

# **International Military Services Limited**

**(Registered Number: 924462)**

**Financial statements**

**For the year ended 31 December 2003**



# **International Military Services Limited**

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# **International Military Services Limited**

## **Report of the directors for the year ended 31 December 2003**

### **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 has instigated 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.

Following on from the payment into court by the Company's shareholder and sub-contractor, the shareholder/sub-contractor and the Company have mutually agreed that the costs of arbitration will be borne by the Company and the costs accrued to date in defending the contractual dispute will be charged to the profit and loss account.

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 loss of £26,480,000 (2002: profit £395,000). The directors do not propose the payment of a dividend for 2003 (2002: 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 £28,415,000 (2002:£54,895,000)

### **Directors**

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

Sir Kenneth Macdonald      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.

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 2003 (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 (2002 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 of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:-

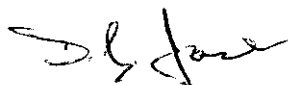
- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are both reasonable and prudent
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare 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 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 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**

22 April 2004

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

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

We have audited the financial statements which comprise the profit and loss account, the balance sheets and the related notes which have been prepared under the historical cost convention and the accounting policies set out in note 1 to the accounts.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with the applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. 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.

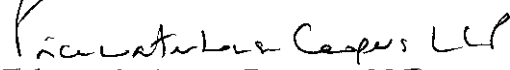
### **Basis of audit opinion**

We conducted our audit in accordance with auditing standards 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 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.

### **Opinion**

In our opinion the financial statements give a true and fair view of the affairs of the Company and the Group at 31 December 2003 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
22 April 2004

1 Embankment Place  
London  
WC2N 6RH

# International Military Services Limited

## Consolidated profit and loss account for the year ended 31 December 2003

	Note	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Turnover		-	-
Cost of sales		(1)	(1)
Gross loss		<u>(1)</u>	<u>(1)</u>
Administrative expenses	3		
- exceptional costs		(26,900)	-
- other		<u>(514)</u>	<u>(607)</u>
Total administrative expenses		(27,414)	(607)
Other operating income	3	1,075	1,153
Operating (loss)/profit	3	<u>(26,340)</u>	<u>545</u>
Taxation on (loss)/profit on ordinary activities	5	(140)	(150)
(Loss)/Profit for the financial year		<u>(26,480)</u>	<u>395</u>
Profit and loss account brought forward		34,895	34,500
Profit and loss account carried forward		<u><u>8,415</u></u>	<u><u>34,895</u></u>

There were no recognised gains and losses other than the (loss)/profit 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.

The notes on pages 7 to 13 form part of these financial statements.

# International Military Services Limited

## Consolidated balance sheet as at 31 December 2003

	Note	2003 £'000	2002 £'000
<b>Fixed tangible assets</b>	7	-	-
<b>Current assets</b>			
Debtors	8	398,629	408,819
Investments	9	29,054	29,380
Cash at bank and in hand		18	18
		<u>427,701</u>	<u>438,217</u>
<b>Creditors - amounts falling due within one year</b>	10	(338)	(388)
<b>Net current assets</b>		<u>427,363</u>	<u>437,829</u>
<b>Total assets less current liabilities</b>		427,363	437,829
<b>Provisions for liabilities and charges</b>	12	(398,948)	(382,934)
<b>Net assets</b>		<u>28,415</u>	<u>54,895</u>
<b>Capital and reserves</b>			
Called up share capital	13	20,000	20,000
Profit and loss account		8,415	34,895
<b>Shareholders' funds</b>	17	<u>28,415</u>	<u>54,895</u>

Approved by the Board on 22 April 2004 and signed on its behalf by:



D G Jones

The notes on pages 7 to 13 form part of these financial statements

# International Military Services Limited

## Company balance sheet as at 31 December 2003

	Note	2003 £'000	2002 £'000
<b>Fixed assets</b>			
Tangible assets	7	-	-
Investments in subsidiary undertakings	14	-	-
		<u>-</u>	<u>-</u>
<b>Current assets</b>			
Debtors	8	400,181	410,371
Investments	9	29,054	29,380
Cash at bank and in hand		18	18
		<u>429,253</u>	<u>439,769</u>
<b>Creditors - amounts falling due within one year</b>	10	(337)	(387)
<b>Net current assets</b>		<u>428,916</u>	<u>439,382</u>
<b>Total assets less current liabilities</b>		428,916	439,382
<b>Provisions for liabilities and charges</b>	12	(400,500)	(384,486)
<b>Net assets</b>		<u>28,416</u>	<u>54,896</u>
<b>Capital and reserves</b>			
Called up share capital	13	20,000	20,000
Profit and loss account		8,416	34,896
<b>Shareholders' funds</b>	17	<u>28,416</u>	<u>54,896</u>

Approved by the Board on 22 April 2004 and signed on its behalf by:



D G Jones

The notes on pages 7 to 13 form part of these financial statements.



# **International Military Services Limited**

## **Notes to the financial statements for the year ended 31 December 2003**

### **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 cease trading. 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.

#### **Other operating income**

"Other operating income" 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 2003 (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 has instigated 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 2003. 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 2003 (continued)

### 3. Operating profit and profit on ordinary activities before taxation

	2003 £'000	2002 £'000
Loss on ordinary activities before taxation is stated after charging:		
Wages and salaries	45	41
Social security costs	4	3
Operating lease rentals - land and buildings	82	79
- plant and machinery	1	1
Exceptional costs	26,900	-

Administration expenses include exceptional costs which comprise arbitration costs accrued to date which have been charged to the profit and loss account. This follows mutual agreement with the Company's shareholder and sub-contractor that the Company will bear these costs.

Other operating income comprises:

Interest income on other investments and deposits	1,054	1,152
Other income	21	1

Fees paid to auditors comprise:

Audit fees	10	9
Non-audit fees	11	29

Audit fees for International Military Services Limited (the Company) were £9,500 (2002: £9,000).

### 4. Emoluments of directors

The emoluments of the directors were as follows:

	2003 £'000	2002 £'000
Fees as directors	26	22
Emoluments for management services	19	19
Aggregate emoluments	<u>45</u>	<u>41</u>

## International Military Services Limited

Notes to the financial statements for the year ended 31 December 2003 (continued)

### 5. Taxation on profit on ordinary activities

	2003 £'000	2002 £'000
Corporation tax on the profit for the year:		
Current at 30% (2002: 30%)	145	145
Deferred (note 12)	-	-
	<u>145</u>	<u>145</u>
Prior year adjustment	(5)	5
	<u>140</u>	<u>150</u>

The tax for the period is higher (2002: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2003 £'000	2002 £'000
(Loss)/Profit before tax	(26,340)	545
(Loss)/Profit before tax multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	(7,902)	164
Expenses not deductible for tax purposes	8,072	8
Prior year adjustment	(5)	5
Small companies marginal relief	(25)	(26)
	<u>140</u>	<u>150</u>

The exceptional administrative costs are not allowable for tax purposes.

### 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 loss of £26,480,000 (2002: profit of £407,000).

### 7. Tangible assets

All tangible assets, cost £32,000 (2002: £32,000) are depreciated in full. The net realisable value at 31 December 2003 and 31 December 2002 was nil.

There was no capital expenditure authorised and contracted but not provided for at 31 December 2003 (2002: nil).

# International Military Services Limited

Notes to the financial statements for the year ended 31 December 2003 (continued)

## 8. Debtors

	Group		Company	
	31 December 2003	31 December 2002	31 December 2003	31 December 2002
	£'000	£'000	£'000	£'000
Amounts owed by Group undertakings	-	-	1,552	1,552
Interest receivable	4,057	114	4,057	114
Other debtors	394,535	408,668	394,535	408,668
Prepayments and accrued income	37	37	37	37
	<u>398,629</u>	<u>408,819</u>	<u>400,181</u>	<u>410,371</u>

Other debtors comprise 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. For 2002 other debtors also included amounts recoverable from the company's sub-contractor and shareholder of £26,199,000. 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 2003	31 December 2002	31 December 2003	31 December 2002
	£'000	£'000	£'000	£'000
Short term deposits with local authorities and public utilities	27,325	26,500	27,325	26,500
Other short term deposits	1,729	2,880	1,729	2,880
	<u>29,054</u>	<u>29,380</u>	<u>29,054</u>	<u>29,380</u>

No listed securities were held at 31 December 2003 and 31 December 2002.

## 10. Creditors: amounts falling due within one year

	Group		Company	
	31 December 2003	31 December 2002	31 December 2003	31 December 2002
	£'000	£'000	£'000	£'000
Trade creditors	98	70	97	69
Corporation tax	145	145	145	145
Accruals & deferred income	93	171	93	171
Social Security and payroll taxation balances	2	2	2	2
	<u>338</u>	<u>388</u>	<u>337</u>	<u>387</u>

# International Military Services Limited

Notes to the financial statements for the year ended 31 December 2003 (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 2003		31 December 2002	
	Land and Buildings £'000	Plant and Machinery £'000	Land and Buildings £'000	Plant and Machinery £'000
Within one year	-	1	-	-
Between two and five years	-	-	-	1
Over five years	82	-	82	-

## 12. Provision for liabilities and charges

	Group		Company	
	31 December 2003 £'000	31 December 2002 £'000	31 December 2003 £'000	31 December 2002 £'000
Deferred taxation (see below)	6	6	6	6
Provisions relating to contracts	398,857	382,843	398,857	382,843
Provision for closure costs	85	85	85	85
Provisions against amounts due from and liabilities of subsidiary undertakings	-	-	1,552	1,552
	<u>398,948</u>	<u>382,934</u>	<u>400,500</u>	<u>384,486</u>

Information relating to the contract provisions is given in note 2. 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	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Provisions brought forward	382,843	377,440	382,843	377,440
Provision relating to contracts (note 2)	16,014	5,403	16,014	5,403
Provisions carried forward	<u>398,857</u>	<u>382,843</u>	<u>398,857</u>	<u>382,843</u>

# International Military Services Limited

Notes to the financial statements for the year ended 31 December 2003 (continued)

Deferred taxation:

	Group and Company	
	2003	2002
	£'000	£'000
Contract profits	8	8
Tangible assets	(2)	(2)
	<u>6</u>	<u>6</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% (2002: 30%)

## 13. Called up share capital

	Group and Company	
	2003	2002
	£'000	£'000
Authorised, allotted and fully paid: Ordinary shares of £1 each	20,000	20,000
	<u>20,000</u>	<u>20,000</u>

## 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 2003 the Group had an average of 3 employees (2002: 3). At 31 December 2003 the Group had 3 employees (2002: 3) based in the UK.

## 17. Reconciliation of movements in shareholders' funds

	Group		Company	
	31 December 2003	31 December 2002	31 December 2003	31 December 2002
	£'000	£'000	£'000	£'000
(Loss)/Profit for the financial year	(26,480)	395	(26,480)	407
Opening shareholders' funds	<u>54,895</u>	<u>54,500</u>	<u>54,896</u>	<u>54,489</u>
Closing shareholders' funds	<u>28,415</u>	<u>54,895</u>	<u>28,416</u>	<u>54,896</u>