current directors of the company are set out on page 1 All of the directors served throughout the year with the exception of J Hewitt who resigned on 29 June 2007, P Brown who was appointed on 4 June 2007 and K Thomas and A Bethel who were both appointed on 18 March 2008

Directors' report *(continued)*

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

Disclosure of information to auditors

At the date of making this report each of the company's directors, as set out on page 1, confirm the following

- so far as each director is aware, there is no relevant information needed by the company's auditors in connection with preparing their report of which the company's auditors are unaware, and
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information

Directors' report *(continued)*

Charitable and political contributions

The company made a number of charitable contributions during the period, £1,500 to the Travellers Rest Supporters Club, £480 to Katie's Campaign, £350 to Cumbria Community Foundation, £288 to St Benedicts School, £250 to Cancer Research UK, £250 to St Rocco's Hospice, plus a further £250 split between a number of local charities (year ended 31 December 2006 - £300 to Cumbria Community Foundation and £50 to St Rocco's Hospice)
The company did not make any political contributions during the period (year ended 31 December 2006 - £nil)

Auditors

During the period RSM Robson Rhodes LLP resigned as auditors and Grant Thornton were appointed to fill the casual vacancy Subsequently Grant Thornton resigned as auditors and PricewaterhouseCoopers LLP were appointed to fill the casual vacancy A resolution to appoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the forthcoming annual general meeting

By order of the board

G J Mellor
Director

6 June 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INS INNOVATION LIMITED

We have audited the financial statements of INS Innovation Limited for the period ended 31 March 2008 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

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the financial statements in accordance with 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 INS INNOVATION 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 company's affairs as at 31 March 2008 and of its profit for the period then ended,

- the financial statements have been properly prepared in accordance with the Companies Act 1985, and

- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
East Midlands

7 *June 2008*

Profit and loss account
for the 15 months ended 31 March 2008

	Note	15 months ended 31 March 2008 £'000	12 months ended 31 December 2006 £'000
Turnover	2	**33,198**	31,745
Cost of sales		**(26,863)**	(26,007)
Gross profit		**6,335**	5,738
Distribution costs		**(380)**	(364)
Administrative expenses		**(3,922)**	(3,481)
Operating profit before exceptional charges		**2,033**	2,479
Exceptional administrative expenses included in administrative expenses above	6	-	(586)
Operating profit	3	**2,033**	1,893
Interest receivable		**115**	40
Interest payable		-	(2)
Profit on ordinary activities before taxation		**2,148**	1,931
Taxation on profit on ordinary activities	7	**(636)**	(671)
Profit on ordinary activities after taxation for the year	13	**1,512**	1,260

All amounts relate to continuing activities

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

There is no difference between the profit on ordinary activities before taxation and the profit for the period stated above, and their historical cost equivalents

The notes on pages 9 to 19 form part of these financial statements

Balance sheet
at 31 March 2008

	Note	**31 March 2008**		31 December 2006	
		£'000	**£'000**	£'000	£'000
Fixed assets					
Tangible assets	*9*		**1,123**		1,231
Current assets					
Debtors	*10*	**6,710**		7,348	
Cash at bank and in hand		**2,496**		2,684	
		9,206		10,032	
Creditors: amounts falling due within one year	*11*	**(7,090)**		(9,536)	
Net current assets			**2,116**		496
Net assets			**3,239**		1,727
Capital and reserves					
Called up share capital	*12*		**-**		-
Profit and loss account	*13*		**3,239**		1,727
Total shareholder's funds	*14*		**3,239**		1,727

The financial statements on pages 7 to 19 were approved by the board of directors on 6 June 2008 and were signed on its behalf by

G J Mellor
Director

The notes on pages 9 to 19 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 the Companies Act 1985 and applicable accounting standards in the United Kingdom

The principal accounting policies, which have been applied consistently, are

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 Babcock International Group 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

Employee share option schemes

The company operated an equity-settled share-based compensation plan in the shares of International Nuclear Solutions plc The fair value of the employee services received in exchange for the grant of share options is measured at grant date and recognised as an expense on a straight line basis over the vesting period, based on the company's estimate of shares that will eventually vest Fair value is determined by reference to the Binomial option pricing model in respect of the EMI scheme and the Black Scholes option pricing model in respect of the SAYE scheme

Tangible fixed assets

Depreciation is provided to write-off the cost, less estimated residual values, of all fixed assets on a straight line basis, over their expected useful economic lives Where there is evidence of impairment, fixed assets are written down to their recoverable amounts Depreciation is calculated at the following annual rates

Leasehold buildings	-	Over length of the lease
Fixtures, fittings and equipment	-	20%
Plant and machinery	-	20%

Notes *(continued)*

1 Accounting policies *(continued)*

Turnover

Sales are derived from the design and installation of equipment and systems and the provision of design services, either under fixed price or reimbursable contracts Revenue is recognised on long-term contracts as a proportion of the total contract value on a percentage of cost to complete basis 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

Deferred taxation

Deferred tax is provided on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future Timing differences arise because of differences in the treatment of certain items for accounting and taxation purposes

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date Deferred tax assets and liabilities are not discounted

Where law or accounting standards require gains and losses to be recognised in the statement of total recognised gains and losses, the related taxation is also taken directly to the statement

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)*

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

Leases

Leases are classified as finance leases wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee All other leases are classified as operating leases

Assets held under finance leases are recognised as assets in the balance sheet at their fair values or, if lower, at the present value of the minimum lease payments, both determined at the inception of the lease The corresponding obligation is recorded as finance lease obligations and presented within creditors Lease payments are apportioned between finance charges and a reduction of the lease obligation The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability

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

Research and development

Research and development expenditure is written off in the year in which it is incurred

Notes *(continued)*

2 Turnover

All turnover and profits are derived in the UK Turnover is wholly attributable to the principal activity of the company

3 Operating profit

	15 months ended 31 March 2008 £'000	12 months ended 31 December 2006 £'000
Operating profit is arrived at after charging:		
Rents payable under operating leases		
Hire of plant and machinery	**74**	61
Other	**433**	274
Depreciation of tangible fixed assets	**309**	240
Research and development	**31**	87
Auditor's remuneration		
Fees payable to the company's auditor for the audit of the financial statements	**15**	15
Services relating to corporate finance transactions	**28**	21

4 Staff numbers and costs

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

	Number of employees	
	15 months ended 31 March 2008	12 months ended 31 December 2006
Administration	**27**	24
Engineering specialists	**85**	87
	112	111

Notes *(continued)*

4 Staff numbers and costs *(continued)*

The aggregate payroll costs of these persons were as follows:

	15 months ended 31 March 2008 £'000	12 months ended 31 December 2006 £'000
Wages and salaries	**5,416**	4,008
Social security costs	**600**	451
Other pension and healthcare costs	**207**	143
	6,223	4,602

5 Remuneration of directors

	15 months ended 31 March 2008 £'000	12 months ended 31 December 2006 £'000
Directors' emoluments	**392**	305
Company contributions to money purchase pension schemes	**33**	12

Until 20 August 2007, A Moore, S McGowan and GJ Mellor were directors of International Nuclear Solutions plc, and their remuneration was borne by the ultimate parent company After this date, their remuneration was paid by INS Innovation Limited and is included in the figures shown above

There were 4 directors in the company's defined contribution pension scheme during the current year (year ended 31 December 2006 5) Until 20 August 2007, the pension payments for the three directors of International Nuclear Solutions plc were borne by the ultimate parent company

6 Operating exceptional items: Administrative expenses

	15 months ended 31 March 2008 £'000	12 months ended 31 December 2006 £'000
Costs in connection with the demerger from RTS	**-**	586

Notes *(continued)*

7 Taxation on profit on ordinary activities

	15 months ended 31 March 2008 £'000	12 months ended 31 December 2006 £'000
Current tax		
UK corporation tax - current year	**670**	666
- prior year adjustment	**(40)**	2
	630	668
Deferred tax		
Origination and reversal of timing differences	**6**	5
Adjustment in respect of prior periods	**-**	(2)
Taxation on profit on ordinary activities	**636**	671

Factors affecting the tax charge for the current period

The current tax charge for the period is lower *(year ended 31 December 2006 higher)* than the standard rate of corporation tax in the UK of 30%, *(year ended 31 December 2006 30%)* The differences are explained below

	15 months ended 31 March 2008 £'000	12 months ended 31 December 2006 £'000
Current tax reconciliation		
Profit on ordinary activities before taxation	**2,148**	1,931
Current tax at 30%	**644**	579
Effects of		
Expenses not deductible/(Income not taxable) for tax purposes	**32**	92
Capital allowances for period in excess of depreciation	**(6)**	(5)
Adjustment to tax charge in respect of previous periods	**(40)**	2
Total current tax charge (see above)	**630**	668

Notes *(continued)*

7 Taxation on profit on ordinary activities *(continued)*

At the period end the company has recognised a deferred tax asset of £23,000 (year ended 31 December 2006 – £29,000) (see note 10) This is made up of the following items

	15 months ended 31 March 2008 £'000	12 months ended 31 December 2006 £'000
Accelerated capital allowances	**20**	25
Short term timing differences	**3**	4
	23	29

Factors affecting the tax charge for future periods

The standard rate of Corporation Tax in the UK changes to 28% from 1 April 2008

The Group's activities involve project work which can give rise to Research and Development Tax Credit claims This can have the effect of reducing the effective tax rate in the future

8 Dividends paid

	15 months ended 31 March 2008 £'000	12 months ended 31 December 2006 £'000
Dividends paid	**-**	1,964

The dividends for the year ended 31 December 2006 were paid to Robotic Technology Systems PLC, prior to the demerger of the company from the RTS group on 31 May 2006

Notes *(continued)*

9 Tangible fixed assets

	Leasehold land and buildings £'000	Motor vehicles £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost					
At 1 January 2007	826	-	854	347	2,027
Additions	21	3	175	3	202
Disposals	-	-	(5)	(3)	(8)
At 31 March 2008	847	3	1,024	347	2,221
Depreciation					
At 1 January 2007	154	-	385	257	796
Charge for the period	57	1	217	34	309
Disposals	-	-	(4)	(3)	(7)
At 31 March 2008	211	1	598	288	1,098
Net book value					
At 31 March 2008	636	2	426	59	1,123
At 31 December 2006	672	-	469	90	1,231

10 Debtors

	31 March 2008 £'000	31 December 2006 £'000
Trade debtors	**3,729**	4,928
Amounts recoverable on long term contracts	**2,155**	2,117
Amounts due from group undertakings	**496**	-
Deferred tax recoverable (see note 7)	**23**	29
Prepayments and accrued income	**290**	269
Other debtors	**17**	5
	6,710	7,348

Notes *(continued)*

11 Creditors: amounts falling due within one year

	31 March 2008	31 December 2006
	£'000	£'000
Trade creditors	**2,595**	6,054
Accruals and deferred income	**2,871**	2,302
Payments on account	**620**	166
Amounts due to group undertakings	**24**	-
Amounts due to former group undertakings	**-**	25
Taxation and social security	**673**	486
Corporation tax	**271**	452
Other creditors	**32**	51
Amounts payable under finance leases	**4**	-
	7,090	9,536

12 Share capital

The called up share capital is as follows

	31 March 2008	31 December 2006
	£'000	£'000
Authorised		
Equity 1,000 Ordinary shares of £1 each	**1**	1
	£	£
Allotted, called up and fully paid		
Equity 1 Ordinary share of £1 each	**1**	1

Share based payments

During the period, the share options in respect of both the EMI and SAYE schemes were subject to early exercise due to the offer by Babcock International Group PLC to acquire the issued share capital of International Nuclear Solutions PLC The share options are accounted for in the financial statements of International Nuclear Solutions PLC

Notes *(continued)*

13 Reserves

	Profit and loss account £'000
At 1 January 2007	1,727
Profit for the period	1,512
At 31 March 2008	3,239

14 Reconciliation of movements in total shareholders' funds

	15 months ended 31 March 2008 £'000	12 months ended 31 December 2006 £'000
Profit for the financial period	**1,512**	1,260
Dividends paid	-	(1,964)
Net increase/(reduction) in shareholders' funds	**1,512**	(704)
Opening shareholders' funds	**1,727**	2,431
Closing shareholders' funds	**3,239**	1,727

15 Contingent liabilities

During the period, the company was party to composite guarantees in relation to the banking facilities of International Nuclear Solutions plc At the year end there were no liabilities covered by these guarantees

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 £195,349 *(year ended 31 December 2006 £135,029)* There was £28,995 (year ended 31 December *2006 £39,292*) due to the pension scheme at the period end The average number of employees participating in the scheme during the period was 110 *(year ended 31 December 2006 108)*

Notes *(continued)*

17 Commitments under operating leases

At 31 March 2008, the company had annual commitments under non-cancellable operating leases as set out below

	31 March 2008		31 December 2006	
	Land and buildings £'000	**Other £'000**	Land and buildings £'000	Other £'000
Operating leases which expire				
Within one year	**-**	**9**	-	13
In two to five years	**97**	**48**	111	32
After five years	**228**	**-**	228	-
	325	**57**	339	45

18 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 Babcock International Group PLC on the grounds that at least 90% of the voting rights in the company are controlled by it and the company's results are included in its consolidated financial statements

19 Ultimate parent company

The company's ultimate parent company is Babcock International Group PLC

Copies of the consolidated financial statements of Babcock International Group PLC are available from Companies House