

International Military Services Limited

(Registered Number: 924462)

Annual Report and Financial Statements

For the year ended 31 December 2012

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International Military Services Limited

Contents

	Page
Directors' Report	1-3
Independent Auditors' report	4-5
Company profit and loss account	6
Company balance sheet	7
Notes to the financial statements	8-12

International Military Services Limited
Directors' Report for the year ended 31 December 2012

Business review and principal activities

The Company ceased trading on 17 February 2010 but is still awaiting the resolution of certain outstanding contractual matters that remain subject to ongoing negotiations

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 reached agreement with the Government of Iran, through a formal Consent Order, that payment of the Award would 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

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 any 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 £21.4m

A number of additional issues, primarily the settlement of smaller claims not subject to judicial process, now need to be resolved before final settlement, which itself will be caught by the current sanctions imposed on Iran, can be made. Meetings took place with the Iranian authorities in July 2010 and March 2011 to seek an overall settlement, and negotiations to resolve all outstanding matters continue, the latest taking place in March 2013. The Company has so far failed to reach an overall settlement by negotiation and the Government of Iran applied for an enforcement order in the UK High Court. This has now been postponed until July 2013 but it is still hoped to achieve a negotiated settlement

Once all these 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 £279,000 (2011: £237,000)

The state of affairs of the Company is set out in the attached balance sheet and related notes, showing capital and reserves of £24,197,000 (2011: £24,476,000)

Directors' Report for the year ended 31 December 2012 (continued)

Directors

The directors during the year and up to the date of signing the financial statements 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 (2011 £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 accounting 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, and
- 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 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.

International Military Services Limited

Directors' Report for the year ended 31 December 2012 (continued)

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

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

25 June 2013

Registered Office
Room 205
31 Southampton Row
London
WC1B 5HJ

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 2012 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2012 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

Emphasis of matter – Going concern

In forming our opinion on these financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 concerning the going concern basis of accounting. The directors have taken the decision to liquidate the company once its remaining contractual commitments have been completed. Accordingly the going concern basis of accounting is no longer appropriate. Adjustments were made in previous years to reduce assets to their realisable value and provide for liabilities arising from this decision.

International Military Services Limited

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

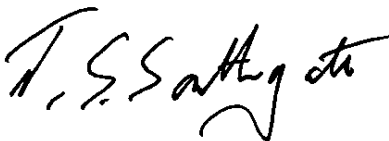
Opinion on other matter prescribed by the Companies Act 2006

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
- 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



James Southgate (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

25 June 2013

International Military Services Limited

Company profit and loss account for the year ended 31 December 2012

	Note	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Turnover		-	-
Gross loss		<u>-</u>	<u>-</u>
Administrative expenses	3	(739)	(365)
Operating loss		<u>(739)</u>	<u>(365)</u>
Interest receivable and similar income		596	160
Loss on ordinary activities before taxation	3	<u>(143)</u>	<u>(205)</u>
Tax on loss on ordinary activities	6	(136)	(32)
Loss for the financial year	14	<u>(279)</u>	<u>(237)</u>

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

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

All results are derived from discontinued operations

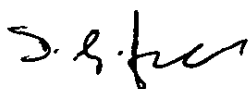
The notes on pages 8 to 12 form part of these financial statements

International Military Services Limited

Company balance sheet as at 31 December 2012

	Note	2012 £'000	2011 £'000
Current assets			
Debtors	7	496,498	494,989
Investments	8	24,547	24,439
Cash at bank and in hand		-	85
		<hr/>	<hr/>
		521,045	519,513
Creditors - amounts falling due within one year	9	(409)	(93)
		<hr/>	<hr/>
Net current assets		520,636	519,420
		<hr/>	<hr/>
Total assets less current liabilities		520,636	519,420
Provisions for liabilities	11	(496,439)	(494,944)
		<hr/>	<hr/>
Net assets		24,197	24,476
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	12	20,000	20,000
Profit and loss account		4,197	4,476
		<hr/>	<hr/>
Total Shareholders' funds	14	24,197	24,476
		<hr/>	<hr/>

The financial statements on pages 6 to 12 were approved by the board on 25 June 2013 and signed on its behalf by:



D G Jones

The notes on pages 8 to 12 form part of these financial statements

International Military Services Limited

Notes to the financial statements for the year ended 31 December 2012

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 the Companies Act 2006 and applicable accounting standards in the United Kingdom. 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 contractual commitments have been completed. Provisions have been made for one-off closure costs, and professional fees in winding up the Company. (See note 12). Provision has not been made for future operating costs as these will be met out of 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. Deferred tax is determined using tax rates that have been enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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) 'Cash flow statements' as it qualifies as a small company under the criteria of Section 444 of the Companies Act 2006.

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 reached agreement with the Government of Iran, through a formal Consent Order, that payment of the Award would 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.

International Military Services Limited

Notes on the financial statements for the year ended 31 December 2012 (continued)

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.

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 note 12). This provision includes interest calculated up to 31 December 2012.

The Company is in negotiation with the Iranian authorities with a view to achieving an overall settlement.

Company funds will be sufficient to meet the legal and other costs associated with any further 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 loss and loss on ordinary activities before taxation

	2012 £'000	2011 £'000
Loss on ordinary activities before taxation is stated after charging		
Wages and salaries	39	53
Social security costs	2	5
	<hr/> 41	<hr/> 58
Operating lease rentals - other	35	28
- plant and machinery	-	-
	<hr/>	<hr/>
Fees paid to auditors comprise		
Audit fees	12	13
Fees payable for other services - Tax compliance	38	7
- Professional advice	9	6
	<hr/>	<hr/>

4. Directors emoluments

The emoluments of the directors were as follows

	2012 £'000	2011 £'000
Fees as directors	20	30
Emoluments for management services	19	23
Aggregate emoluments	<hr/> 39	<hr/> 53
Highest paid Director	<hr/> 23	<hr/> 33

International Military Services Limited

Notes to financial statements for the year ended 31 December 2012 (continued)

5. Employees

During the year ended 31 December 2012 the Company had 3 employees including directors (2011 3) based in the UK

6. Tax on loss on ordinary activities

	2012 £'000	2011 £'000
Corporation tax on the loss for the year		
Current Tax		
UK corporation tax on loss for the period at 24.5% (2011 26.5%)	(136)	(32)
Total current tax	(136)	(32)
Tax on loss on ordinary activities	(136)	(32)

The tax for the period is lower (2011 lower) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2012 of 24.5% (2011 26.5%) The differences are explained below

	2012 £'000	2011 £'000
Loss on ordinary activities before tax	(143)	(205)
Expenses post cessation of trading not deductible for tax purposes	739	365
	596	160
Tax at standard rate of corporation tax in the UK of 24.5% (2011 26.5%)	(146)	(42)
Small companies marginal relief	10	10
Current tax (charge) for the period	(136)	(32)

7 Debtors

	31 December 2012 £'000	31 December 2011 £'000
Interest receivable	-	15
Other debtors	496,409	494,915
VAT	84	55
Prepayments and accrued income	5	4
	496,498	494,989

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 12) and surplus funds returned to the shareholder and sub-contractor.

International Military Services Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

8 Investments

	31 December 2012 £'000	31 December 2011 £'000
Short term deposits and liquid investments	24,547	24,439
	<u>24,547</u>	<u>24,439</u>

No listed securities were held at 31 December 2012 and 31 December 2011

9 Creditors - amounts falling due within one year

	31 December 2012 £'000	31 December 2011 £'000
Trade creditors	2	34
Accruals & deferred income	269	25
Corporation Tax	136	32
Social Security and payroll taxation balances	2	2
	<u>409</u>	<u>93</u>

10 Operating lease commitments

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

Land and Buildings

	31 December 2012 £'000	31 December 2011 £'000
Less than one year	36	35
	<u>36</u>	<u>35</u>

International Military Services Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

11 Provision for liabilities

	31 December 2012 £'000	31 December 2011 £'000
Provisions relating to contracts	496,409	494,914
Provision for closure costs	30	30
	<u>496,439</u>	<u>494,944</u>

Information relating to the major contract provisions is given in note 2 and note 8. The timing of settlement will depend upon the finalisation of an overall settlement with the Government of Iran. The provision includes interest earned on the security deposit, the surplus ultimately being repayable to the sub-contractor and shareholder.

Movements on contract provisions

	2012 £'000	2011 £'000
Provisions brought forward	494,914	493,433
Additional provision relating to interest earned (note 2)	1,495	1,481
Provisions carried forward	<u>496,409</u>	<u>494,914</u>

12 Called up share capital

	2012 £'000	2011 £'000
Authorised, allotted and fully paid Ordinary shares of £1 each	<u>20,000</u>	<u>20,000</u>

13 Ownership of share capital

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

14 Reconciliation of movements in shareholders' funds

	31 December 2012 £'000	31 December 2011 £'000
Loss for the financial year	(279)	(237)
Opening shareholders' funds	<u>24,476</u>	<u>24,713</u>
Closing shareholders' funds	<u>24,197</u>	<u>24,476</u>

15 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.