Every day, we're planning, creating and managing the world around you.

Across the world, people wake to a new day. We help make it a great day.

PROUD OF THE VALUE WE CREATE IN PLANNING, CREATING, AND MANAGING THE WORLD AROUND YOU

Every day people wake to put their plans, dreams and goals into action.

To make this happen they need the places around them – their schools, their workplace, hospitals, shops and infrastructure – to function well, to support, inspire and add value to their lives.

We help build and look after this world and we do this through the lasting relationships our people have built with a range of partners and clients worldwide to ensure we create value for everyone involved.

FINANCIAL HIGHLIGHTS

HEADLINE EPS*

49.3p
+15%

PROFIT BEFORE TAX

£67.1m
+5%

FULL-YEAR DIVIDEND

19.0p
+6%

VIEW 2011 ANNUAL REPORT ONLINE: HTTP://AR2011.INTERSERVE.COM

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KEY FACTS

- **Over 50,000 people** in our workforce worldwide
- **Record-low all-labour accident incidence rate (AIR):** 310 per 100,000 workforce

FUTURE WORKLOAD

£5.6bn
+6%

GROSS OPERATING CASH CONVERSION*

118%
+38%pts

NET DEBT

£42.2m
-18%

* See notes 10 and 31 to the consolidated financial statements on pages 85 and 106 respectively for a reconciliation of non-statutory measures to their statutory equivalents.

"I am pleased to report a year of significant achievement and progress for Interserve.

In continued difficult markets we have delivered growing earnings, strong cash flows and an improved order book. At the same time we have undertaken significant new developments towards our strategic objectives to grow shareholder value."

Lord Blackwell Chairman

In recent years the Group has begun a significant transformation in the scope of our business, applying our core skills in new markets where we believe we can both grow and deliver high value.

In the UK our Support Services business, as well as taking steps to improve customer value, efficiency and margins in our existing markets, has invested in extending our management skills into new areas of outsourcing activity. During this last year, for example, we started up our innovative partnership serving the Department for Work and Pensions in its Work Programme, and are now shortlisted in bidding to support the Ministry of Justice in its framework programme for management of offenders.

Overseas we have invested in developing the scope of business activities in our existing high growth markets as well as extending into major new territories – such as Saudi Arabia, India and the USA.

We believe the ongoing opportunities for continuing this transformation of our business - both in the UK and overseas - provide significant upside potential in the medium and long term, notwithstanding the ongoing economic uncertainties. This is the primary engine for achieving our growth ambitions.

Managing long-term client relationships is a major strength and one of the key ingredients in the excellent forward visibility of our future workload. The actions we have been taking in Support Services should continue to improve margins. There are also indications that the recovery in Equipment Services' international markets, begun in the second half of 2011, will now be maintained. Together we anticipate these developments can more than offset the short-term impact on Construction's performance resulting from the current margin and volume pressures.

Chairman's statement
Doing the important things well

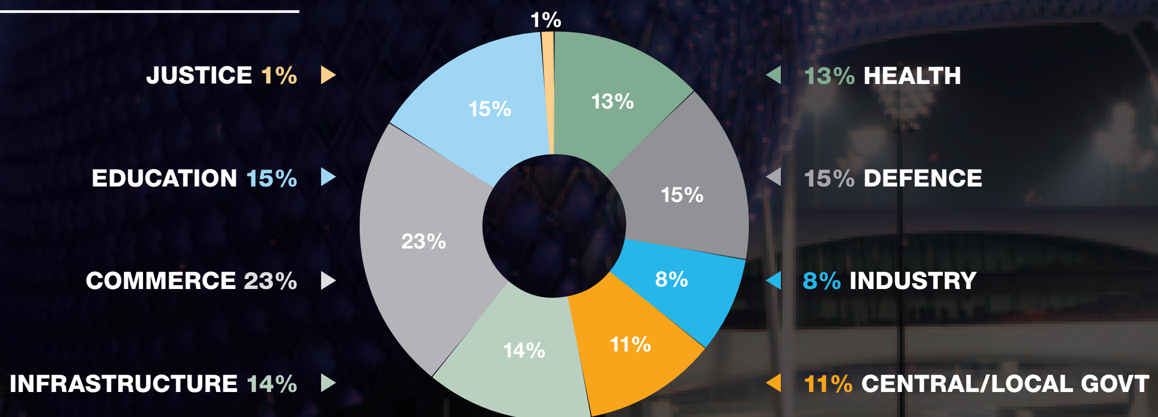
This year I am reporting separately on the role and effectiveness of the Board in our Corporate Governance review. However, on behalf of the Board I would like to thank all of our people for their continued commitment and for their willingness to go the extra mile in delivering outstanding service to our customers. The success of our business is founded on having the right people and supporting them in their development. One of our key programmes identifies and develops the people who will form the core of our senior leadership in the years to come. We offer all our people a wealth of training and development opportunities including apprenticeships and a 'Skills for Life' numeracy and literacy programme. We also run return-to-work schemes for the long-term unemployed.

Reflecting our confidence in the medium-term prospects and in our strategy for developing the Group, we are recommending an increased final dividend of 13.0p (2010: 12.4p), bringing the total dividend for the year to 19.0p (2010: 18.0p), an increase of 5.6 per cent. The final dividend will be paid on 24 May 2012 to shareholders on the register at the close of business on 10 April 2012.

Lord Blackwell Chairman
29 February 2012

Interserve offers good prospects for long-term value and growth, underpinned by a strong balance sheet and cash flows which enable an attractive dividend yield.

SECTORS (BY GROSS REVENUE)



OUR EXPERTISE

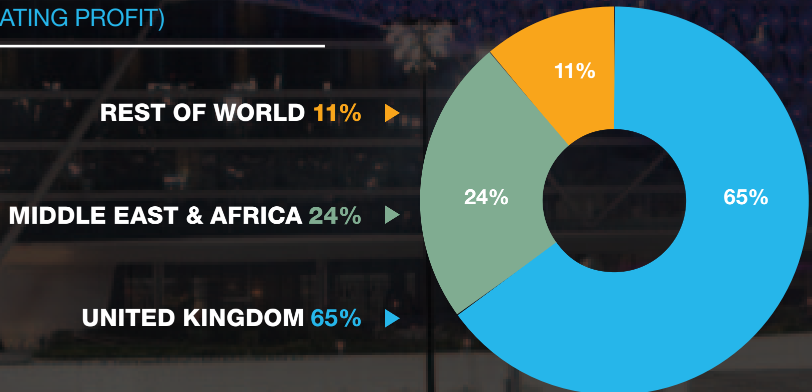
- Listening to and understanding our clients' needs, so that we can design a bespoke solution, is at the core of our offering.
- Our added value comes from:
  - Combining front-end design and consultancy with programme management and delivery skills under one roof.
  - Managing change, whilst at the same time maintaining, or enhancing service quality.
  - Nurturing and managing a complex supply chain, often comprising small and medium-sized enterprises, to offer the optimum combination of global and local inputs.

STRENGTH AND RESILIENCE

- Our Group combines businesses with differing working capital profiles and requirements, generating a high overall conversion of profit to cash through economic cycles.
- Our earnings are diversified both geographically and through business and sector mix, enabling us to capitalise on different phases of market growth in global cycles.
- Our UK construction activities are de-risked through an emphasis on long-term framework contracts.
- Our international risk is contained by operating through strong local partnerships and by deploying key people into our international operations.
- We have reduced our pension funding risk by utilising the value of our PPP investments.

Our business
How we create shareholder value

GEOGRAPHIC
(BY CONTRIBUTION TO TOTAL OPERATING PROFIT)

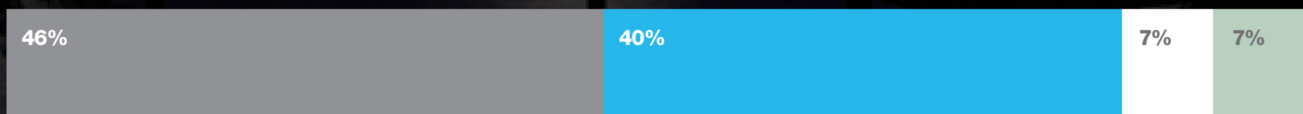


GROWTH PROSPECTS – MARKET POSITIONING

- We are positioned to take advantage of growth in the UK support services and infrastructure markets in both the public and private sectors.
- Around 35 per cent of our profits are from international markets, where we have access to growth in infrastructure spend and to opportunities for support services contracts as markets mature.
- We have proven expertise in exporting our core UK skills to build a presence in emerging markets.

SEGMENTAL (BY CONTRIBUTION TO TOTAL OPERATING PROFIT)

SEGMENTAL (BY GROSS REVENUE)



■ SUPPORT SERVICES ■ CONSTRUCTION ■ EQUIPMENT SERVICES ■ INVESTMENTS

Interserve operates in the outsourced services and construction markets in the UK and internationally.

Our markets

OUTSOURCED SERVICES

- **The market includes facilities management (FM) – i.e. activities concerned both with maintaining buildings or estates and with supplying services to people using the facilities – as well as a broader range of services for specific groups, such as employment assistance, waste management, prison operation and training.**
- **Our particular skills are in the design, management and delivery of such services.**

UK

- The FM market – which represents only a fraction of our addressable support services market – is the largest in Europe. It is estimated at £19 billion, with a further £13 billion of services still currently undertaken in-house (source: Frost and Sullivan).
- In a fragmented market with many small players, Interserve is among the leaders (Frost and Sullivan estimated FM market share: 3.9 per cent).
- The UK leads the way in the adoption of modern outsourcing and co-sourcing concepts. The trend is towards both bundling (where a single provider provides several services) and integrating (where the provider also manages the whole package and advises the client on how best to run its operational services).

INTERNATIONAL

- Almost all international markets for outsourcing are significantly less developed than the UK. UK providers therefore have an opportunity to use their experience to enter these markets at an advantage.
- We have capitalised on our presence in the Middle East construction market, using it as a base from which we have been able to introduce our support services in several countries. These include conventional building repairs, plant maintenance, health and safety training, and assurance services in the oil and gas field.
- The Middle East outsourcing market is only now emerging, following the significant increase in infrastructure development over recent years.

CONSTRUCTION

- **Our focus is on long-term, repeat business with clients who know they can rely on us to deliver what they need.**
- **We have two areas of expertise:**
  - **as a contractor, taking responsibility for the construction of buildings and infrastructure; and**
  - **as a designer and provider of specialised shoring equipment used in creating concrete structures.**

UK

- As a contractor we undertake a range of projects, from large strategic developments such as Sandwell College (see page 18) to framework agreements where we deliver a programme of work spread across several locations and over a period of time.
- We are thus insulated to some extent from the effects of the current contraction in the UK construction market.
- The UK construction industry is worth some £83 billion, over 5 per cent of the country's GDP (source: Business Monitor International). Approximately 16 per cent of this is in infrastructure and 84 per cent in building.

INTERNATIONAL

- Our main international markets are in the Middle East and Australia. We have construction operations in Qatar, the UAE and Oman, and our Equipment Services business is also present there, as well as in Saudi Arabia, Australia and a number of locations throughout the world.
- Although we are active across a variety of sectors in all our locations, our focus in our primary markets is:
  - Qatar: buildings and infrastructure supporting the oil and gas industry
  - UAE: infrastructure; hospitality and leisure
  - Saudi Arabia: government buildings and infrastructure
  - Australia: mining and infrastructure

Our markets
Where our growth comes from

Our market outlook

UK

- Both central and local government, as well as large private sector organisations, are increasingly looking to comprehensive outsourcing arrangements as a way of reducing costs while maintaining or improving service levels.
- The trend towards integration in outsourcing is likely to lead to more contracts being awarded to the major suppliers – of which Interserve is one.

INTERNATIONAL

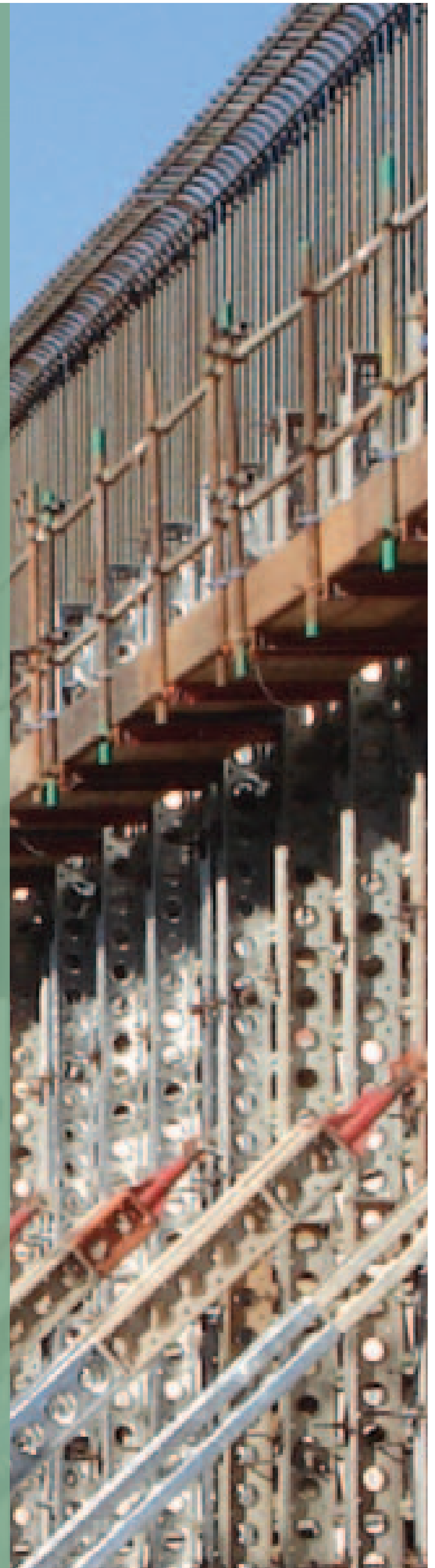
- Given their relative immaturity, Middle Eastern outsourcing markets should grow substantially over the coming years. Outsourcing (certainly in relation to the built environment and infrastructure) tends to follow construction, and the extent of construction that has taken place over the last few years is driving an increasing requirement for planned asset management and maintenance.
- By virtue of our construction-based presence in a number of markets, we have the opportunity to introduce support services more widely and emulate our success in Qatar.

UK

- Market forecasts vary. The consensus is for a decline during 2012 and into 2013 and recovery thereafter. Private sector recovery is expected to lead the public sector.
- We believe that our strategy of working through long-term relationships and of maintaining our capabilities through the short term will leave us in good shape to benefit from the resumption of growth when the market turns.

INTERNATIONAL

- Qatar's construction output is forecast to grow at a compound rate of 7.9 per cent per annum up to 2016 (source: Business Monitor international). We anticipate an increase in demand from 2013. The compound forecast for the UAE is 5.5 per cent for the same period, Saudi Arabia 4.5 per cent and Oman 6.4 per cent (source: BMI).
- We expect that the solid construction demand in the Australian mining and infrastructure sectors will continue in the short-to-medium term, while the commercial sector is likely to remain subdued.



OBJECTIVES

DRIVERS

Build strong core businesses

ALBERT BRIDGE PAGE 10
SINO IRON PROJECT PAGE 12

Attractive UK demand environment despite short-term pressures:

- Structural growth in outsourcing
- Rising population, increasing pressure on ageing infrastructure
- Drive for public sector efficiencies

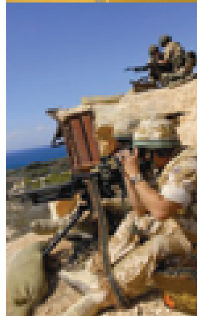
Expand internationally

DUCAB-HV PAGE 10

- High-growth international markets
- Markets moving closer to UK outsourcing model
- Opportunities to introduce services through existing relationships

Expand the scope of our core businesses

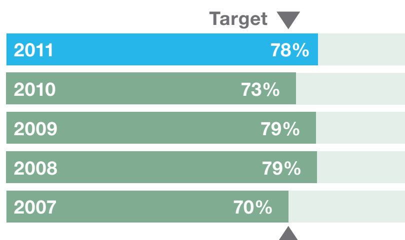
DEFENCE INFRASTRUCTURE ORGANISATION PAGE 12



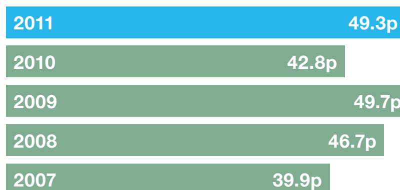
- Demand for increased integration and efficiencies across the asset life cycle
- Economic pressures driving consolidation

KEY PERFORMANCE INDICATORS

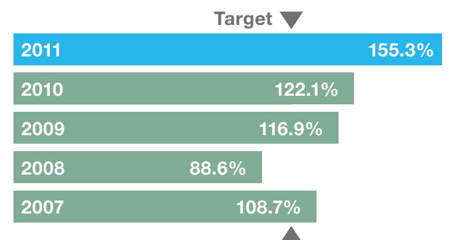
We use a set of clear financial and non-financial KPIs to measure critical aspects of the Group's performance. These KPIs are aligned with (a) achieving the Group's strategic objectives of delivering a substantial future workload and generating strong



WORKLOAD FOR NEXT YEAR
Target: Visibility over 70% of next 12 months' revenue (consensus)



HEADLINE EARNINGS PER SHARE
Target: Double headline EPS over the five years to 2015



OPERATING CASH CONVERSION[1], 3-YEAR ROLLING AVERAGE
Target: 100% over medium term

Our strategy
How we deliver growth

STRATEGY

Focus on long-term, added-value client relationships:

- Understand clients in depth
- Adviser/manager role in outsourcing
- Framework agreements
- Public-private partnerships

- Extend our full range of services across existing markets
- Enter new growth markets with attractive economic fundamentals
- Operate in a range of markets to diversify and reduce risk

- Capture emerging opportunities for increasingly integrated solutions
- Organic growth supplemented by selective, accretive acquisitions

OUTCOMES

Substantial future workload:

- Strong revenue visibility afforded by a future workload in excess of £5bn

Strong earnings growth:

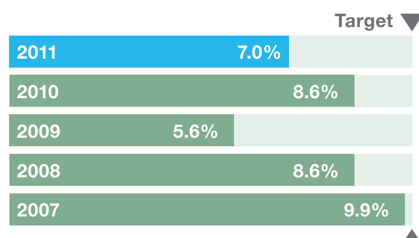
- Attractive medium-term revenue growth
- Margin trends over medium term:

  UK outsourcing c. 5%
  International outsourcing c. 13%
  UK construction c. 2%
  International construction c. 6%
  Equipment services c. 15%

Strong cash conversion, supporting:

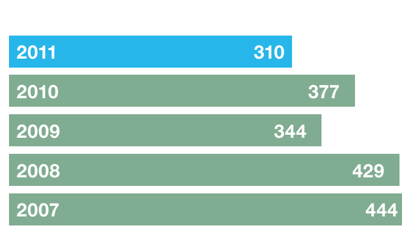
- Selective, accretive acquisitions
- Progressive dividend policy
- Elimination of pension deficit

earnings growth and cash conversion; and (b) the Group's key behavioural goals, specifically regarding our employees and the health and safety of everyone working both directly and indirectly for Interserve.



ANNUALISED STAFF TURNOVER[2]

Target: Below 10 per cent



ANNUALISED ALL-EMPLOYEE ACCIDENT INCIDENCE RATE

Target: Halve the rate by 2020 from a 2010 base

[1]See note 31 on page 106 for a definition of cash conversion.
[2]Staff turnover measures the proportion of managerial, technical and office-based staff leaving voluntarily over the course of the period.

Delivering every day around you

DUCAB-HV

To satisfy the UAE's continued development and demand for power, the region had become dependent on imported cables. How did we help to address this issue, using entirely local resources?

DUCAB-HV is a joint venture comprising three key national stakeholders. It was established to develop a high-voltage cable manufacturing plant in Jebel Ali, 35km south-west of Dubai.

The £40 million construction project has been delivered entirely through our associate company in the UAE, Khansaheb Civil Engineering. Located on a 22,000m² waterfront area the development consists of factory buildings, offices, an extra-high-voltage test laboratory, utility buildings, two large substations housing 19 transformers and associated infrastructure. At the heart of the facility are two cable-manufacturing towers approximately 45m and 150m (44 storeys) high respectively, making this what is believed to be the tallest industrial structure in the region. Unlike other high-rises, the buildings are each effectively just one large 'core', with slabs inside the structure rather than around it. Building them involved a unique construction process, enabled by the design expertise of our Equipment Services division and the use of its "Tru-Lift" self-lifting core-forming system for the first time in the Middle East.

The completed Ducab High Voltage Cable Systems plant can now manufacture enough high-voltage cables to meet the demands of the whole UAE and the wider Gulf region in times to come. Its main customers include the utilities providers, big industrial users of cables, and oil and gas companies.

This substantial project has provided an essential facility for the region and demonstrates our ability to deliver local projects with local expertise and our continued commitment to commercial growth in the Gulf.

ALBERT BRIDGE

Albert Bridge is one of only 12 bridges across the Thames in central London, used by 16,000 vehicles a day. How did we keep the bridge open when corrosion threatened its permanent closure?

Located in the Royal Borough of Kensington and Chelsea, Albert Bridge has been a vital transport link - and London landmark - since 1870. The 220m-long structure was beautiful but not strong, and had been subject to traffic load restrictions for much of its life. To stay open, new regulations demanded an upgrade from its 2-tonne limit to 7.5 tonnes. Interserve took on this challenge.

A 3-D analysis of the structure revealed the corrosion to be even more severe than previous assessments suggested. We needed a strengthening and repair solution that would both save the bridge and overcome a number of constraints. These included limitations on materials and strengthening details imposed by the Grade II* listed status and handling of contaminated waste including existing lead paint. We also had to ensure that Londoners could go about their business around us, including working over and adjacent to other works and keeping the bridge open to pedestrians throughout the repairs.

The repair programme involved several key stakeholders including Transport for London, the Port of London Authority and English Heritage. We made 750 separate steelwork repairs and replaced the entire running surface with new steelwork. We then repainted the bridge (three coats of paint in seven different colours) and replaced the old electrical fittings with over 4,000 lights and more than 6km of cabling.

The work was completed with minimum disruption and we are proud to have restored this historic bridge to its original splendour, fit for modern-day use and for generations to come.

"We can be proud of the level of workmanship in the restoration of Albert Bridge. It proved even more challenging than we originally thought as... we discovered much worse corrosion to the iron and steel.

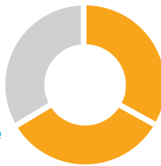
The amount of work... has been truly monumental with over 10,000 bolts, 40,000 litres of paint and 1,000 tonnes of grit used.

I hope that residents and all bridge-users now appreciate the need for the work we carried out – for surely, when lit up, the Albert Bridge is one of the most beautiful night-time sights in London."

COUNCILLOR NICK PAGET-BROWN
DEPUTY LEADER AND CABINET MEMBER FOR TRANSPORT, ROYAL BOROUGH OF KENSINGTON & CHELSEA

Delivering every day around you

SINO IRON PROJECT



Mining iron ore requires significant upfront investment in infrastructure and the speed of return on the capital outlay is critical. So how do you help get a new mine ready for operations in the shortest time possible – especially when it's 1,500km away from your nearest branch?

With an estimated value of $5.2 billion, CITIC Pacific's SINO Iron project is the largest magnetite mining and processing facility in Australia. Time is money and CITIC has deadlines to meet whilst building the mine. At peak construction there were around 4,000 people on site.

We were awarded the contract based on the excellent productivity levels of our Alshor Plus falsework system in conjunction with our formwork designs. These were used to speed up construction of the 'Area 20 Concentrator Stockpile Tunnel'. The main core of this tunnel is approximately 325m long, with six 55m feeder tunnels running perpendicular to the core and two approach tunnels each 40m long.

Our greatest challenge, however, was the logistics involved in getting materials and equipment to the mine. The project is located at Cape Preston, 100km from the nearest town and 1,500km from our Perth depot. Perth sourced equipment from throughout Australia and our worldwide network of depots, and delivered it in time to meet the client's strict time frames on the build.

When construction on the mine is completed it will produce in the region of 140 million tonnes of magnetite each year. We are delighted with the role we have played in getting the site ready for operation on time.

DEFENCE INFRASTRUCTURE ORGANISATION

British military bases are located all over the world, defending our overseas territories and playing a major role in global security. But who takes care of the essential services the military needs to carry out its role protecting us?

Interserve has been trusted for a number of years to support British military bases on Ascension Island, Cyprus and the Falklands on behalf of the Defence Infrastructure Organisation (DIO) - part of the MoD responsible for managing and maintaining the military estate. Our record in delivering mechanical, electrical and building-related support services gives more than 50,000 personnel the reassurance that they'll always receive the specialist support they need, sometimes in very challenging circumstances. Our ability to respond to emergencies and unexpected changes is fundamental to the peace of mind we provide.

Our strong track record and in-depth understanding of both the requirements of the serving soldier and the MoD were key factors when we won a new set of contracts in 2011 to continue our work in these locations and to take on similar activities in Gibraltar as well. The contracts are worth some £300 million over five years with the possibility of extensions for two more.

In addition to our core support services, in Gibraltar we will also deliver additional specialist marine work and nuclear services. On Ascension Island our extended role includes provision of facilities management services including logistics, catering, aircraft handling, flight planning and site security.

Equally important for the MoD, we are providing value for money and delivering 'More for Less'. By delivering a single, strategic, UK-based management structure and a bundled package of services for all the territories, we have created efficiencies and significant cost savings to the DIO.

"Our strong track record and in-depth understanding of the Defence Infrastructure Organisation's requirements enables us to carry out their activities in sometimes very difficult circumstances."

ADRIAN RINGROSE CHIEF EXECUTIVE, INTERSERVE

Chief Executive Adrian Ringrose discusses some of the topics most frequently raised by shareholders.

	2011	2010	
Gross revenue*	£2,320m	£2,315m	+0.2%
Headline pre-tax profit*	£72.8m	£69.6m	+4.6%
Profit before tax	£67.1m	£64.1m	+4.7%
Headline earnings per share	49.3p	42.8p	+15.2%
Net debt	£44.2m	£53.8m	-17.8%
Full-year dividend	19.0p	18.0p	+5.6%

Q. How has Interserve performed in 2011?

A. I think we can feel proud of what Interserve has achieved for shareholders in 2011.

We continued to make excellent progress in increasing the margins in Support Services and are on track to reach our target for the division of 5 per cent by the end of 2013. Construction has done well both in the UK and internationally in a tough market where margin pressure and increased competition have had an effect. Equipment Services is emerging from the bottom of the cycle in good shape, maintaining healthy margins and a good return on capital employed.

We've also had a successful year for new business – we won more work than we consumed in revenue, with the result that our future workload rose from £5.3 billion to £5.6 billion.

Where we've needed to, we have reduced costs. But we have also continued investing for future development where we can see new opportunities – for instance in the justice sector, in welfare and in local government. It has been pleasing to see our performance reflected in a 39 per cent increase in our share price at a time when the FTSE 250 index fell by 13 per cent.

Adrian Ringrose Chief Executive

Chief Executive's Q&A

Q. How do you see the UK construction market developing?

A. We expect to see a further decline in the short term before an upturn in volume, probably from 2014. Our ability to maintain a fundamentally healthy business through this period is due in large part to our focus on sectors and clients with long-term construction needs and to the strong reputation we have built for quality and value for money.

Q. Where do you see the opportunities in the Middle East?

A. Qatar is our largest overseas market, where we focus on civil engineering, building and engineering services. We've been there since 1996 and have a workforce of over 10,000 people. Qatar offers strong growth prospects: its investment in natural gas gives it a very secure financial base and the resources to back development for many years to come. In addition, hosting the World Cup in 2022 provides a renewed focus on infrastructure, generating new road, rail and port schemes and investment in power, water and drainage. Interserve is a key provider in many of these areas and we anticipate that we'll see the impact of these requirements from 2013 and onward.

In Saudi Arabia our start-up Equipment Services business has had a good first couple of years and this provides a strong platform from which to explore further opportunities. The Kingdom is the largest projects market across the Gulf Co-operation Council, accounting for 45 per cent of the total, and has ambitious construction and infrastructure plans.

Q. There has been talk of the UK government's need to outsource more in order to cut costs without having too great an impact on front-line services. Are you seeing this translate into reality?

A. The pace of change is variable. We are seeing exciting developments in welfare and justice; health could be another growth opportunity, while the picture in local government is more fragmented. Overall, we continue to see UK public services as a good area for growth.

As part of our strategy we have identified several areas where we can apply our management capabilities in new sectors to generate additional business. In 2011 we won two regions in the Department for Work and Pensions' (DWP's) Work Programme, and in January 2012 we were selected by the Ministry of Justice (MoJ) in its new framework for the provision of custodial services. The MoJ has indicated that it has broader outsourcing plans, and our involvement has the potential to lead to activity in further areas such as the delivery of probation services. We are seeing further opportunities emerge as the health, local government and defence markets develop.

Q. Has the business reached the end of cost cutting?

A. We always have to look for ways to improve efficiency and deliver better value to our customers – that's part of why they choose us to work with them. In addition we did, correctly as it turns out, anticipate the pressures on some of our businesses from the recession and take the necessary action to reduce our fixed costs in good time. However, that has not stopped us investing in new opportunities. Our markets offer the potential for sustained medium-term growth at attractive margins and it is important that, while making any necessary cost savings, we hold our shape to enable us to capitalise on these opportunities as they emerge.

> **"Our markets offer the potential for sustained medium-term growth at attractive margins."**

Q. You said last year that you believed Interserve had the capability to double earnings per share over a five-year period. Does that still stand?

A. Yes. We have come through the last two years well, our existing markets have good potential, we are exploiting new markets and we have a strong balance sheet to support our growth. Our medium-term prospects remain strong.

* See notes 10 and 31 to the consolidated financial statements on pages 85 and 106 respectively for a reconciliation of non-statutory measures to their statutory equivalents.

Operational Review

We deliver our operational services through three divisions: Support Services, Construction and Equipment Services. We also have a Group Services function, which consists of the Board and a range of central services, and our Developments division, which is responsible for managing our investment activities and for leading our strategic developments.

We allocate all central costs to Group Services, including those related to our financing and central bidding activities, and show the performance of our investments separately as the Investments segment. Group Services' costs in 2011 were £20.4 million (2010: £20.0 million).

Future workload

Our future workload comprises forward orders and pipeline. Forward orders are those for which we have secured contracts in place, and pipeline covers contracts for which we are in bilateral negotiations and on which final terms are being agreed. We include our share of work won by our international associates.

	31 December 2011	31 December 2010
Forward orders	**£4.5 billion**	£4.3 billion
Pipeline	**£1.1 billion**	£1.0 billion
Future workload	**£5.6 billion**	£5.3 billion
Coverage of next year's revenue (analyst consensus)	**78%**	73%

Support Services provides a broad range of outsourced services to the public and private sectors, predominantly in the UK but also increasingly in the Middle East, the majority of which we integrate and deliver ourselves.

BRUCE MELIZAN
MANAGING DIRECTOR, SUPPORT SERVICES

SUPPORT SERVICES

Our support service activities in the Middle East have previously been reported within our Construction segment. In view of the increasing scale of these operations we have moved them into our Support Services results (the 2010 figures have been adjusted to the same basis – see note 3 to the financial statements).

Operational efficiencies in Support Services delivered a further significant improvement in contribution to Total Operating Profit, despite flat revenue. As usual in this business the profit was somewhat second-half weighted, although we anticipate that there will be less difference between the first and second-half margins – which were 3.1 per cent and 4.1 per cent respectively – once the gains from our margin-improvement programme are fully achieved.

There were three main contributors to our margin-improvement programme: first, the integration of our Security operation into our Commercial business, which has had an important impact on the indirect cost base; second, we have continued to make significant improvements to procurement; and third, we have further developed systems and procedures to increase productivity across our major contracts.

The UK market for outsourced services is not yet exhibiting the full growth potential that was expected to result from the government's austerity programme and from continued private sector efficiency drives. While there is still a reasonable flow of opportunities, we have not yet seen the anticipated shift in thinking, particularly among local authorities, that will lead to a more structural approach to outsourcing as a way to maintain services while addressing costs. Meanwhile clients seek to restrain discretionary spend, resulting in some volume pressure.

However, we believe that the rise in demand for services from a growing and ageing population will accelerate the long-term trend towards public services outsourcing, and we continue to see good potential in this market given the limited number of service providers with our ability to deliver full-scope, integrated services contracts. Opportunities such as the MoJ's custodial services framework show that there is an appetite for innovation in the public sector and we are actively pursuing such new business streams. Equally, in the private sector we continue to see growing evidence of clients seeing the benefit of outsourcing, albeit the operating models through which opportunities arise are more varied.

The Work Programme is another example of government seeking to gain the benefits of competition and payment by results, and one in which we were successful in 2011. The DWP took the decision to replace all existing welfare-to-work programmes with a regionally-based series of contracts in which the successful bidders would be responsible for delivering vocational training, skills development and employment-focused support to the long-term unemployed. We were successful, in our joint venture with Rehab Group, an Irish charity, in winning both the Wales and south-west England contracts, which last for five years and are worth approximately £130 million in aggregate.

Other significant UK contract wins include: contracts with the Defence Infrastructure Organisation (DIO) supporting the military bases in Cyprus, the Falkland Islands, Ascension Island and Gibraltar, worth £300 million over five years with possible two-year extensions; a £108 million, two-year extension to our South East Regional Prime contract, also with the DIO; a three-year extension to our Total Facilities Management contract with the London Borough of Croydon, worth £30 million; and a three-year contract to clean William Hill's retail estate.

Internationally, our success was led by industrial services work in Qatar. Dolphin Energy awarded us a five-year contract for maintenance services at its Ras Laffan plant and for supplying management, manpower and equipment both there and at its offshore platforms and pipelines. We added infrastructure maintenance services to our existing five-year contract with Qatar Shell GTL and, since the year end, have won a place on its three-year Plant Change Construction Services framework agreement (with a two-year extension option).

The award of these and other contracts means that the division's future workload grew from £4.0 billion to £4.2 billion during the course of the year, and our confidence is further underpinned by additional identified opportunities of around £7 billion. We are further developing our activities in the Middle East, where the economic progress of the various economies is increasingly generating requirements for outsourced services. Qatar's compound GDP growth rate is forecast to be 5.2 per cent per annum to 2015, with the UAE at 3.8 per cent. We are also considering expanding into other regions where we can combine the expertise gained from our outsourcing experience with our knowledge of the local markets gained through our other operational divisions.

Results summary	2011	2010	Change
Revenue			
- UK	**£1,007.3m**	£1,024.8m	-1.7%
- International (share of associates)	**£25.9m**	£23.7m	+9.3%
Contribution to Total Operating Profit	**£40.0m**	£28.5m	+40.4%
- UK	**£36.4m**	£25.1m	+45.0%
- International (share of associates)	**£3.6m**	£3.4m	+5.9%
Operating margin (UK)	**3.6%**	2.4%	+1.2%pts
Operating margin (International)[1]	**15.1%**	14.8%	+0.3%pts

[1]Operating margin for our associates is calculated on operating profit, comprising post-tax profit of £3.6m (2010: £3.4m) plus interest and tax of £0.3m (2010: £0.1m)

DAVID PATERSON
MANAGING DIRECTOR, CONSTRUCTION

CONSTRUCTION

The majority of the division's UK work comes from low-risk projects with long-standing clients, and over three-quarters of this activity is in the public and utilities sectors. In the Middle East, where we have been active for over 30 years, our client base is more oriented towards the private sector. However, with the support of our local joint-venture partners, our associate businesses are characterised by the same focus on developing long-term working relationships.

Construction works closely with clients in the UK and internationally, leading the design and construction process in the creation of a broad range of buildings and infrastructure.

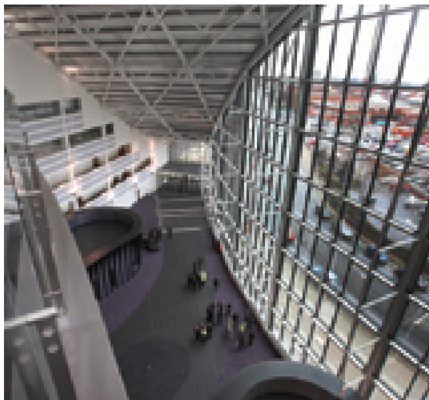
United Kingdom

The UK business performed creditably in a very competitive environment, particularly given that the comparative year of 2010 was, by some way, a record. The drop in contribution to UK Total Operating Profit reflects the reduced profitability of projects contracted since the downturn, when competitive pressure had increased. With stable volumes, the margin, at 2.5 per cent, is returning towards the levels we would expect over the longer term.

2011 was a year of success and innovation by our education team. We handed over both the £77 million flagship Sandwell College (see inset) in West Bromwich for up to 10,000 students, and the £32 million Leeds West Academy, which incorporates many sustainability features and has achieved a provisional BREEAM 'Excellent' rating. Leeds is also the location for two groundbreaking projects won during the year: at Leeds East Academy we shall use our innovative modular "PodSolve" construction technique, which saves a quarter of the construction cost and can be applied to both new and retrofit buildings; and we shall be building Richmond Hill Primary School to Passivhaus standards – one of the first such schools in the UK. During 2011 we completed the first certified, carbon-neutral, Passivhaus, commercial office to be built in the UK: our own regional office in Leicester.

We have a long and successful association with the health sector. By the end of 2011 we had been awarded 13 contracts, worth an aggregate £180 million, under the new *ProCure21+* framework. Projects awarded during the year included a £19 million Research, Innovation, Learning and Development Centre in Exeter and appointment by Nottingham University Hospitals NHS Trust as preferred Principal Supply Chain Partner until 2016. We have been similarly successful in the Welsh health framework, and, in January 2012, were named as a partner in all three regions in its successor, *Designed for Life: Building for Wales 2,* which lasts for four years with a possible two-year extension.

Among our infrastructure projects we completed the challenging refurbishment of the historic Albert Bridge (see case study, page 10) in London and reopened it to vehicles in December following nearly two years of intensive work. Both our technical expertise and our project management skills were vital in restoring the Grade II* listed bridge to its former glory while maintaining passage for the busy river traffic.



SANDWELL COLLEGE

How are we building the schools and colleges of the future, whilst providing opportunities for today's generation at the same time?

As part of a local regeneration project we are working in partnership with staff at Sandwell College to provide state-of-the-art teaching and learning facilities that will transform education for generations to come.

The £77 million college opened in February 2012 and is helping to regenerate one of the UK's most disadvantaged regions. Throughout the project, expenditure and employment opportunities have been kept within the local area and six apprentices have been employed on the site.

Results summary	2011	2010	Change
Revenue			
- UK	**£731.1m**	£754.3m	-3.1%
- International (share of associates)	**£223.7m**	£239.2m	-6.5%
Contribution to Total Operating Profit	**£34.6m**	£47.3m	-26.8%
- UK	**£18.0m**	£24.5m	-26.5%
- International (share of associates)	**£16.6m**	£22.8m	-27.2%
Operating margin (UK)	**2.5%**	3.2%	-0.7% pts
Operating margin (International)[1]	**8.4%**	10.3%	-1.9% pts

[1]Operating margin for our associates is calculated on operating profit, comprising post-tax profit of £16.6m (2010: £22.8m) plus interest and tax of £2.2m (2010: £1.8m)

Looking forward, we expect that the UK construction market will continue to recede during 2012 and into 2013, before beginning to grow again from 2014. It is likely that the emphasis of government spending will shift towards infrastructure in the shorter term and that the private sector, particularly in south-east England, will begin to recover before the public sector. We are well-positioned in key sectors and are managing our resources flexibly so that we shall be able to respond swiftly as and when the market returns to growth. Significantly, our UK Construction future workload stands at £1.2 billion, slightly higher than the £1.1 billion at the end of 2010.

International

The majority of our international earnings are generated from our associate businesses in the Middle East. Both volumes and profits were affected by increased caution on the part of our clients as the global economy adjusts to new patterns of demand. Nevertheless we made good progress with our development plans. We acquired an interiors business, Noorco, in Qatar to augment our capabilities in interior fit-out and we continue to explore other potential growth avenues across the region.

We won a number of sizeable contracts in Qatar, our largest market, with a mixture of new and long-standing clients. These included two major construction contracts at Ras Laffan Industrial City, worth £70 million together, for infrastructure in the processing and gas supply markets, a project with Nakilat for the construction of support facilities at a shipyard also at Ras Laffan, and a contract for the design, construction and maintenance of a new fitness centre at the world-leading sports tourism destination, Aspire Zone, Doha.

The UAE is a regional hub for transport and a range of business services. Despite the current surplus of residential property, demand for hotel accommodation remains high with hotels operating at greater than 80 per cent occupancy (source: Ernst & Young). The hospitality and leisure sector was an important contributor in 2011, with works carried out on the Ritz Carlton and fit-out projects on Saadiyat Island's St Regis Hotel and the Sofitel Resort Palm Jumeirah Hotel. We saw a modest upturn in infrastructure work, with contracts such as the Dubai Roads and Transport Authority's maintenance works, surfacing works on the Dubai-Fujairah Freeway and roads in Umm al Quwain, one of the smaller emirates. In the retail sector we secured a £40 million contract to build the Fujairah Mall and car park for Majid Al Futtaim.

Oman experienced a degree of civil unrest as part of the Arab Spring, which is having an impact on the return of tourism and leisure projects. We are therefore increasing our focus on roads and infrastructure projects, which we see as more attractive in the short-to-medium term. After the year end we won a significant contract with Daewoo to build the infrastructure for a new 2,000MW power station in Sur for the Oman Power and Water Procurement Company.

The IMF is forecasting GDP growth of 4.0 per cent for 2012 for the Gulf Co-operation Council (GCC) countries, slightly reduced on previous forecasts due to the resumption of more normal levels of oil production in Qatar and Saudi Arabia which had ramped up in 2011 to compensate for lower output from Libya. Nevertheless, growth rates in the region are still attractive even if the immediate outlook is somewhat subdued, and Qatar in particular, with construction output forecast to grow at a compound rate of 7.9 per cent per annum up to 2016 (source: Business Monitor international), remains a market with very substantial future prospects from which we are well placed to benefit.

NELSON MANDELA CHILDREN'S HOSPITAL

Interserve's health planners are working with Sheparrd Robinson International, GAPP Architects and Ruben Reddy Architects on the design and development of the new Nelson Mandela Children's Hospital in Johannesburg.

The 200-bed hospital will provide 60 neonatal and paediatric intensive care unit beds and will undertake heart, kidney and bone-marrow transplants. It will provide tertiary services in oncology, cardiology, renal, orthopaedics, plus other specialities for children up to the age of 16 when it becomes operational in 2014. Currently, there are only four dedicated children's hospitals in Africa – two in Egypt, one in Kenya and one in Cape Town, South Africa.

EQUIPMENT SERVICES

We have a strong position as one of the leading global suppliers in our specialist markets. We operate across a wide range of geographies and sectors, with a fleet of equipment which we can move around the world to meet the changing demands in our global markets.

Equipment Services (which trades as RMD Kwikform) designs bespoke engineering solutions and provides temporary structural equipment for complex infrastructure and building projects.

STEVEN DANCE
MANAGING DIRECTOR, EQUIPMENT SERVICES

With the exception of strong performances from Australia and the Far East, we experienced weakness in infrastructure spending in 2011, with pricing pressure continuing to impact margins. This was exacerbated by the impact of the Arab Spring, particularly on exports to North Africa and to an extent in Bahrain and Oman. To address these pressures, we maintained a strong focus on the cost base and cash generation of our operations, with a number of business units being restructured during the year. Although there is still some uncertainty in global construction markets we believe that the first half of the year was the low point in our cycle and trading is showing early signs of recovery: not only did profits in the second half exceed those in the first half, they were also 15 per cent stronger than those in the second half of 2010.

Results summary	2011	2010	Change
Revenue	£154.3m	£139.9m	+10.3%
Contribution to Total Operating Profit	£13.6m	£14.4m	-5.6%
Margin	8.8%	10.3%	-1.5% pts

Regionally:

Middle East and Africa

Trading in the Middle East was affected both by the position of the construction market generally and by the impact of the civil disturbances in Bahrain, Oman and North Africa, in particular Libya. With the reduction in these contributions, Saudi Arabia, which we entered for the first time in 2009, became our most successful and largest Middle Eastern market in 2011.

The Kingdom has extensive construction and infrastructure plans from which we are benefiting. An example is the Jubail Highway upgrade connecting Dammam to Jubail, the busiest road in the Eastern Province, where we have been involved in the construction of some major highway intersections involving a number of bridges for our customer Sinopec.

Among the projects we undertook was the Ritz Carlton Hotel in Dubai Marina, for which Khansaheb, our UAE Construction associate, was the client. A particularly challenging project was the design and supply of the supporting equipment for the construction of a 6.5km tunnel forming part of the Lusail Light Rail Transit system in Qatar. Our engineers designed, fabricated and supplied six complete sets of travelling formwork and shoring, each 14m long, which enabled the contractor to achieve four-day cycles, reducing the construction programme significantly. We were subsequently commissioned to design and supply all the support and formwork equipment for the tunnel pumping stations and ventilation shafts and are negotiating over further associated work.

One aspect of our growth strategy is to develop exports to other parts of the region. In 2011 this included the Basra Sports City Stadium project in Iraq, a 65,000-seater football stadium due to be complete in time for the Gulf Cup in 2013.

Australasia and Far East

We had a record year in Australasia and the Far East. This is now Equipment Services' largest region and is benefiting from healthy demand in the Australian mining and infrastructure sectors. The Sino Iron project described in the case study on page 12 gives an idea of the scale and complexity of the work in which we have been involved. Another example is the Victoria Desalination Plant, currently in the final stages of construction and the largest of its type built to date in Australia. We have designed and supplied formwork and shoring systems to all areas of this major development over the past two years. Prospects in mining and natural resources remain good, driven in part by the country's access to the fast-growing Chinese and Indian markets. There is little sign yet of a resumption of growth in the Australian commercial sector.

Elsewhere in the region Hong Kong performed well as further infrastructure contracts were let, and we anticipate that this will continue in 2012. A key project was our work on the new Cruise Terminal

building, which has a construction programme of three years and will berth the world's largest cruise liners. The project drew on not only our engineering skills but also our logistics expertise, as we designed and supplied some 3,000 tonnes of formwork and shoring sourced from around the world within a very short lead time.

Europe

Demand in the UK reflected the pressures on the construction sector. Nevertheless performance was resilient and we undertook a number of high-profile projects and developed further innovative products that will maintain our position at the leading edge of the industry. Our specialist Paraslim composite bridge system was used to support the construction of the new M6 Catthorpe Viaduct Replacement at the intersection of the M6/M1 motorways. We also introduced 'Megastair', a stair and access system that will be used on the country's two new aircraft carriers, and 'Ascent Screens', a unique set of products which works in tandem with our climbing formwork system to shield concrete works and protect the surrounding environment from building debris. For the coming year, we see a number of attractive prospects, including Crossrail, commercial building work in London, waste-to-energy plants and the nuclear sector.

Our markets in Spain and Ireland were severely depressed in 2011. We have taken restructuring actions in both countries and have moved excess fleet out to markets with greater potential demand. A general election in Spain in November 2011 saw a change in government, and a return to an infrastructure plan is also anticipated but with the benefit not likely to be felt until 2013. In Ireland the outlook is somewhat improved but the country's economic position leaves significant uncertainty over the infrastructure sector.

Americas

While we have made good progress in integrating and reconfiguring the US operations that we acquired at the end of 2010, the recovery of the construction market remains slower than expected. Our Chilean operation performed well, responding to increased demand in reconstruction work and from the burgeoning mining sector. We expect this to continue in 2012.

DOUGIE SUTHERLAND
MANAGING DIRECTOR, DEVELOPMENTS

DEVELOPMENTS - INVESTMENTS

Developments is responsible for two broad areas: directing the Group's PPP investment activities, leading the bid process and managing equity investments; and taking the primary role in driving the Group's strategic development, pursuing acquisitions, exploring new opportunities and leading major, complex bids in market sectors which require cross-divisional involvement. As it is a central function its costs are allocated to Group Centre and its results reflect the performance of our investments.

Our Developments division is responsible for managing our investment activities and for leading our strategic developments.

Our PPP equity investments continue to make a healthy contribution to Group earnings, with a total contribution to pre-tax profit of £10.0 million. At 31 December 2011 we had 22 signed contracts (31 December 2010: 21), of which 19 are now operational and three under construction. During the year we were named preferred bidder for one more, the Holt Park wellbeing centre in Leeds, and reached financial close just before the end of the year. Also in January 2012 we were chosen as the successful bidder for the West Yorkshire Police PFI. This will involve the construction of two new divisional headquarters, custody suites and a specialist operational training facility (with firearms ranges and public-order and driver training facilities), and the provision of FM services for 25 years thereafter. We anticipate that the total value of our construction and FM services will be approximately £150 million.

We have made a significant investment commitment on the signed contracts, of which £45.1 million (31 December 2010: £25.8 million) has already been paid and £13.0 million (31 December 2010: £30.1 million) remained.

We expect our portfolio to be cash neutral over the medium term, with new investments being funded by disposals of mature projects. With our considerable expertise and track record in delivering, operating and financing using PPP structures, we believe we are well placed to benefit from the development of similar funding arrangements for public sector investments. Our bidding in 2012 will concentrate on education, health and strategic partnerships.

	2011	2010	Change
Contribution to Total Operating Profit	£6.0m	£4.2m	+42.9%
Interest received on subordinated debt investments	£4.0m	£2.8m	+42.9%
	£10.0m	£7.0m	+42.9%

Principal risks and uncertainties

We operate in a business environment in which a number of risks and uncertainties exist. While it is not possible to eliminate these completely, the established risk-management and internal control procedures, which are regularly reviewed by the Group Risk Committee on behalf of the Board, are designed to manage their effects and thus contribute to the creation of value for the Group's shareholders as we pursue our business objectives.

The Group continues to be dependent on effective maintenance of its systems and controls. Over and above that, the principal risks and uncertainties which the Group addresses through its risk-management measures are detailed below.

BUSINESS, ECONOMIC AND POLITICAL ENVIRONMENT

Potential impact

Among the changes which could affect our business are:

- changes in our competitors' behaviour;
- the imposition of unusually onerous contract conditions by major clients;
- shifts in the economic climate both in the UK and internationally;
- a deterioration in the profile of our counterparty risk;
- alterations in the UK government's policy with regard to expenditure on improving public infrastructure, buildings, services and modes of service delivery;
- delays in the procurement of government-related projects; and
- civil unrest and/or shifts in the political climate in some of the regions in which we operate

any one or more of which might result in a failure to win new or sufficiently profitable contracts in our chosen markets or to complete those contracts with sufficient profitability.

Mitigation and monitoring

We seek to mitigate these risks by fostering long-term relationships with our clients and partners, our predominantly governmental/quasi-governmental medium-to-long-term revenue streams, the development of additional capabilities to meet anticipated demand in new growth areas of public service delivery, careful supply chain management and by operating in various regions of the world, including the Middle East, where we are able to transfer resources to maximum effect between the differing economies of that region. We also have in place committed financing of £246 million with a diversity of maturity dates between 2015 and 2017. We constantly monitor market conditions and assess our capabilities in comparison to those of our competitors. Whether we win, lose or retain a contract we analyse the reasons for our success or shortcomings and feed the information back at both tactical and strategic levels. We also constantly monitor our cost base and take action to ensure it is suitable given the prevailing market environment.

MAJOR CONTRACTS

Potential impact

As we focus on large-volume relationships with certain major clients for a significant part of our revenue, termination of one or more of the associated contracts would be likely to reduce our revenue and profit. In addition, the management of such contracts entails potential risks including mispricing, inaccurate specification, failure to appreciate risks being taken on, poor control of costs or of service delivery, sub-contractor insolvency and failure to recover, in part or in full, payments due for work undertaken. In PFI/PPP contracts, which can last for periods of around 30 years and typically require the Special Purpose Companies (SPCs) established by us and one or more third parties to provide for the future capital replacement of assets, there is a risk that such a company may fail to anticipate adequately the cost or timing of the necessary works or that there may be increases in costs, including wage inflation, beyond those anticipated.

Mitigation and monitoring

Among our mitigation strategies are targeting work within, or complementary to, our existing competencies, the fostering of long-term relationships with clients, operating an authority matrix for the approval of large bids, monthly management reporting with key performance indicators at contract and business level, the use of monthly cost-value reconciliation, supply chain management, taking responsibility for the administration of our PFI/PPP SPCs, securing board representation in them and ensuring that periodic benchmarking and/or market testing are included in long-term contracts.

OPERATING SYSTEM

Potential impact

We enjoy demonstrable success in working with third parties both through joint ventures and associated companies in the UK and abroad. This success results in a material proportion of our profits and cash flow being generated from businesses in which we do not have overall control. Any weakening of our strong relationships with these business partners could have an effect on our profits and cash flow.

Mitigation and monitoring

We have a proven track record of developing and re-enforcing such relationships in a mutually beneficial way over a long period of time and our experience of this places us well to preserve existing relationships and create new ones as part of our business model. The measures taken to limit risk in this area include: board representation, shareholders' agreements, management secondments, local borrowings and rights of audit in addition to investing time in personal relationships.

KEY PEOPLE

Potential impact

The success of our business is dependent on recruiting, retaining, developing, motivating and communicating with appropriately skilled, competent people of integrity at all levels of the organisation.

Mitigation and monitoring

We have a Group-wide leadership programme designed to support the strategic aims of the Company. We have various incentive schemes and run a broad range of training courses for people at all stages in their careers. With active human resources management and Investors in People accreditation in many parts of the Group, we manage our people professionally and encourage them to develop and fulfil their maximum potential with the Group.

HEALTH AND SAFETY REGIME

Potential impact

The nature of the businesses conducted by the Group involves exposure to health and safety risks for both employees and third parties. Management of these risks is critical to the success of the business and is implemented through the adoption and maintenance of rigorous operational and occupational health and safety procedures.

Mitigation and monitoring

A commitment to safety forms part of our mission statement and the subject leads every Board meeting both at Group and divisional level. Each member of the Executive Board undertakes dedicated visits to look at health and safety measures in place at our operational sites and we have ongoing campaigns across the Group emphasising its importance.

FINANCIAL RISKS

Potential impact

We are subject to certain financial risks which are discussed in the Financial Review on pages 24 to 29.

In particular, we carry out major projects which from time to time require substantial amounts of cash to finance working capital, capital expenditure and investment in PFI projects. Failure to manage working capital appropriately could result in us being unable to meet our trading requirements and ultimately to defaulting on our banking covenants.

We recognise a pension deficit on our balance sheet. The deficit's value is sensitive to several key assumptions which are discussed on page 28 of the Financial Review, and any significant changes in these may result in the Group having to increase its pension scheme contribution with a resultant impact on liquidity.

Mitigation and monitoring

We have policies in place to monitor the effective management of working capital, including the production of daily balances, weekly cash reports and forecasts together with monthly management reporting.

A number of actions have been taken including closure of the Defined Benefit Scheme to further accrual for all non-passport members from the end of December 2009, the contribution of PFI investments to the pension scheme and additional employer contributions in excess of the income statement charge.

DAMAGE TO REPUTATION

Potential impact

Issues arising within contracts, from the management of our businesses or from the behaviour of our employees at all levels can have broader repercussions on the Group's reputation than simply their direct impact.

Mitigation and monitoring

Control procedures and checks governing the operation of our contracts and of our businesses are supported by business continuity plans and arrangements for managing the communication of issues to our stakeholders.

Financial Review

TIM HAYWOOD
GROUP FINANCE DIRECTOR

SUMMARY

Financial highlights of 2011 included:

- A robust trading performance in line with expectations
- Increase in headline earnings per share of 15.2 per cent
- Continued improvement in margins at Support Services driven by significant operational efficiency improvements and procurement benefits
- Continued strong cash generation. Average net debt for the year was £3 million (2010: £20 million)
- Very low taxation charge, representing an effective rate of 9.7 per cent (2010: 16.5 per cent) on profit before taxation, following management action taken to maximise tax efficiency on earnings remitted from the Middle East
- Net pension deficit under IAS 19 materially contained despite worsening market asset prices and falling liability discount rates
- Successful refinancing completed providing committed financing of £246 million with a diversity of maturity dates between 2015 and 2017. Core funding of £150 million in place for five years with bilateral arrangements running in parallel totalling £96 million providing additional flexibility and capacity. This is a clear demonstration of commitment from our banking group and provides significant headroom to fund our future growth.

FINANCIAL PERFORMANCE

Revenue and operating profit

Across the Group, total gross revenues have been stable year on year. However our three principal trading divisions experienced different market conditions.

Strong revenue growth of 10 per cent in Equipment Services principally reflects increased activity from our newly acquired operations in North America. In Support Services revenues were broadly stable at £1,007.3 million (2010: £1,024.8 million), with measured work winning accompanying a continued focus on margin enhancement. Our UK and International Construction divisions reported declining revenues in continued challenging global construction markets.

A full-year operating margin on gross revenues of 3.2 per cent (2010: 3.2 per cent) again reflects a stronger second half than first half with an operating margin of 3.5 per cent (H1 2011: 2.9 per cent). Within this, the operating margin in UK Support Services strengthened from 3.1 per cent in the first half to 4.1 per cent in the second half, reflecting the benefits of ongoing operational efficiency improvements and procurement benefits. The improvement in margin over the year clearly demonstrates the significant progress made in the division as it tracks towards the medium-term target of a 5 per cent operating margin. As anticipated, the UK Construction margin, at 2.5 per cent, is reverting towards more long-term norms and is expected to drift down slightly over the next few years, impacted by lower activity levels and increased competition. The full-year margin in Equipment Services was down slightly year-on-year at 8.8 per cent (2010: 10.3 per cent), having been adversely impacted by the effects of the Arab Spring and Eurozone conditions. Most encouragingly, however, the second half of 2011 saw resumption in growth and, led by further increases in activity levels, the division is expected to return to a full year of growth in 2012 with further recovery towards medium-term margin expectations of 15 per cent.

Average and closing exchange rates used in the preparation of these results were:

	Average rates		Closing rates	
	2011	2010	**2011**	2010
US dollar	**1.60**	1.55	**1.55**	1.55
Qatar Rial	**5.84**	5.64	**5.63**	5.64
UAE Dirham	**5.88**	5.68	**5.68**	5.68
Australian dollar	**1.54**	1.69	**1.52**	1.52
Euro	**1.15**	1.17	**1.19**	1.17

Movements in exchange rates during the year had no material impact on the results of the Group.

The Chairman's Statement and the Business Review provide an overview of the Group's results for 2011. This report provides further information on key aspects of the performance and financial position of the Group.

New segmentation

Reflecting the growing significance of our International Support Service operations and some minor changes in the way a few elements of our business are reported and managed, the segmentation of our results has been amended with comparatives restated accordingly. Note 3 to the financial statements on pages 77 to 80 provides further details.

Investment revenue and finance costs

The net interest charge for the year of £1.0 million can be analysed as follows:

£million	2011	2010
Net interest on Group debt	(6.3)	(5.4)
Interest due on sub-debt	4.0	2.8
IAS 19:		
Expected return on Scheme assets	35.3	32.3
Interest cost on pension obligations	(34.0)	(34.5)
Group net interest charge	(1.0)	(4.8)

A continued strong focus on cash management during the year delivered a further significant reduction in average net debt to £3 million (2010: £20 million). The increase in net interest on Group debt reflects the full-year impact of the refinancing in April 2010.

The interest cost on Group debt is high relative to the amounts drawn down due to the fixed costs relating to the amortisation of upfront arrangement fees and a commitment fee payable as a percentage of undrawn committed facilities.

Interest receivable on sub-debt increased to £4.0 million (2010: £2.8 million) reflecting the increasing operational maturity of the investment portfolio and increasing associated returns.

The successful reassessment of the Interserve Pension Scheme's ("the Scheme") investment strategy, carried out over the past two years, together with relatively strong equity markets, has resulted in significant increases in pension fund asset values. These increases and the additional cash and asset contributions from the Group during the period, gave rise to increased expected returns on the Scheme assets of £35.3 million (2010: £32.3 million).

This resulted in a (non-cash) net interest credit in the 2011 results relating to pensions.

Taxation

The tax charge for the year of £6.5 million represents an effective rate of 9.7 per cent on total Group profit before taxation. The factors underlying this low effective rate are shown in the table below.

	2011			2010		
£million	Profit	Tax	Rate	Profit	Tax	Rate
Group companies	39.7	13.9	35.0%	33.6	11.5	34.2%
Joint ventures and associates*	27.4	-	0.0%	30.5	-	0.0%
Underlying tax charge and rate	67.1	13.9	20.7%	64.1	11.5	17.9%
Prior period adjustments		(0.4)			(0.9)	
Middle East remittances		(7.0)			-	
Total per Income Statement	67.1	6.5	9.7%	64.1	10.6	16.5%

*The Group's share of the post-tax results of joint ventures and associates is included in profit before tax in accordance with IFRS.

The underlying tax charge and rate, before the benefits noted below, was slightly higher than in the previous year due to a higher incidence of losses in overseas tax jurisdictions that are not available for relief against other Group profits. The impact of this is expected to normalise downwards in future years as management action to stem these losses reduces their impact.

As previously disclosed, the Group has benefited from actions taken that have improved the tax efficiency of earnings remitted from a subsidiary in the Middle East. This has been achieved through a restructuring of investment holdings in the region, which will also have prospective benefits, and the conclusion of negotiations on the nature, and subsequent tax treatment, of an historical remittance. This has benefited the current year tax charge by £7.0 million (2010: £nil).

Dividend

The directors recommend a final dividend for the year of 13.0 pence, to bring the total for the year to 19.0 pence, an increase of 5.6 per cent over last year. This dividend is covered 2.6 times by headline earnings per share and 2.3 times by free cash flow.

NET DEBT AND CASH FLOW

Average net debt for the year was £3 million (2010: £20 million) and year-end net debt was £44.2 million (2010: £53.8 million), having benefited from free cash flow generation of £54.4 million (2010: £43.1 million).

£million	2011	2010
Operating profit before exceptional items and amortisation of intangible assets	**45.9**	43.4
Depreciation and amortisation	**29.9**	26.3
Net (capital expenditure) / disposal proceeds	**(5.5)**	9.5
Gain on disposal of property, plant and equipment	**(15.5)**	(13.0)
Share-based payments	**2.3**	1.6
Working capital movement	**9.5**	(21.5)
Operating cash flow	**66.6**	46.3
Pension contributions in excess of the income statement charge	**(27.0)**	(26.7)
Dividends received from associates and joint ventures	**20.6**	32.1
Tax paid	**(3.2)**	(6.3)
Other	**(2.6)**	(2.3)
Free cash flow	**54.4**	43.1
Dividends paid	**(25.5)**	(24.8)
Investments, acquisitions and disposals	**(19.3)**	(32.6)
Other non-recurring	**-**	(2.2)
Decrease / (increase) in net debt	**9.6**	(16.5)

The strong operating cash flow of £66.6 million, representing 145 per cent conversion of operating profit before amortisation of intangible assets (2010: £46.3 million and 107 per cent respectively), was driven by continued management action to control capital expenditure and manage working capital efficiently.

Despite a £5.8 million net outflow of advances received from customers (2010: £14.3 million outflow) working capital produced a net inflow of £9.5 million. On a three-year rolling basis this represents an aggregate net inflow of working capital of £40.6 million against a backdrop of continuing tough economic conditions.

Following a year in which proceeds from disposals exceeded new capital invested by £9.5 million, 2011 saw a return to a modest level of net capital expenditure of £5.5 million. This remains significantly below the annual depreciation charge.

The strong cash generation of our operations in the Middle East and of our Investments special purpose vehicles has enabled us to make an investment of £3.3 million during the year in the acquisition of the trade and assets of an interiors business in Qatar and to remit dividends from associates and joint ventures of £20.6 million (2010: £32.1 million).

Tax paid of £3.2 million (2010: £6.3 million) remains considerably lower than the Consolidated Income Statement charge incurred by the Group, due principally to timing differences, the tax deductions for pension deficit payments and the actions taken to maximise the tax efficiency of the remittance of earnings from the Middle East noted earlier.

Investments and acquisitions outflow of £19.3 million in 2011 reflects additional equity and sub-debt invested in PFI joint-venture companies, as a number of projects achieved operational status.

REFINANCING

Subsequent to the balance sheet date, we have been successful in securing a long-term refinancing for the Group. This has seen our previous £250 million syndicated revolving credit facility, which was due to expire in October 2013, replaced with a series of committed facilities totalling £246 million (at current exchange rates). These new facilities run in parallel with each other and provide a diverse maturity profile extending, in total, five years to February 2017. The achievement of five-year funding in the current debt market is a clear demonstration of the commitment and backing we receive from our banking group.

The core of this financing is provided by a £150 million committed syndicated facility extending five years until February 2017. This is augmented by two committed bilateral facilities totalling £46 million that run in parallel to the main facility and extend for four years until February 2016. The final element of financing is provided by a three-year, £50 million bilateral facility that matures in February 2015 with the option of two one-year extensions.

The new funding is subject to the same covenants as the previous facility and is on broadly similar commercial terms. It has been secured at slightly lower rates for borrowing and non-utilisation.

These new funding arrangements provide us with increased certainty, greater flexibility, improved resilience, a diversity of maturity dates and sufficient balance sheet capacity to deliver our medium-term strategy.

ACQUISITIONS

We maintain a disciplined approach to reviewing potential acquisition opportunities, rejecting those which do not meet our strict valuation and other selection criteria.

We announced on 29 March 2011 that, following several weeks of due diligence and expenditure of some £0.7 million on professional advisers, we were not continuing with the proposed acquisition of Mouchel Group plc.

Nevertheless, with a strong balance sheet, and significant available debt capacity and facilities, we remain well placed to take advantage of appropriate acquisition opportunities as they are identified.

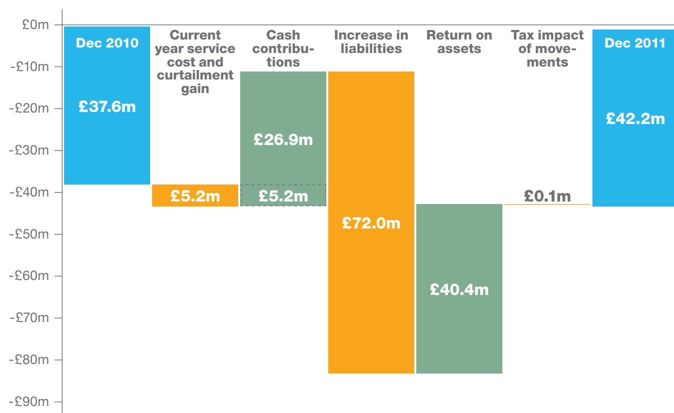
PENSIONS

At 31 December 2011 the Group pension deficit under IAS 19, net of deferred tax, was broadly stable at £42.2 million (2010: £37.6 million):

£million	2011	2010
Defined benefit obligation	695.0	642.3
Scheme assets	(638.8)	(590.8)
Deferred tax thereon	(14.0)	(13.9)
Net deficit	42.2	37.6

With the benefit of additional employer cash contributions significantly in excess of the Income Statement charge and an investment portfolio that outperformed the market in the period, the value of Scheme assets increased by £48.0 million during the year. However, corporate bond yields, which are used to discount Scheme liabilities, have fallen significantly during the year. As a result, the value of benefit obligations has increased by marginally more than the increase in the value of Scheme assets.

Defined benefit liabilities and funding



The Group's principal pension scheme is the Interserve Pension Scheme, comprising approximately 95 per cent of the total defined benefit obligations of the Group.

The triennial actuarial valuation of the Scheme as at 31 December 2011 is currently under way. This will determine an updated funding shortfall and an associated programme of deficit recovery payments. The Group is currently committed to a programme of cash deficit recovery payments of £22 million per annum, increasing by 2.8 per cent each year, until 2017. This deficit recovery plan was designed to eliminate a deficit of £224 million assessed as at 31 December 2008. This plan also included a bullet contribution of £61.5 million of PFI assets in November 2009.

Investment risks

Scheme assets are invested in a mixed portfolio that consists of a balance of performance-seeking assets (such as equities) and lower-risk assets (such as gilts and corporate bonds). As at 31 December 2011, 44 per cent of the Scheme assets were invested in performance-seeking assets (2010: 48 per cent).

The agreed investment objectives of the Scheme are:

- to secure, with a high degree of certainty, liabilities in respect of all defined benefit members; and
- to adopt a long-term strategy which aims to capture outperformance from equities and move gradually into bonds to reflect the increasing maturity of the defined benefit membership with a view to reducing the volatility of investment returns.

The majority of equities held by the Scheme are in international blue-chip entities. The aim is to hold a globally diversified portfolio of equities, with an ultimate target of 50 per cent of equities being held in UK and 50 per cent in US, European and Asia Pacific equities.

IAS 19 assumptions and sensitivities

Assumptions adopted in assessment of the Income Statement charge and funding position under IAS 19 are reviewed by our actuarial advisers, Lane Clark & Peacock LLP.

The principal sensitivities to the assumptions made with regard to the balance sheet deficit are as follows:

	Assumption adopted 2011	Assumption adopted 2010	Sensitivity	Indicative change in liabilities	
Key financial assumptions					
Discount rate	**4.8%**	5.4%	+/- 0.5%	-/+ 8%	-/+ £54m
RPI / CPI	**3.1% / 2.1%**	3.4% / 2.8%	+/- 0.5%	+/- 6%	+/- £41m
Real salary increases	**0.75%-1.5%**	0.75%-1.5%	+/- 0.5%	+/- 0.2%	+/- £1m
Life expectancy (years)					
Current pensioners[1]					
Men	**86.0**	85.9	+ 1 year	+3%	+21m
Women	**87.9**	87.9			
Future pensioners[2]					
Men	**87.8**	87.7			
Women	**89.1**	89.0			

[1]Life expectancy of a current pensioner aged 65.

[2]Life expectancy at age 65 for an employee currently aged 45.

INVESTMENTS

The credit in the Income Statement relating to the performance of the Group's share of the equity portfolio is analysed as follows:

£million	2011	2010
Share of operating profit	**1.9**	3.8
Net finance credit	**7.5**	2.8
Taxation	**(3.4)**	(2.4)
Share of profit included in Group Total Operating Profit	**6.0**	4.2

This increased contribution reflects the increasing operational maturity of the remaining portfolio, with six projects having achieved operational status during the year.

Assets created under investment contracts have been assessed in relation to the balance of risks and rewards assumed by the Group and are accounted for as financial assets, classified as available-for-sale. As such these assets are held at their assessed fair value at the balance sheet date, with movements over the period being taken directly to equity.

Having achieved financial close on the Holt Park project in December 2011, at the balance sheet date the Group had £58.1 million of committed investment in 22 projects which had reached financial close. Of this, £45.1 million had been invested at that date, with the balance due to be invested over the next two years.

Subsequent to the year end, we were appointed selected bidder on the West Yorkshire Police project for the construction of two new divisional headquarters, custody suites and a specialist operational training facility. On financial close this will increase our committed investment and is expected to provide £150 million of construction and facilities management work over 25 years.

£million	Investment to date	Remaining commitment	Total
1 January 2011	25.8	30.1	55.9
New projects achieving financial close / increased participation	-	2.4	2.4
Loans and capital advanced	19.5	(19.5)	-
Repayment of sub-debt	(0.2)	-	(0.2)
31 December 2011	**45.1**	**13.0**	**58.1**

The Group's share of gross liabilities of £805.5 million (2010: £701.8 million) principally represents non-recourse debt within these ventures to fund capital building programmes and working capital requirements.

Figure i: Total life cash flows shows the profile of the post-tax cash flows expected from the current portfolio excluding projects at preferred bidder and future gains such as refinancing.

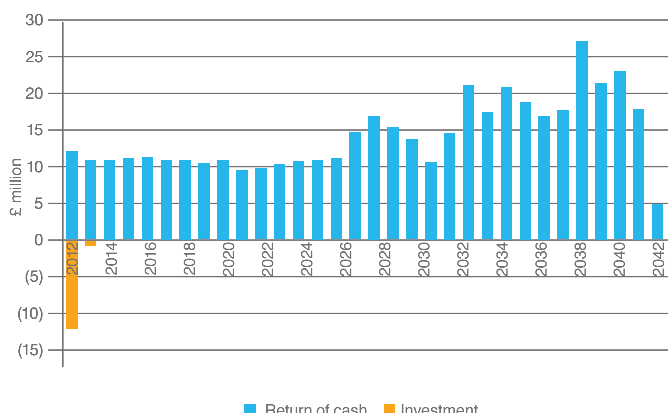
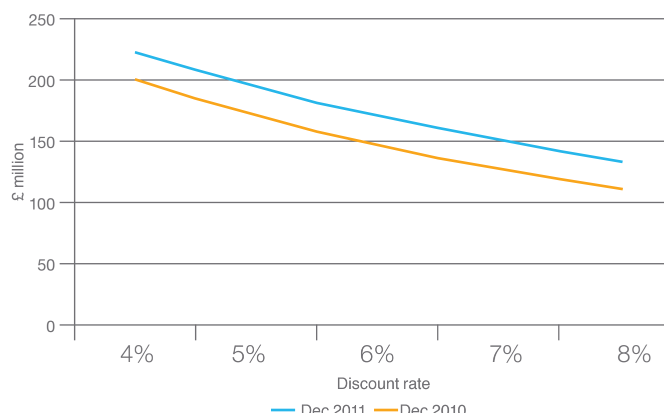


Figure ii: Portfolio valuation demonstrates the value of these flows as calculated along a range of discount rates.



TREASURY RISK MANAGEMENT

We operate a centralised Treasury function whose primary role is to manage interest rate, liquidity and foreign exchange risks. The Treasury function is not a profit centre and it does not enter into speculative transactions. It aims to reduce financial risk by the use of hedging instruments, operating within a framework of policies and guidelines approved by the Board.

Liquidity risk

We seek to maintain sufficient facilities to ensure access to funding for our current and anticipated future requirements, determined from budgets and medium-term plans.

Having successfully refinanced subsequent to the balance sheet date, we have access to committed syndicated revolving credit facilities totalling £150 million until February 2017 and £96 million of various bilateral agreements which expire between February 2015 and February 2016.

Market price risk

The objectives of our interest rate policy are to match funding costs with operational revenue performance and to ensure that adequate interest cover is maintained, in line with Board approved targets and banking covenants.

Our borrowings are principally denominated in sterling and mostly subject to floating rates of interest linked to LIBOR. We have in place interest rate caps and swaps which limit interest rate risk. The weighted average duration to maturity of these instruments is a little over two years.

Foreign currency risk

Transactional currency translation

The revenues and costs of our trading entities are typically denominated in their functional currency. Where a material trade is transacted in a non-functional currency, the entity is required to take out instruments through the centralised Treasury function to hedge the currency exposure. The instruments used will normally be forward currency contracts. The impact of retranslating any entity's non-functional currency balances into its functional currency was not material.

Consolidation currency translation

We do not hedge the impact of translating overseas entities trading results or net assets into the consolidation currency.

In preparing the consolidated financial statements, profits and losses from overseas activities are translated at the average exchange rates applying during the year. The average rates used in this process are disclosed on page 24.

The balance sheets of our overseas entities are translated at the year-end exchange rates. The impact of changes in the year-end exchange rates, compared to the rates used in preparing the 2010 consolidated financial statements, has led to an increase in consolidated net assets of £8.0 million (2010: £7.7 million increase).

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review. Our financial position, cash flows, liquidity position and borrowing facilities and details of financial risk management are described in the Financial Review.

The majority of our revenue is derived from long-term contracts, which provides a strong future workload and good forward revenue visibility. We have access to committed debt facilities totalling £246 million until a range of dates that extend beyond February 2015. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Sustainability Review
At the heart of everything we do

TIM HAYWOOD
GROUP FINANCE DIRECTOR,
HEAD OF SUSTAINABILITY

This section provides a summary of our approach to sustainability and of our performance in 2011. A more detailed account, including further information on our sustainability performance, is published in our 2011 Sustainability Report, available via our website at www.interserve.com/sustainability.

We are dedicated to providing a sustainable business fulfilling our commitments to our shareholders, our customers, our employees and our communities to ensure we help deliver a better future. Our Head of Sustainability is Tim Haywood, the Group Finance Director. He leads the Sustainability Board, which is embedding these principles throughout the business.

The Sustainability Board, aided by the wider body of experts within Interserve and supplemented by external consultancy, has embarked on an extensive programme to assess the effectiveness of our sustainability processes and to determine how far sustainability concepts extend into all our day-to-day working. This programme recognises that while successful leadership is important, the responsibility for delivering a sustainable business is shared with all our employees, our supply chain and our clients.

Our sustainability policy includes the following commitments:

- to continue to operate safely and responsibly and seek to continuously improve these standards of operations;
- to develop a sustainable range of building and support services, underpinned by a sustainable business;
- to strive to improve our business performance, contributing to economic, social and environmental development;
- to help our customers create more value in their business;
- to provide our people with every opportunity to contribute to developing their talents; and
- to act as responsible members of our communities, by generating economic growth and supporting social, educational and cultural advancement.

Across the world we have achieved a number of accreditations in this area including Investors in People, ISO 14001, OHSAS 18001, ISO 9001 and PAS 99. Interserve is a member of the FTSE4Good and Kempen Social Responsibility indices.

HOW WE VIEW SUSTAINABILITY

Sustainability is essential to the way we do business. We understand the fundamental interdependence of the social, economic and environmental aspects of sustainability and that the way we behave will ensure we have a positive impact in each of these areas.

Social

Our approach to social responsibility provides opportunities for our employees, focuses on their wellbeing and reflects our involvement in the economies, markets and communities in which we operate. We are playing a crucial role in delivering social sustainability, economic regeneration and transformation by undertaking our work responsibly and by engaging in matters of local, national and global interest.

Employee engagement

We believe in involving our people in matters affecting them as employees, and keep them informed of all relevant factors concerning the Group's performance, strategy, financial status, charitable activities and other issues. We achieve this through formal and informal briefings, through our Group magazines and through our intranet. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Since 2007 we have conducted a biennial, Group-wide survey to help us understand how our employees experience working in Interserve and what improvements we may be able to make at a local or central level.

Economic

Economic success is an integral part of sustainable development, enabling the sharing of wealth to the benefit of society as a whole. We are aware of our responsibilities in the locations where we work and are passionate about the creation of sustainable employment and training opportunities for local people.

In November we introduced a revolutionary new design for schools which greatly reduced building costs and time. The PodSolve design is being used for Leeds East Academy and will benefit students through an improved and flexible learning environment, while cutting both costs and length of time for construction by 25 per cent.

Environmental

In addition to the moral obligation to safeguard the environment, there are clear business advantages in taking a lead on environmental issues. It means we are better placed to help our customers comply with legislation and prepare for a changing climate, and especially it enables us to reduce our customers' costs and their impact on the environment. From cutting down waste and water usage to better use of raw materials and fewer emissions, we keep our environmental impact, and those of our clients, to a minimum.

Our Sustainability Report contains examples of our innovative work in this area, including our new Leicester office, the first certified Passivhaus, carbon-neutral office in the UK. We have also started work on the two schools in Leeds which will also be Passivhaus.

In 2011 we once again participated in the Carbon Disclosure Project and we are currently working to achieve CEMARS accreditation for our carbon emissions reporting.

EMPLOYEE ENGAGEMENT: 'THE BIG PICTURE'

In order for our large and diverse workforce to feel a part of our vision, to focus on our goals and endorse our values, we have developed a major employee communications initiative called "The Big Picture".

It has been designed, with the input of our senior managers, to educate and inspire our people and forms part of our induction process.

OUR PERFORMANCE

Health and safety

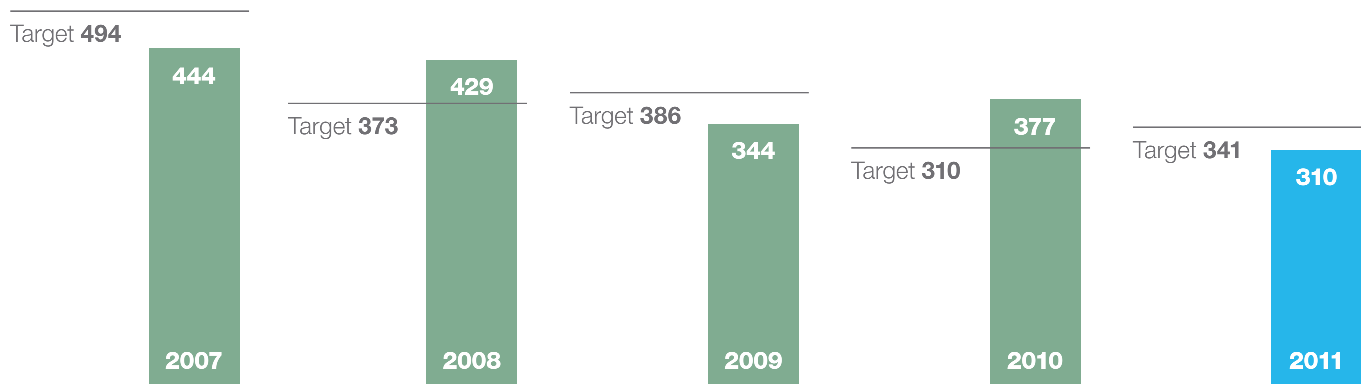
At the beginning of 2010 we reassessed which measures would best help us manage the way we work in order to make continual improvements in our health and safety performance. As a result we adjusted some of our KPIs to increase the focus on proactivity and on enhancing behavioural change.

The health and safety data in the adjacent table and chart cover Interserve and its subsidiaries as well as a joint-venture operation, KMI+, of which Interserve owns just over 30 per cent. The accident incidence rate (AIR) is the number of RIDDOR-reportable injuries per 100,000 workforce.

With our formal safety management systems well established it is clear that further improvements in performance will predominantly come though behavioural change programmes and changing attitudes towards safety. This has been developed into our *Aim to be Accident-Free* campaign with each operating division delivering programmes of activity most relevant to their operations.

Measure	2011 target	**2011 outcome**	✓/✗	2012 target
Zero fatal injuries to employees, contractors or members of the public	0	**0**	✓	0
Halve our all-labour AIR by 2020 from a 2010 base (377)	341	**310**	✓	282
Maintain a fatal and major injury incidence rate below 70	70	**85**	✗	70
Executive Board members to carry out an average of 12 site safety visits per annum	12 each	**Total: 93 Average: 13.3**	✓	12 each
All employees with high occupational risk to their health to be engaged with the health surveillance programme	90%	**92%**	✓	90%
All site managers and supervisors to receive appropriate health and safety training	90%	**87%**	✗	90%
All employees to work within safety management systems registered to OHSAS 18001	95%	**98%**	✓	95%

ALL-LABOUR ACCIDENT INCIDENCE RATE



Employee development

Over the course of the year our people engaged in more than 9,800 days'-worth of training, in addition to external courses and self-directed learning. We employed 78 apprentices, had 298 people undertaking part-time or distance learning and 1,370 on management development courses. Since the year end one of our apprentices, Tibby Choda, was named *Young Carpenter of the Year 2012* in the BBC's Young Talent of the Year competition.

The success of individuals committed to their personal training and development is recognised through the Interserve Training Trust, established in 1981. The Chief Executive presented 45 people from across the Group and around the world with awards in September at a ceremony in front of the entire Group's senior management.

Charitable giving

We believe in contributing to the well-being of the communities in which we work. For some years we have had a programme which operates at different levels: at Group level we select a charity every two years and make an annual donation; we encourage business units to run charitable events, either for the Group charity or for another cause that is important to the area or the people involved; and we offer support for employees to undertake sponsored activities.

In early 2012 we set up the Interserve Employee Foundation. The aim of the Foundation is to improve the quality of life for people in the communities where we live and work, using the skills, capabilities, resources and enthusiasm of Interserve employees. Ambassadors from all our business units and locations will promote the aims of the Foundation and help get employees involved in local projects. The Foundation was launched with an ambitious project to construct a learning centre in Chennai, India.

Our chosen charity for 2010 and 2011 was Help for Heroes, a charity founded in 2007 to provide direct, practical support to those wounded in UK military service. As a result of the fund-raising events and individual sponsored activities, over £49,000 was raised in 2011 to complement the Company donation of £25,000, making a total of nearly £160,000 over the two years. We have extended our support for a further year.

Beyond our chosen charity we involve ourselves in numerous local charities in the UK and internationally, both as a business and through the hard work of many individuals who take up causes that are close to them personally or to our clients. We gave a corporate donation of £10,000 to Great Ormond Street Hospital's *Raising the Roof* campaign as well as £25,000 to the Safer London Foundation (the Metropolitan Police's charity supporting community-led crime prevention/reduction projects), and several smaller donations to other charities brought the corporate total to £77,412 for the year.

Environmental impact

We use a variety of indicators relevant to each of our operating companies to monitor environmental performance, but the following core impacts are identified for the Group as a whole:

- Greenhouse gas emissions from our use of energy, including electricity, gas, fuel in vehicles, transport and travel
- Use of resources including water and timber
- Generation and disposal of waste

We collect data in our wholly-controlled, UK operations[1]. This is based around our fixed office locations and the activities we support from them and includes office locations associated with contracts where we hold lease agreements and pay utility bills. It also includes the fuel we purchase for use in vehicles to deliver our contracts.

We believe that the increase in the figure for waste produced was due to improvements in our capturing data rather than to an actual increase in waste itself. It is also worth noting that we have increased the amount of recycling, so the waste potentially going to landfill has reduced.

[1] We have included the energy used on construction sites which we purchase directly and will have to account for under the carbon reduction commitment. We do not include:

- fuel used by contractors to deliver their packages of work on construction contracts;
- emissions from our associated companies overseas over which we do not exert direct financial control; or
- the local environmental impact of our Equipment Services international locations, as they are predominantly small locations and we do not routinely collect data there.

PROGRESS AGAINST ENVIRONMENTAL TARGETS (UK OPERATIONS)

Measure	2011 target	**2011 outcome**	✓/✗	2012 target
Reduce carbon emissions from energy used at UK Interserve fixed site locations (tonnes CO_2e per £million UK revenue) by 2.5% per annum	3.38 tonnes/£m	**3.33 tonnes/£m**	✓	3.25 tonnes/£m
Reduce carbon emissions from fuel used in UK fleet and cars (tonnes CO_2e per £million UK revenue) by 2.5% per annum	13.68 tonnes/£m	**12.77 tonnes/£m**	✓	12.45 tonnes/£m
Reduce water consumption at UK fixed site locations (m^3 water used per £million UK revenue) by 2% per annum	22.99 m^3/£m	**23.17 m^3/£m**	✗	22.71 m^3/£m
Reduce waste generated at UK fixed site locations (kg of waste generated per UK employee) by 2% per annum	32.79 kg/employee	**41.86 kg/employee**	✗	41.02 kg/employee

Our contributions to the social, economic and environmental wellbeing of the communities in which we operate are regularly recognised through a variety of awards.

RECOGNITION

In 2011 our awards included:

Social

- **Thames Water** – Excellence in Health and Safety award: Riverside project team
- **Considerate Contractors scheme** – Gold Award (and runner-up as Most Considerate Site): Wisbech Flood Defence project
- **Considerate Contractors scheme** – Bronze Award: Ripon flood alleviation scheme
- **Premises and Facilities Management (PFM) awards** – Partners in Skills Development: partnership with Asset Skills and RICS in developing employee career pathways
- **RoSPA awards:**

  2 President's Awards (10 to 14 consecutive Gold Awards)

  11 Gold Medals (5 to 9 consecutive Gold Awards)

  13 Gold Awards

  2 Silver Awards

Economic

- **Global Water Awards** – Distinction for Technical Achievement (and finalist as the Best Desalination Plant of the Year): Thames Gateway water treatment works
- **South West Forum for the Built Environment Drake awards** – Building of the Year: High View primary school
- **Building Better Healthcare awards** – Best Mental Health Design: Prospect Place, Birch Hill Hospital
- **South West Water** – Pure Service award: Hayle project team, for excellence in customer service
- **Edinburgh Architectural Association** – Regeneration and Conservation award: Adam Ferguson building at Edinburgh University
- **Local Authority Building Control (LABC) CYMRU Building Excellence awards** – Best Healthcare Project: Adult Mental Healthcare Unit at the Wrexham Maelor Hospital
- **LABC South West Building Excellence awards** – Best Educational Development: Torquay Community College
- **HR Technology Impact Awards** – Most Innovative Use of HR Technology: Construction's HR Department and the Department for Sustainable Business
- **Employee Benefits Awards** – Most Effective Travel Strategy for Business and Perk Car Drivers: Construction's HR Department and the Department for Sustainable Business
- **Institute of Civil Engineers East Midlands Merit awards** – Best Large Project: Stoke Bardolph anaerobic digestion plant
- **Civil Engineering Contractors Association** – North-East Project of the Year: Morpeth Flood Alleviation Scheme Emergency works
- **Education Investors awards** – Local Education Partnership of the Year: Sandwell Futures

Environmental

- **Environment Agency –** SHE Exemplar award: Shaldon and Ringmore Tidal Defence Scheme
- **H_2O awards 2011 (Middle East and North Africa water industry)** – Water Efficiency Leader award: Gulf Contracting (our Qatar associate company)
- **Abercrombie Awards** – Best Sustainable Development: High View primary school
- **Green Apple Environmental Awards:**

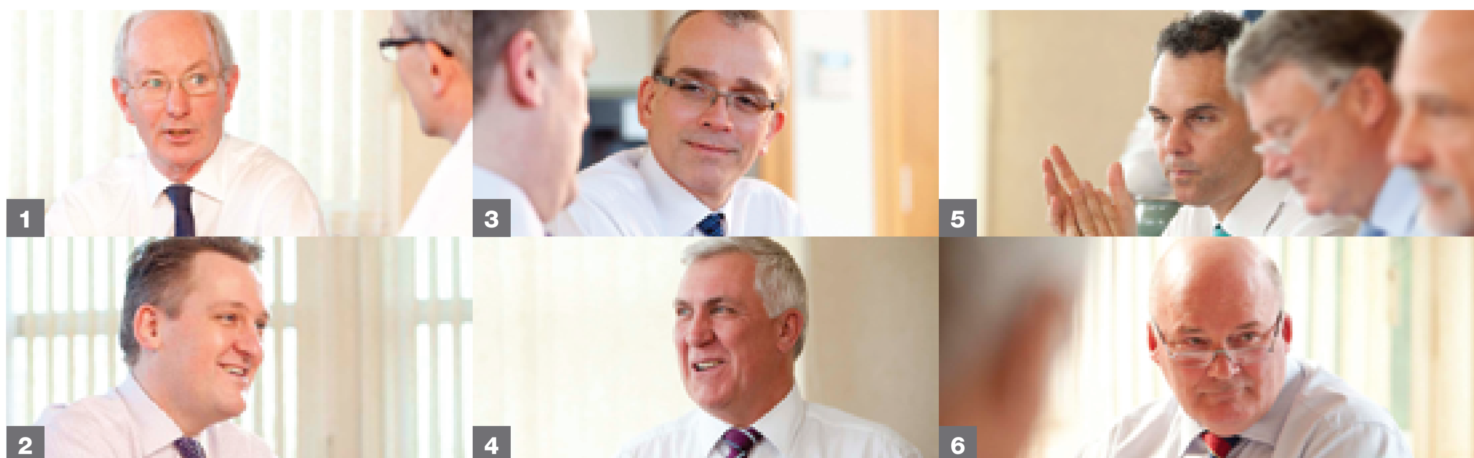
  Winner, Built Environment category: Malvern Community Hospital

  Gold Award (Education): Dartington primary school

  Gold Award (Biodiversity): Fishlake Habitat Creation project

  Ripon flood alleviation scheme
- **Yorkshire Post** – Environment Award: Fishlake Habitat Creation project
- **Health Service Journal Efficiency Awards** – Energy Efficiency award: UCLH Carbon Reduction and Innovation Group
- **Building Better Healthcare awards** – Best Use of Efficiency Savings: lighting scheme at the Christie Hospital's new Oak Road Patient Treatment Centre

Directors and Advisers



1. NORMAN BLACKWELL (LORD BLACKWELL) [1 3]

CHAIRMAN

Norman was appointed Chairman of Interserve in January 2006 having joined the Group as a non-executive director the previous September. He is the Senior Independent Director at Standard Life, a non-executive director at Ofcom and Halma and a board member of the Centre for Policy Studies. A former partner of McKinsey & Company, Norman was Head of the Prime Minister's Policy Unit from 1995-1997 and was appointed a life peer in 1997. His past business roles have included Director of Group Development at NatWest Group, non-executive directorships at SEGRO and Dixons Group, Non-Executive Board Member of the Office of Fair Trading and Commissioner of Postcomm. Norman chairs the Nomination Committee.

2. ADRIAN RINGROSE [1]

CHIEF EXECUTIVE

Adrian was appointed Chief Executive in July 2003 having served as Deputy Chief Executive since the previous January. He joined Interserve in 2000 on its acquisition of the Building & Property Group, became Managing Director of Interserve*fm* a year later and joined the parent Board in 2002. Adrian is Chairman of the CBI's Public Services Strategy Board, a Member of the CBI's President's Committee, past-President of the Business Services Association, a companion of the Chartered Management Institute and a member of the Chartered Institute of Marketing.

3. TIM HAYWOOD

GROUP FINANCE DIRECTOR

Tim joined Interserve as Group Finance Director in November 2010. He was previously Finance Director of St Modwen Properties. Earlier roles included Group Finance Director at Hagemeyer UK and senior finance director and financial controller positions in Williams Holdings. Tim is a Fellow of the Institute of Chartered Accountants in England and Wales.

4. STEVEN DANCE

EXECUTIVE DIRECTOR

Steven was appointed to the parent Board in January 2008, having joined the Group in 2004 as Managing Director of RMD Kwikform, the Equipment Services division. He was previously president of Erico's Fixing and Fastening business and prior to that had been involved in M&A transactions with ScottishPower. His early career included a variety of general management positions with Coats Viyella in Germany, Portugal, South America and the UK. Steven is a Chartered Director and a member of the Board of Examiners at the Institute of Directors.

5. BRUCE MELIZAN

EXECUTIVE DIRECTOR

Bruce, Managing Director of the Support Services division, was appointed to the parent Board in January 2008. He joined Interserve in 2003 as Managing Director of Interserve Investments before being appointed to his current position in 2006. Prior to joining Interserve he worked in a variety of roles worldwide in organisations such as Amey, Mowlem and Schlumberger. Bruce is a member of the Business Services Association Council and a Trustee of the Safer London Foundation.

6. DAVID PATERSON

EXECUTIVE DIRECTOR

David, Managing Director of the Construction division, was appointed to the parent Board in January 2011. He joined Interserve in 1994 and became Managing Director of the Infrastructure business unit in 1997. In 2005 he was appointed Managing Director of Construction's UK operations before taking on responsibility for the whole division in 2009. David's early career included working on the construction of the M25 and the Conwy Crossing and, prior to joining Interserve, he held senior management positions in Costain and Birse. David sits on the CBI Construction Council and is a Chartered Civil Engineer.

GROUP COMPANY SECRETARY
Trevor Bradbury

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AUDITORS
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STOCKBROKERS
J.P. Morgan Cazenove Limited
Oriel Securities Limited

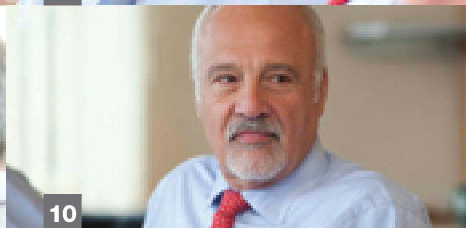
LAWYERS
Ashurst LLP

7

9

11

8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1 Member of the Nomination Committee
2 Member of the Audit Committee
3 Member of the Remuneration Committee
4 Senior Independent Director

7. DOUGIE SUTHERLAND

EXECUTIVE DIRECTOR

Dougie was appointed to the parent Board in January 2011. He is Managing Director of the Developments division, the evolution of the previous Investments division of which he became Managing Director on joining Interserve in 2006. Dougie began his career with seven years in the Royal Engineers. Between 1995 and 1999 he worked for HM Treasury leading deals on behalf of the government, including the redevelopment of the HM Treasury, GCHQ and National Savings buildings. For the next five years Dougie was Managing Director of Amey Ventures, with responsibility for a wide portfolio of bids and investments in the education, defence, rail and roads sectors. He then moved to Lend Lease as Managing Director of its PFI hospitals and schools business before joining 3i as a partner in its infrastructure team.

8. DAVID TRAPNELL [1 2 3 4]

NON-EXECUTIVE DIRECTOR

David, who has extensive international experience in manufacturing, distribution and installation of building materials gained in positions in the USA and Europe, was appointed as a non-executive director of Interserve in July 2003 and became Senior Independent Director in May 2011. Previous roles include non-executive director of Newman Tonks plc and Chairman of the Audit Committee at The Royal Mint, Group Chief Executive of Marley and Vice-President of the Construction Products Association.

9. LES CULLEN [1 2 3]

NON-EXECUTIVE DIRECTOR

Les brings a wealth of experience from a number of senior financial roles in the UK and internationally. He joined Interserve as a non-executive director in October 2005. He is a non-executive director of F&C Global Smaller Companies and a former director of Avis Europe and Sustrans. He has held the post of Group Finance Director at De La Rue, Inchcape and Prudential. Les chairs the Audit Committee.

10. KEITH LUDEMAN [1 2 3]

NON-EXECUTIVE DIRECTOR

Keith became a non-executive director in January 2011. He is also a non-executive director of Network Rail Infrastructure and of Network Rail. Keith has many years' experience in the rail and bus service industries, including some 15 years with Go-Ahead Group, of which he was Chief Executive for five years and where he was responsible for the negotiation and operation of complex public service contracts and the management and motivation of large workforces. His early career included nine years working with Greater Manchester Transport and three years working on transport policy in Hong Kong.

11. DAVID THORPE [1 2 3]

NON-EXECUTIVE DIRECTOR

David joined Interserve as a non-executive director in January 2009. He is non-executive Chairman of Arena Leisure, Clinical Solutions, The Innovation Group and SHL Group. David's executive career included a decade at Electronic Data Systems (EDS) which culminated in his becoming President of EDS Europe, and senior leadership roles at Bull Information Systems. He has also been Chairman of the Racecourse Association. Previous non-executive roles include VT Group, Anite and Tunstall Holdings. David is a County Councillor and the Cabinet Champion for Change for Gloucestershire County Council. He chairs the Remuneration Committee.

G PATRICK BALFOUR

RETIRED DIRECTOR

Patrick joined Interserve as a non-executive director in January 2003 and was appointed Senior Independent Director in October 2005. He is a solicitor and was formerly a partner of Slaughter and May. He retired from the Board on 18 May 2011.

Directors' Report

The Board aims to provide a balanced and understandable assessment of the Company's position and prospects. It uses the Chairman's Statement and the explanation of the Company's business model, markets and strategy on pages 2 to 9, the Business Review (which includes the Chief Executive's Q&A, Operational Review, Principal Risks and Uncertainties, Financial Review and Sustainability Review) on pages 14 to 35 and the Corporate Governance report on pages 44 to 51 which are incorporated in and form part of this Directors' Report to assist with this.

The directors' responsibility for the preparation of the Annual Report and Financial Statements and the statement by the auditors about their reporting responsibilities are set out on pages 63 and 64, respectively, of this Annual Report.

GROUP RESULTS AND DIVIDENDS

Financial reporting

The Group's Consolidated Income Statement set out on page 65 shows an increase in Group profit before taxation to £67.1 million (2010: £64.1 million). The detailed results of the Group are given in the financial statements on pages 65 to 107 and further comments on divisional results are given in the Operational Review on pages 16 to 21. There have been no post balance sheet events that require disclosure or adjustment in the financial statements.

Dividends

An interim dividend of 6.0p per 10p ordinary share (2010: 5.6p) was paid on 25 October 2011. The directors recommend a final dividend of 13.0p per 10p ordinary share, making a total distribution for the year ended 31 December 2011 of 19.0p per 10p ordinary share (2010: 18.0p). Subject to approval of shareholders at the Annual General Meeting ("AGM") on 16 May 2012, the final dividend will be paid on 24 May 2012 to shareholders appearing on the register at the close of business on 10 April 2012. The shares will be quoted ex-dividend on 4 April 2012.

The Company's dividend reinvestment plan will continue to be available to eligible shareholders. Further details of the plan are set out in the Shareholder Information section on page 128.

EES Trustees International Limited, the trustee of the Interserve Employee Benefit Trust (the "Trust"), waived its right to receive a dividend over 1,089,702 shares held by the Trust in the name of Greenwood Nominees Limited in respect of the dividend paid in June 2011 (June 2010: 2,665 shares) and 1,083,263 shares in respect of the dividend paid in October 2011 (October 2010: 1,092,328 shares).

SHARE CAPITAL

General

The Companies Act 2006 (the "2006 Act") abolished the requirement for companies to have an authorised share capital and shareholder approval was obtained at the 2010 AGM to take advantage of this deregulating measure. Accordingly, the Company no longer has an authorised share capital.

The Company's issued share capital as at 31 December 2011 comprised a single class of ordinary shares. All shares rank equally and are fully paid. No person holds shares carrying special rights with regard to control of the Company.

No shares were issued during the year. The Company's issued share capital at the end of the year stood at 125,804,346 (2010: 125,804,346) ordinary shares of 10p each (£12,580,434.60) (2010: £12,580,434.60). There has been no change since the year end.

Details of outstanding awards and options over shares in the Company as at 31 December 2011 are set out in notes 25 and 27 to the financial statements on pages 99 and 100 respectively.

Section 618 of the 2006 Act provides the rules governing the sub-division and consolidation of shares.

Issue of shares

Section 551 of the 2006 Act provides that the directors may not allot shares unless empowered to do so by the shareholders. A resolution giving such authority was passed at the AGM held on 18 May 2011. This authority was not used during the year.

In accordance with the guidelines issued by the Association of British Insurers (the "ABI"), the directors propose Resolution 18 set out in the Notice of AGM to renew the authority granted to them at the 2011 AGM to allot shares up to an aggregate nominal value of one-third of the Company's issued share capital plus a further one-third (i.e. two-thirds in all) where the allotment is in connection with a rights issue.

Under section 561 of the 2006 Act, if the directors wish to allot unissued shares for cash (other than pursuant to an employee share scheme) they must first offer them to existing shareholders in proportion to their holdings (a pre-emptive offer). Resolution 19 set out in the Notice of AGM will be proposed as a special resolution in order to renew the directors' authority to allot shares for cash other than by way of rights to existing shareholders. By restricting such authority to an aggregate nominal value of no more than 5 per cent of the Company's total issued equity capital, the Company will be in compliance with the Pre-Emption Group's Statement of Principles (the "Principles").

Shareholders should note that the Listing Rules of the Financial Services Authority do not require shareholders' specific approval for each issue of shares for cash on a non-pre-emptive basis to the extent that under section 570 of the 2006 Act the provisions of section 561 are disapplied generally. If given, this authority will expire on the date of the next AGM of the Company. The Principles also request that in any rolling three-year period a company does not make non-pre-emptive issues for cash or of equity securities exceeding 7.5 per cent of the company's issued share capital without prior consultation with shareholders. The percentage of shares issued by the Company on a non-pre-emptive basis in the period 2009 to 2011 pursuant to employee share schemes (calculated by reference to the Company's closing issued share capital at 31 December 2011), was 0.63 per cent.

Save for issues of shares in respect of various employee share schemes, the directors have no current plans to make use of the authorities sought by Resolutions 18 and 19 although they consider their renewal appropriate in order to retain maximum flexibility to take advantage of business opportunities as they arise.

Repurchase of shares

The Company has authority under a shareholders' resolution passed at the 2011 AGM to repurchase up to 12,580,434 of the Company's ordinary shares in the market. The shares may be purchased at a price ranging between the nominal value for each share and an amount equal to the higher of (i) 105 per cent of the average of the middle-market price of an ordinary share for the five business days immediately preceding the date on which the Company agrees to buy the shares concerned and (ii) the higher of the price of the last independent trade and the highest independent current bid on the London Stock Exchange at the time the purchase is carried out. This authority expires at the conclusion of the forthcoming AGM on 16 May 2012. No shares have been repurchased by the Company under the authority granted at the 2011 AGM.

Resolution 20 set out in the Notice of AGM will be proposed as a special resolution in order to renew this authority. Although the directors have no immediate plans to do so, they believe it is prudent to seek general authority from shareholders to be able to act if circumstances were to arise in which they considered such purchases to be desirable. This power will only be exercised if and when, in the light of market conditions prevailing at that time, the directors believe that such purchases would increase earnings per share and would be for the benefit of shareholders generally. Any shares purchased under this authority will be cancelled (unless the directors determine that they are to be held as treasury shares) and the number of shares in issue will be reduced accordingly.

Whilst the Company does not presently hold shares in treasury, the Treasury Shares Regulations allow shares purchased by the Company out of distributable profits to be held as treasury shares, which may then be cancelled, sold for cash or used to meet the Company's obligations under its employee share schemes. The authority sought by this resolution is intended to apply equally to shares to be held by the Company as treasury shares in accordance with the Treasury Shares Regulations.

RIGHTS ATTACHING TO SHARES

General

The rights attaching to the ordinary shares are set out in the 2006 Act and the Company's Articles of Association. A copy of the Articles can be obtained on request from the Company Secretary. The Articles may only be changed by special resolution of shareholders which requires, on a vote on a show of hands, at least three-quarters of the shareholders or proxies present at the meeting to be in favour of the resolution or, on a poll, at least three-quarters in nominal value of the votes cast by shareholders or their proxies to be in favour of the resolution.

A shareholder whose name appears on the register of members may choose whether those shares are evidenced by share certificates (certificated form) or held in electronic form (uncertificated) in CREST.

Voting

Subject to the restrictions set out below, a shareholder is entitled to attend (or appoint another person as his representative (a "proxy") to attend) and to exercise all or any of his rights to speak, ask questions and vote at any general meeting of the Company. A shareholder may also appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company.

The right to appoint a proxy does not apply to a person who has been nominated under section 146 of the 2006 Act to enjoy information rights (a "Nominated Person"). He/she may, however, have a right under an agreement with the registered shareholder holding the shares on his/her behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if a Nominated Person does not have such a right, or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

In accordance with section 327 of the 2006 Act, in order to be valid, any form of proxy sent by the Company to shareholders or any proxy registered electronically in relation to any general meeting must be delivered to the Company's registrars not later than 48 hours before the time fixed for holding the meeting (or any adjourned meeting). In calculating the 48 hour period no account shall be taken of any part of a day that is not a working day. Full details of the deadlines for exercising voting rights in respect of the 2012 AGM are set out in the Notice of AGM.

Subject to any rights or restrictions for the time being attached to any class or classes of shares and to any other provisions of the Articles of Association or statutes, on a vote on a resolution at a general meeting on a show of hands every shareholder present in person, every proxy present who has been duly appointed by one or more shareholders entitled to vote on the resolution and every authorised representative of a corporation which is a shareholder of the Company entitled to vote on the resolution, shall have one vote. If a proxy has been duly appointed by more than one shareholder and has been instructed by one or more of those shareholders to vote for the resolution and by one or more of those shareholders to vote against it, that proxy shall have one vote for and one vote against the resolution. On a poll, every shareholder present in person or by proxy shall have one vote for every share held.

A resolution put to the vote at a general meeting shall be decided on a show of hands unless the notice of the meeting specifies that a poll will be called on such resolution or a poll is (before the resolution is put to the vote on a show of hands or on the declaration of the results of the show of hands) directed by the Chairman or demanded in accordance with the Articles of Association.

If a person fails to give the Company any information required by a notice served on him by the Company under section 793 of the 2006 Act (which confers upon public companies the power to require information to be supplied in respect of a person's interests in the Company's shares) then the Company may, no sooner than 21 days later, and after warning that person, serve a disenfranchisement notice upon the shareholder registered as the holder of the shares in respect of which the section 793 notice was given. Unless the information required by the section 793 notice is given within 14 days, such holder will not be entitled to receive notice of any general meeting or attend any such meeting of the Company and shall not be entitled to exercise, either personally or by proxy, the votes attaching to such shares in respect of which the disenfranchisement notice has been given unless and until the information required by the section 793 notice has been provided.

General meetings

No business may be transacted at a general meeting unless a quorum is present consisting of not less than two shareholders present in person or by proxy or by two duly authorised representatives of a corporation. Two proxies of the same shareholder or two duly authorised representatives of the same corporation will not constitute a quorum.

An AGM must be called on at least 21 days' clear notice. All other general meetings are also required to be held on at least 21 days' clear notice unless the Company offers shareholders an electronic voting facility and a special resolution reducing the period of notice to not less than 14 days has been passed. The directors are proposing Resolution 21 set out in the Notice of AGM to renew the authority obtained at last year's AGM to reduce the notice period for general meetings (other than AGMs) to at least 14 days. It is intended that this shorter notice period will only be used for non-routine business and where merited in the interests of shareholders as a whole.

The business of an AGM is to receive and consider the accounts and balance sheets and the reports of the directors and auditors, to elect directors in place of those retiring, to elect auditors and fix their remuneration and to declare a dividend.

Providing that notice is given to the Company no later than six weeks before an AGM or no later than the date on which the notice of an AGM is given, shareholders representing at least 5 per cent of the total voting rights of all the shareholders who have a right to vote at the AGM or at least 100 shareholders who have that right and who hold shares in the Company on which there has been paid up an average sum per shareholder of at least £100, may require the Company to include an item in the business to be dealt with at the AGM.

Dividends

Subject to the provisions of the 2006 Act, the Company may, by ordinary resolution, declare a dividend to be paid to the shareholders but the amount of the dividend may not exceed the amount recommended by the directors. The directors may also pay interim dividends on any class of shares on any dates and in any amounts and in respect of any periods as appear to the directors to be justified by the distributable profits of the Company.

Liquidation

If the Company is wound up the liquidator may, with the sanction of a special resolution of the Company, and any other sanction required by law, divide amongst the shareholders the whole or any part of the assets of the Company. He may, for such purposes, set such value as he deems fair upon any property to be divided and may determine how such division shall be carried out as between the shareholders or different classes of shareholders. The liquidator may also transfer the whole or any part of such assets to trustees to be held in trust for the benefit of the shareholders. No shareholder can be compelled to accept any shares or other securities which would give him any liability.

MODIFICATION OF RIGHTS

If at any time the capital of the Company is divided into different classes of shares, the rights attached to any class or any of such rights may be modified, abrogated, or varied either:

(a) with the consent of the holders of 75 per cent of the issued shares of that class; or

(b) with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class.

The rights attached to any class of shares shall not (unless otherwise provided by the terms of issue of the shares of that class or by the terms upon which such shares are for the time being held) be deemed to be modified or varied by the creation or issue of further shares ranking pari passu therewith.

The Company may, by ordinary resolution, convert any paid-up shares into stock, and reconvert any stock into paid-up shares of any denomination.

TRANSFER OF SHARES

There are no specific restrictions on the transfer of securities in the Company, or on the size of a shareholder's holding, which are both governed by the Articles of Association and prevailing legislation. In accordance with the Listing, Prospectus, and Disclosure and Transparency Rules of the Financial Services Authority, certain employees are required to seek the approval of the Company to deal in its shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or on voting rights.

Subject to the 2006 Act, the directors may refuse to register any transfer of any share which is not fully paid (whether certificated or uncertificated), provided that the refusal does not prevent dealing in shares in the Company from taking place on an open and proper basis.

The directors may also decline to register the transfer of any certificated share unless the instrument of transfer is duly stamped (if stampable) and accompanied by the certificate of the shares to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer.

Transfers of uncertificated shares must be conducted through CREST and the directors can refuse to register transfers in accordance with the regulations governing the operation of CREST.

All share transfers must be registered as soon as practicable.

APPOINTMENT AND REPLACEMENT OF DIRECTORS

The Board must comprise of not less than three and no more than twelve directors. Directors may be appointed by shareholders (by ordinary resolution) or by the Board. Further information regarding the re-election of directors can be found on page 47 in the Corporate Governance report.

No person other than a director retiring at a general meeting shall, unless recommended by the directors for election, be eligible for election to the office of director unless, not less than seven nor more than 21 days beforehand, the Company has been given notice, executed by a shareholder eligible to vote at the meeting, of his intention to propose such person for election together with a notice executed by that person of his willingness to be elected.

The Company may, by ordinary resolution, of which special notice has been given in accordance with section 312 of the 2006 Act, remove any director before the expiration of his period of office and may, by ordinary resolution, appoint another person in his stead.

DIRECTORATE AND DIRECTORS' INTERESTS AND INDEMNITIES

The following (unless otherwise noted) have been directors throughout the year:

Lord Blackwell* (Group Chairman)
Adrian Ringrose (Chief Executive)
Patrick Balfour*[1]
Les Cullen*
Steven Dance
Tim Haywood
Keith Ludeman*
Bruce Melizan
David Paterson
Dougie Sutherland
David Thorpe*
David Trapnell* (Senior Independent Director)

*Non-executive director.

[1]Mr Balfour retired from the Board on 18 May 2011.

On 1 January 2011, David Paterson and Dougie Sutherland were appointed as executive directors and Keith Ludeman as a non-executive director.

Patrick Balfour retired from the Board following the conclusion of the 2011 AGM. He was succeeded as Senior Independent Director by David Trapnell, and David Thorpe took over from Mr Trapnell as Chairman of the Remuneration Committee.

The directors acknowledge the new Corporate Governance Code provision which encourages board members to stand for annual re-election at the AGM and for the first time at the AGM on 16 May 2012 each director will submit himself for re-election.

The directors' beneficial interests in, and options to acquire, ordinary shares in the Company at the year end are set out in the Directors' Remuneration Report on pages 59 to 62 of this Annual Report and Financial Statements.

Between the year end and the date of this report, Steven Dance, David Paterson, Adrian Ringrose and Dougie Sutherland have notified the Company that they have purchased an additional 82 shares each pursuant to the Interserve Share Incentive Plan 2009. Further details are disclosed on page 59 in the Directors' Remuneration Report. There have been no further changes in the shareholdings of the directors who held office at the year end.

The directors do not have any interest in any other Group company, other than as directors. No director has, or has had, a material interest, directly or indirectly, at any time during the year under review in any contract significant to the Company's business.

On 26 September 2007 the rules of the Interserve Pension Scheme were amended in order to provide the directors of Interserve Trustees Limited, the corporate trustee of the Interserve Pension Scheme, with a qualifying pension scheme indemnity to the extent that insurance has not been taken out by the trustee to cover its liabilities, or such liabilities cannot be paid from the proceeds of any insurance taken out by the trustee. That qualifying pension scheme indemnity remains in force at the date of this report and is available for inspection by shareholders at the Company's registered office.

In January 2011 an indemnity was given to the trustees of the Douglas Group Compass Pension Plan for any claim, costs, loss, damages and expenses which may be made against them or which they may pay or incur (save as a consequence of breach of trust committed knowingly and intentionally or as a result of negligence) in connection with the administration of the Plan and the winding-up of the Plan. Two of the trustees were also directors of one or more Group subsidiary companies. This Plan was formally wound up on 7 January 2011.

In January 2012 an indemnity was given to the trustees of the Interserve Retirement Plan against all and any claims, costs, damages and expenses which may be made against them or which they may pay or incur in connection with their administration of the Plan and the winding-up of the Plan (other than liabilities arising as a consequence of breach of trust committed knowingly and intentionally). One of the trustees was also a director of various Group subsidiary companies. This Plan was formally wound up on 31 January 2012.

SUBSTANTIAL SHAREHOLDINGS

As at 31 December 2011 the Company had been notified of the following interests in the voting rights over shares, as shown in the table below.

Between the year end and the date of this report, the Company has been notified that the interest of Standard Life Investments Ltd in the voting rights over shares has decreased to 6,260,305 shares (4.98 per cent of total voting rights).

SUBSTANTIAL SHAREHOLDINGS AS AT 31 DECEMBER 2011

Name of holder	Number of ordinary shares	% of total voting rights	Nature of holding
Henderson Global Investors Ltd	9,779,596	7.77	Indirect
JPMorgan Asset Management Holdings Inc	6,907,455	5.49	Indirect
Sageview Capital MGP, LLC	6,408,365	5.09	Indirect
Standard Life Investments Ltd	6,325,629	5.03	Direct and indirect
Prudential plc group of companies	5,711,710	4.54	Direct
Mondrian Investment Partners Ltd	5,312,017	4.22	Indirect
Legal & General Group Plc	4,550,350	3.62	Direct and indirect

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL PROVISIONS

The following significant agreements contain provisions entitling the counter parties to exercise termination rights in the event of a change of control in the Company:

- Under the terms of the banking facility agreements listed on page 26 of the Financial Review, if any person, or group of persons acting in concert, gains control of the Company any lender (i) is no longer obliged to fund any loan, save for a rollover loan; and (ii) may, by not less than 15 days' notice, cancel its commitment under the facility and declare its participation in all outstanding loans, together with accrued interest and all other amounts payable under the facility, immediately due and repayable.

The Group's share schemes also contain provisions relating to the vesting and exercising of awards/options in the event of a change of control of the Group.

There are no provisions in the directors' service agreements nor in any employees' contracts providing for compensation for loss of office or employment occurring because of a takeover.

CHARITABLE AND POLITICAL DONATIONS

Charitable donations made by the Company during the year amounted to £40,610 (2010: £40,785). Details of the beneficiaries of donations are given on page 33 in the charitable giving section of the Sustainability Review.

No political donations were made during the period (2010: £nil). It is not the Company's policy to make cash donations to political parties. This policy is strictly adhered to and there is no intention to change it. However, the definitions used in the 2006 Act for "political donation" and "political expenditure" remain very broad, which may have the effect of covering a number of normal business activities that would not be considered political donations or political expenditure in the usual sense. These could include support for bodies engaged in law reform or governmental policy review or involvement in seminars and functions that may be attended by politicians. To avoid any possibility of inadvertently contravening the 2006 Act, the directors are again seeking shareholder authority at the AGM (Resolution 17) to ensure that the Company acts within the provisions of current UK law when carrying out its normal business activities.

CREDITOR PAYMENT POLICY

It is the Group's normal practice to agree payment terms with its suppliers and abide by those terms. Payment becomes due when it can be confirmed that goods and/or services have been provided in accordance with the relevant contractual conditions. The Group's trade creditor days at 31 December 2011 were 82 days (2010: 76 days). The Company's trade creditor days at 31 December 2011 (calculated in accordance with the 2006 Act) were 19 days (2010: three days). This represents the ratio, expressed in days, between the amounts invoiced to the Company in the year by its suppliers and the amounts due, at the year end, to trade creditors falling due for payment within one year.

DIVERSITY

Our Diversity Policy states:

"Diversity in all its forms is fundamental to the Group's business. We operate in a variety of environments and geographies, in numerous roles, for a wide range of clients. To do this effectively we need an equally diverse workforce that understands our customers' needs and stimulates innovative solutions.

Interserve values the benefits it gains from an international workforce with a rich diversity of skills, cultural backgrounds and gender. Our goal is to recruit, motivate, develop and retain outstanding people that reflect that diversity. We are committed to ensuring that every employee has equal opportunity to develop and progress at every level in the organisation based on personal contribution and ability, with the aim over time of realising the benefits of diversity in the development of our management and executive leadership. We will continue to monitor the extent to which our staff believe we are meeting this objective and are committed to taking action where necessary or helpful to promote equal opportunity.

The Group Board believes that diversity can bring insights and behaviours that make a valuable contribution to its performance. In considering new members, we will aim to select individuals best able to contribute to an effective, challenging and cohesive Board by blending a diversity of skills, experience, knowledge, independence, cultural background and gender. Given constraints on the size of the Board, this will be achieved by taking into account the overall contribution to diversity alongside other desired characteristics in new appointments rather than by setting specific targets on any single dimension of diversity. We would expect this to lead to greater diversity on the Group Board and divisional boards over time. We will monitor our success in developing the diversity of the Board as part of our annual evaluation of Board effectiveness."

Our Construction business was the first construction company to be awarded the *Investors in Diversity* accreditation by the National Centre for Diversity.

AUDITORS

Resolutions to re-appoint Deloitte LLP as the Company's auditors and to authorise the directors to determine their remuneration will be proposed at the forthcoming AGM.

Statement on information to auditors

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

(a) so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) he has made such enquiries of his fellow directors and of the Company's auditors and has taken such other steps as were required by his duty as a director of the Company to exercise due care, skill and diligence in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

ANNUAL GENERAL MEETING RESOLUTIONS

The resolutions to be presented at the AGM to be held on 16 May 2012, together with the explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders and which is also available on our website at www.interserve.com.

Interserve House
Ruscombe Park
Twyford
Reading
Berkshire
RG10 9JU

Approved by the Board of directors and signed on behalf of the Board

T Bradbury
Company Secretary
29 February 2012

Cautionary statement

The Directors' Report (the "Report") set out above is the "management report" for the purposes of paragraph 4.1.8R of the FSA's Disclosure and Transparency Rules.

The Report has been prepared solely for existing members of the Company in compliance with UK company law and the Listing, Prospectus, and Disclosure and Transparency Rules of the FSA. The Company, the directors and employees accept no responsibility to any other person for anything contained in the Report. The directors' liability for the Report is limited, as provided in the 2006 Act. The Company's auditors report to the Board whether, in their opinion, the information given in the Report is consistent with the financial statements, but the Report is not audited. Statements made in this Report reflect the knowledge and information available at the time of its preparation. The Report contains forward-looking statements in respect of the Group's operations, performance, prospects and financial condition. By their nature, these statements involve uncertainty. In particular, outcomes often differ from plans or expectations expressed through forward-looking statements, and such differences may be significant. Assurance cannot be given that any particular expectation will be met. No responsibility is accepted to update or revise any forward-looking statement, resulting from new information, future events or otherwise. Liability arising from anything in this Annual Report and Financial Statements shall be governed by English law. Nothing in this Annual Report and Financial Statements should be construed as a profit forecast.

Corporate Governance

LORD BLACKWELL
CHAIRMAN

Dear Shareholder

The Board and management of Interserve Plc are committed to high standards of corporate governance. We recognise the role which strong governance provides in shaping and delivering effective strategy, managing risks and safeguarding shareholder interests.

The replacement of the Combined Code by the UK Corporate Governance Code (the "Code") for accounting periods beginning on or after 29 June 2010 means that the Company is reporting upon compliance with the new Code provisions for the first time in this report.

The Board provides entrepreneurial leadership, sets and subsequently keeps under review the overall Group strategy and monitors operational and financial performance. In addition, it sets the core values and ethical standards, the key tenets of which are contained in 'Conducting business with Interserve', which sets out clearly how employees are expected to behave and applies across the Group.

In fulfilling its role we believe it is valuable for the Board to combine the knowledge and diverse experience of both executive and non-executive directors, within an open and challenging Board culture. Executive directors are appointed to the Board on merit, reflecting their ability to contribute as directors to the full range of issues and Board responsibilities. The two additional executive appointments at the start of 2011 fully met those criteria and have added considerably to the strength of the Board. Although these additions have resulted in us no longer having a majority of non-executive directors, I am satisfied – both through my own observations and our annual Board review – that the strength and independence of the non-executive Board members and our open style of debate continues to provide a fully effective governance check within the Board while maintaining the overall Board size at an optimum level.

The Board fully embraces the belief that diversity in all its forms can bring insights and behaviours that make a valuable contribution to its performance. Our Board currently brings valuable diversity in executive and professional experience, but in considering new appointments we will seek further to widen our diversity. Our criteria are to appoint those individuals best able to contribute to an effective, challenging and cohesive Board taking into account the benefits of board diversity in its widest sense. We will monitor our success in developing the diversity of the Board as part of our annual evaluation of Board effectiveness.

Following the Company's re-admission to the FTSE 250 on 21 September 2011, the Board is proposing to offer all its members for re-election at our 2012 AGM.

Lord Blackwell
Chairman

COMPLIANCE WITH THE CODE

The Financial Services Authority (the "FSA") requires the Company to disclose how it has applied the principles of the Code and whether there has been compliance with its provisions throughout the financial year. In the case of non-compliance, the Company must specify those provisions with which it has not complied and give reasons for this. The Code may be found on the FRC website (www.frc.org.uk).

The directors consider that the Company has complied fully with the provisions of the Code applicable to it throughout the accounting period ended 31 December 2011 with the following exception:

- Provision B.1.2 of the Code requires at least half the board, excluding the Chairman, to comprise non-executive directors determined by the board to be independent. The Board comprised six executive and five non-executive directors plus the Chairman until the retirement of Patrick Balfour on 18 May 2011 at the conclusion of the AGM. The Board believes that the diversity of skills and experience which the executive directors bring to the Board (particularly in relation to their own operating divisions) is more valuable than maintaining parity between the number of executive and non-executive directors. Furthermore, the Board considers its non-executive directors to be sufficiently independent and of such calibre and number that their views may be expected to be of sufficient weight that no individual or small group can dominate the Board's decision-making processes.

THE BOARD

Operation of the Board

The Board has a formal schedule of matters reserved for its decision, whilst day-to-day operational decisions are managed by the Executive Board, as referred to on page 47.

In order to facilitate the efficient use of its time the Board has delegated certain of its powers to Board committees, details of which are set out later in this report. From time to time the Board also establishes certain other committees to deal with a specific issue which the Board has approved.

Key matters dealt with by the Board during the course of the year, in addition to ongoing monitoring of the operational and financial performance of the Group, were:

- setting the health, safety and environmental targets for the Group;
- reviewing the Group's strategic direction, governance, ethics and values;
- setting the Group's annual budget and plan;
- approval of the annual and half-year report;
- declaration of the interim and recommendation of the final dividend;
- ensuring the maintenance of a sound system of internal controls and an effective risk management and assurance strategy;
- monitoring the effectiveness of the Group's Health and Safety Policy;
- control over major acquisitions (including joint ventures), disposals and capital expenditure;
- implementation of a Board Diversity Policy;
- implementation of a Group-wide Anti-Bribery and Corruption Policy;
- reviewing the results of the employee survey; and
- reviewing succession planning across the Group's senior management.

Board composition and independence

The role of the Group Chairman and Chief Executive are split and clearly defined in written terms of reference. The Group Chairman is responsible for the leadership of the Board and creating the conditions for overall Board and individual director effectiveness, both inside and outside the boardroom. The Chief Executive bears primary responsibility for the management of the Company and of the Group and in leading the formulation of and, once set by the Board, implementing the strategy for the Group. The Chief Executive chairs the Executive Board and Risk Committee, leads the executive management team and investor communications and is responsible for social and ethical matters within the Group.

The Group Chairman and the non-executive directors are considered by the Board to be independent in character and judgement and free from any relationships or circumstances which are likely to affect, or could appear to affect, their judgement.

The non-executive directors have complementary skills, experience and qualifications in a wide range of economic sectors and so are able to bring independent judgement to bear on matters for consideration.

On 1 January 2011 David Paterson and Dougie Sutherland were appointed executive directors and Keith Ludeman appointed as a non-executive director. At the AGM on 18 May 2011 Patrick Balfour retired from the Board, David Trapnell succeeded him as Senior Independent Director and David Thorpe was appointed Chairman of the Remuneration Committee.

As Senior Independent Director, David Trapnell is available to shareholders should they have any concerns which contact through other channels has failed to resolve or for which such contact may be inappropriate. He also provides a sounding board for the Chairman and serves as an intermediary for the other directors when necessary.

As at 31 December 2011 the Board comprised of eleven members: the Group Chairman, six executive and four non-executive directors.

Meetings

The Board normally meets monthly throughout the year and on an ad hoc basis to consider any matters which are time-critical. Attendance at Board and committee meetings is set out in the table overleaf.

The Board also holds a strategy day in January each year to review the strategic direction of the Group.

The Group Chairman held one formal session with the non-executive directors without any executive directors being present and a number of informal discussions both with and without the Chief Executive being present. The non-executive directors also met once during the year, under the chairmanship of the Senior Independent Director, without either the Group Chairman or the executive directors being present.

	Board	Audit	Remuneration	Nomination
Number of Meetings	14	5	7	4
G P Balfour[1]	7	2	3	2
Lord Blackwell	14		7	4
L G Cullen	14	5	7	4
S L Dance	13			
T P Haywood	14			
K L Ludeman	14	5	7	4
D J Paterson	13			
B A Melizan	14			
A M Ringrose	14			4
D I Sutherland	14			
D A Thorpe	13	5	7	4
D A Trapnell	14	5	7	4

[1] Mr G P Balfour retired from the Board on 18 May 2011

The Group Chairman, assisted by the Company Secretary, sets the agenda for Board meetings. The Group Chairman also ensures that Board members receive timely information and are briefed on issues arising at Board meetings to assist them in making an effective contribution. The Company Secretary is responsible for distributing Board papers and other information sufficiently far in advance of each meeting for the directors to be properly briefed, presenting certain papers to the Board and its committees, advising on Board procedures and ensuring the Board follows them.

The Board papers include information from management on financial, business and corporate issues. Matters requiring Board and committee approval are generally the subject of a written proposal and circulated as part of the Board papers.

Appointments to the Board

On appointment, new directors take part in an induction programme arranged by the Company Secretary. As part of this programme, Keith Ludeman, David Paterson and Dougie Sutherland received a detailed induction from the Company Secretary. In addition, Mr Ludeman undertook visits to sites covering all four of the Group's UK divisional operations in order to gain an appreciation of, and familiarise himself with, the business of the Group. David Paterson and Dougie Sutherland, having already completed the Group's private company director training course, were provided with specific training on the duties of a listed company director by the Group's lawyers, Ashurst LLP.

Given constraints on the size of the Board, board diversity will be achieved by taking into account the overall contribution to diversity alongside other desired characteristics in new appointments rather than by setting specific targets on any single dimension of diversity. The Board expects this to lead to greater diversity on the Board and in the divisional boards over time.

Historically, equipment and construction services were industries into which women did not enter in great numbers. However, the Board is encouraged that around half of all graduates now recruited by its Construction division are women. The support services industry has been more popular with women, thus Support Services has more women in senior roles.

During the course of the year the Board reviewed what initiatives were in place within the Group to develop gender diversity and reviewed feedback from the biennial employee survey which included, amongst other things, data on equality of treatment and gender engagement.

Commitment and development

There is an ongoing programme of site visits by the Group Chairman and executive directors which provides additional opportunities over and above the programme of Board site visits for the non-executive directors to visit various operations of the Group. The Group Chairman has also held a number of lunchtime meetings with invited managers from across the Company and its UK subsidiaries at which they were given the opportunity to discuss their work and talk freely about any issues of concern.

Presentations were made to the Board during the year covering topics of special significance. In addition, as part of an ongoing programme, the Board undertook three one-day visits covering a number of the Group's operational sites in the UK and a three-day visit encompassing all the Group's operations in Qatar.

The majority of the non-executive directors attended one or more briefings or seminars relevant to their role during the year under review and each director completed the Group's online anti-bribery and corruption training.

During the year a Group-wide leadership programme designed to support the strategic aims of the Company was introduced. The programme seeks to accelerate the development of high performing and high potential senior leaders. The learning experience involves a highly interactive process of exchanging new ideas, sound advice, tools and techniques, business concepts and best practices with tutors, mentors, coaches and peers from across the Interserve business. Teamwork, involving community and business projects, insight workshops, mentoring and coaching, is a key component of the programme.

Participants in the leadership programme are also provided with an opportunity to contribute to the development of the Group and offered a comprehensive way of exploring business issues and opportunities. As participants practise their own personal leadership style, they develop further insights and entrepreneurial and relationship skills to evaluate, develop and manage new business opportunities to provide sustainable growth and increased shareholder value.

Information and support

Individual directors may, after consultation with the Group Chairman, take independent legal advice in furtherance of their duties at the Company's expense up to a limit of £10,000 in relation to any one event. In the case of the Group Chairman he must consult with the Senior Independent Director. All directors have access to the advice and services of the Company Secretary, whose appointment or removal is a matter reserved for the approval of the Board or any duly delegated committee thereof.

Board performance evaluation

During the course of the year the performance of the directors was reviewed by the Group Chairman and the Chief Executive and, in the case of the Chief Executive, by the Group Chairman, having consulted with other directors. The Group Chairman's performance was reviewed by the Senior Independent Director who held separate meetings with each of the directors and the Company Secretary.

The overall time commitment of the non-executive directors in the attendance of Board meetings/visits was in the order of 16 days in addition to the time taken to read Board papers and attend the four meetings held by the Group Chairman.

The Board also conducted a formal and thorough evaluation of its own performance with particular emphasis on the progress against the strategic objectives set at the strategy day. The evaluation identified:

- ways in which the operational performance could be more succinctly reported;
- an improved structure for meeting agendas;
- improvements in the Board evaluation process;
- a desire to enhance the diversity of the Board; and
- means of improving the effectiveness of communication with both investors and the wider business community.

The Audit, Remuneration and Nomination committees also conducted a review of their terms of reference and their performance against them.

Re-election

With a considerable number of directors already standing for election or re-election in 2011 it was not felt necessary to move to annual re-election of all directors at that time. However, all directors will submit themselves for re-election at the next AGM on 16 May 2012.

Biographical details for each of the directors standing for re-election are set out on pages 36 and 37.

Indemnities

As permitted by the Company's Articles of Association, qualifying third party indemnities have been in place throughout the period under review and remain in force at the date of this report in respect of liabilities suffered or incurred by each director. The Company also undertakes to loan such funds to a director as it, in its reasonable discretion, considers appropriate for the director to meet expenditure incurred by him in defending any criminal or civil proceeding or in connection with any application under section 661(3) or 1157 of the Companies Act 2006 on terms which require repayment by the director of amounts so advanced upon conviction of final judgment being given against him. The deeds of indemnity are available for inspection by shareholders at the Company's registered office. The Company also maintains an appropriate level of directors' and officers' insurance in respect of legal actions against the directors. Neither the qualifying third party indemnities nor the insurance provide cover where the director has acted fraudulently or dishonestly.

EXECUTIVE BOARD

Below the Board is the Executive Board which comprises all the executive directors and the Company Secretary. It is chaired by the Chief Executive.

The Executive Board, which met 11 times during the course of the year, is responsible for the operational management and delivery against budget and forecast of the Group, implementing resolutions of the Board, formulation of strategy, annual budgets and other proposals for consideration by the Board, the identification and evaluation for consideration by the Board of risks faced by the Group and for designing, operating and monitoring a suitable system of internal control embracing the policies adopted by the Board. It is also responsible for devising and implementing suitable policies and procedures for health and safety, environmental, social and ethical, treasury, human resources and information technology.

AUDIT COMMITTEE

Role

The principal roles of the Audit Committee are:

- to review and monitor the integrity of the Company and the Group's financial statements through the statutory audit of the annual and consolidated accounts and any formal announcements relating to the Group's financial performance;
- to provide an independent overview of the Company and the Group's systems of internal control, risk management and financial reporting processes particularly through the co-ordination and supervision of the quality, independence and effectiveness of the internal and external auditors; and
- to make recommendations to the Board.

The effectiveness of the Company and the Group's internal control and risk management systems is reviewed by the Board.

Composition

The committee is composed entirely of independent non-executive directors and is chaired by Les Cullen. The directors who have served on the committee during the year are:

Name	Date of appointment to committee	Qualifications
G P Balfour[1]	1 January 2003	MA (Cantab), Solicitor
L G Cullen	14 November 2005	MBA BSc (Hons) FCCA FCT
K L Ludeman	1 January 2011	BA (Hons) MSc DSc (Hon)
D A Thorpe	1 January 2009	CPFA
D A Trapnell	11 September 2003	BSc (Hons)

[1]Mr G P Balfour retired from the committee on 18 May 2011.

Appointments to the committee are made by the Board, on the recommendation of the Nomination Committee and in consultation with the committee chairman. Les Cullen and David Thorpe are both financially qualified.

The Company Secretary is secretary to the committee.

Terms of reference

The committee has written terms of reference based on the FRC's Guidance on Audit Committees and which set out clearly its authority and duties. These are available on the Company's website at www.interserve.com and on request. The terms of reference are considered at least annually by the committee and were most recently amended in November 2010 to take account of the UK Corporate Governance Code and approved by the Board.

Meetings

The committee met five times during the year. The external auditors were present at four of the meetings and the Head of Internal Audit and representatives from PricewaterhouseCoopers LLP ("PwC"), the provider of the internal audit function, were present at four and two of the meetings, respectively. The Group Chairman, Chief Executive, Group Finance Director and Group Financial Controller attended the meetings by invitation.

The committee has taken the opportunity to seek the views of the external and internal auditors in private and both the external and internal auditors have the opportunity to address the committee in private at any time should they so wish.

Overview of actions

During the year the committee:

- reviewed the 2010 annual report and financial statements and the 2011 half-year report. As part of this review the committee received a report from the external auditors on their audit of the 2010 annual report and their review of the 2011 half-year report;
- reviewed and approved the external auditors' terms of engagement for the 2011 half-yearly review and for the audit of the 2011 annual report;
- received a briefing on audit matters from the auditors describing their approach to and scope of the audit, explaining their responsibilities regarding corporate governance and the requirements of the Listing Rules and their independence policies and procedures which encompassed their safeguards and procedures, remuneration and evaluation policies and the revisions to the APB ethical standards;
- made a recommendation to the Board that the external auditors should continue in office for the next financial year;
- reviewed proposed changes to the Group's internal controls;
- received a report from the external auditors on, and considered the effectiveness of, the Group's accounting and internal control systems and monitored the actions taken by management in response;
- reviewed, prior to their consideration by the Board, the representation letters to be given to the external auditors in respect of the 2010 annual report and the 2011 half-year report;
- considered and agreed the scope and fees to be paid to the external auditors;
- reviewed the annual report and accounts for the Interserve Pension Scheme;
- received updates on new accounting developments, regulation and best practice;
- monitored non-audit fees in comparison to the audit fees;
- reviewed audit effectiveness following the audit of the 2010 annual report;
- reviewed the extent of the Group's control over joint ventures and associated companies; and
- reviewed its own effectiveness and its terms of reference.

The committee chairman reported to the Board on the work carried out by the committee, including any improvement actions required, and copies of the minutes of its meetings were included within the Board papers.

External audit

The committee considers and makes recommendations to the Board as regards audit matters. The committee also seeks to ensure co-ordination between the activities of the external and internal auditors and reviews the effectiveness of the audit at the end of the audit cycle.

External auditor objectivity and independence

As required by its terms of reference, the committee assessed the external auditors' objectivity and independence and the effectiveness of the external audit process in March 2011 at the end of the 2010 audit cycle and again in December 2011 and concluded that Deloitte LLP remain independent. To assist the committee with its assessment of auditor independence, the committee has a policy which prohibits the auditors auditing their own work, making management decisions, entering into any arrangement in relation to audit work whereby a joint interest is created between the Company and the auditors in the outcome of the instruction, acting in the role of advocate for the Company or being appointed as recruitment consultants to the Company without the committee's prior consent. The policy also contains a set of authority limits governing the award by management of various categories of non-audit work to the auditors.

The committee concluded from the regular reports it received that the nature and extent of non-audit fees, which related primarily to tax and VAT advice offered by Deloitte and the review of the half-year report and which amounted to 17 per cent and 7 per cent of the overall audit fees, respectively (excluding accountancy and transactional advice given with regard to the aborted acquisition of Mouchel Group plc – which amounted to 48 per cent of the overall audit fee), did not compromise auditor independence.

In all cases work performed by Deloitte was approved in line with Group policy. In the case of the work on the aborted acquisition of Mouchel the committee concluded that Deloitte's expertise and experience and knowledge of the Group made them best placed to efficiently deliver the service. The committee was satisfied that the safeguards implemented by Deloitte, including the use of specialists independent of the audit, were sufficient to maintain auditor objectivity and independence.

Further details of the audit and non-audit fees paid to the auditors are included in note 4 to the financial statements on page 82.

A change in audit partner is made every five years when the audit partner is rotated off the audit in accordance with latest guidance and best practice. A new audit partner was appointed in 2009 following interviews with the committee and the Group Finance Director. Any decision to open the external audit to tender is taken on the recommendation of the committee. There were no contractual obligations that acted to restrict the committee's choice of external auditors.

Internal audit

The function of internal audit is to provide an objective appraisal to the Board, through the Audit Committee, of the adequacy and effectiveness of the processes established to control the business and to assist the Board in meeting its objectives and discharging its responsibilities.

The internal audit programme of work was developed by PwC, based on interviews with executive management and the operational and finance management teams. The details of the internal audit programme are submitted to the Audit Committee for approval, and may be modified (subject to agreement of the Audit Committee) based on changing circumstances.

The overall internal audit programme is risk based. This means that a sub-set of all the business activities and financial reporting processes are subject to internal audit review each year.

The committee received a summary of each internal audit review covering the findings and proposed corrective actions for any gaps in the control environment that may have been found.

The committee is required to approve the internal audit plan, monitor and assess its role and effectiveness in the overall context of the Company's and the Group's risk management system, review and assess the scope of and progress against the internal audit work plan and review and monitor management's responsiveness to the internal auditor's findings and recommendations.

Reports received by the committee during the year in accordance with the 2011 internal audit plan covered matters such as:

- the outcome of a back-to-basics review of the key controls within each business unit in the Group;
- reviews of tendering and bidding, payroll, HR functions, contract management, service delivery, work-in-progress and accrued income, procure to pay controls, financial controls health check, corporation tax and VAT controls, design and quotation procedures, key controls and a company car scheme in various parts of the business;
- a review of investment portfolio management; and
- a review of Group Pensions Administration.

The committee agreed an internal audit work plan for 2012, which builds upon the work conducted over the previous two years, the objectives of which are to:

- provide assurance that certain existing and emerging key risks facing the Group as a whole or which are common to several businesses within the Group are being managed effectively;
- confirm that the Group's core assurance procedures are being operated as intended, whether documented or undocumented, in accordance with good practice; and
- support the management and mitigation of key risks in specific businesses to confirm that they are being mitigated to a sufficient degree so as not to threaten the achievement of Group objectives or the sustainability of the individual businesses.

The committee also received reports on investigations conducted and actions taken as a result of notifications made under the Group's whistle-blowing policy.

Overview

After undertaking a review of its own performance the committee concluded that it had been effective in discharging the obligations entrusted to it by the Board.

The Chairman of the Audit Committee will be available at the AGM to answer questions about the work of the committee.

CONFLICTS COMMITTEE

The Conflicts Committee comprises the Group Chairman or, in the event that he is interested in the matter to be considered, the Senior Independent Director, and the Company Secretary.

The committee has written terms of reference and meets as and when necessary to review any interests a director may have which conflict or possibly may conflict with the interests of the Company.

The committee met twice during the year and reviewed the interests declared by each director which conflicted or may possibly conflict with the interests of the Company and the terms of the authorisations given in respect of those interests. The committee reported its findings to the Board and in each case the Board concluded that the authorisations given, and the terms which had been applied thereto, remained appropriate.

GENERAL PURPOSES COMMITTEE

The General Purposes Committee comprises any two executive directors (one of whom must be the Chief Executive or, in his absence, the Group Finance Director).

The committee has written terms of reference which authorise it to exercise certain powers of the Board delegated to it and is required to report upon its actions to the next meeting of the Board.

The committee met 43 times during the course of the year and dealt with a variety of business ranging from routine approvals of matters within its terms of reference to settlement of detailed matters in relation to transactions approved in principle by the Board.

INSIDE INFORMATION COMMITTEE

The Inside Information Committee comprises the Group Chairman, Chief Executive and Group Finance Director.

The committee meets as and when required, has written terms of reference and is empowered to assess quickly if information is inside information, release inside information to the Regulatory Information Service ("RIS") in the event that it is not possible to convene a Board meeting at very short notice and is responsible for setting up and monitoring the systems and controls with regard to inside information.

NOMINATION COMMITTEE

The Nomination Committee is chaired by the Group Chairman and the majority of the members are independent non-executive directors. The committee keeps the Board structure, size and composition, balance of skills and knowledge and experience (both executive and non-executive) under review and makes recommendations for any changes to the Board.

The committee's terms of reference set out clearly its authority and duties, and are available on the Company's website at www.interserve.com and on request.

The committee met four times during the year. The business conducted during the year included recommendations to the Board for the re-election of retiring directors at the AGM, a review of the Board structure and composition, a review of senior management succession and development up to and

including those at Board level, and Board succession planning. A review of the effectiveness of the committee and its terms of reference was also conducted.

The Company's policy relating to the terms of appointment and remuneration of the executive and non-executive directors is detailed in the Directors' Remuneration Report on pages 52 to 62.

The terms and conditions of appointment of all the non-executive directors and those of the Group Chairman are available for inspection at the Company's registered office during normal business hours. Each letter of appointment specifies the anticipated level of time commitment including, where relevant, additional responsibilities derived from involvement with the Audit, Remuneration and Nomination committees.

Non-executive directors and the Group Chairman are required to confirm, on appointment, that they have sufficient time to meet what is expected of them and to seek the committee chairman's agreement, or in the case of the Group Chairman, the Senior Independent Director's agreement, before accepting additional commitments that might impact upon the time they are able to devote to their role as a non-executive director of the Company.

PFI COMMITTEE

The PFI Committee comprises any two or more directors.

The committee has written terms of reference giving it authority to settle and execute contractual documentation in relation to PFI projects where Board approval has been given to the Company or any of its subsidiaries' participation in a particular PFI project.

The committee met once during the year.

REMUNERATION COMMITTEE

The Remuneration Committee, composed entirely of independent non-executive directors, is chaired by David Thorpe (David Trapnell until 18 May 2011). The names of the committee members are set out in the table on page 46. The responsibilities of the committee, together with an explanation of the work undertaken and how it applies the directors' remuneration principles of the Code, are set out in more detail in the Directors' Remuneration Report on pages 52 to 62.

RISK COMMITTEE

The Board has overall responsibility for internal control, including risk management, the ongoing review of their effectiveness and sets appropriate policies having regard to the objectives of the Group. It formally reviews the Group's register of risks and mitigation plans twice a year and discusses any significant developments in risk exposure as and when appropriate.

As discussed on page 47, the Executive Board has a key role in risk management. In order to assist it with discharging this responsibility the Executive Board constituted a Risk Committee.

The committee, which met four times during the year, comprises the Chief Executive, Group Finance Director, Head of Internal Audit (until September 2011), Group Health, Safety and Environmental Manager, Group Insurance Manager, the Group Company Secretary (who is its secretary) and a representative from each of the Group's operating divisions. It has written terms of reference and provides copies of its meeting minutes to the Board.

The business covered during the year included a review of the Group's pandemic influenza, business continuity and IT disaster recovery plans and testing, the risks presented by forthcoming legislation, bi-annual reviews of the Group's prime risk areas and information security management.

FINANCIAL AND BUSINESS DISCLOSURES

In order to present a balanced assessment of the Company's position and prospects, the Annual Report contains a Directors' Responsibility Statement on page 63, an Independent Auditors' Report about their reporting responsibilities on page 64 and a going concern statement on page 29. An explanation of the Company's business model and strategy for delivering the Company's objectives is set out on pages 8 and 9.

The Directors' Report contained on pages 38 to 43, of which this Corporate Governance report forms part, contains the information required by paragraph 13(2)(c), (d), (f), (h) and (i) of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

CONTROL PROCESSES

The Board has a continuous process for identifying, evaluating and managing the significant risks the Group faces together with an ongoing process to embed internal control and risk management further into the operations of the businesses. This has been in place for the period under review and until the date of approval of this Annual Report and Financial Statements. The Audit Committee, the Risk Committee and Executive Board assist the Board in the application of these principles.

The Board has documented a risk management policy setting out the prime risk areas including the threats, risk indicators, control strategy and sources of assurance. The policy is included within the Group's internal controls manual. Internal controls are normally reviewed by the Board in advance of the publication of the half-year and annual reports.

The Board received and reviewed bi-annual reports from the Executive Board on the effectiveness of the Group's system of internal control for the period under review and has implemented improvements from time to time in order to strengthen the control processes.

Because of the limitations that are inherent in any system of internal control, the Group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Group's governance framework distinguishes between entities which are wholly controlled and joint ventures and associate companies in which the Group does not have overall control. For these joint-ventures and associate companies, systems of internal control are applied as agreed between the Group and the other joint-venture parties or members of the associate company, as the case may be.

Financial reporting

Based on submissions from the trading divisions, a budget is prepared by the Group for approval by the Board before the start of each financial year. Subsequently, based on submissions from the trading divisions, forecasts of prospective financial performance are prepared by the Group for approval by the Board as at the end of March, May and September of each year. Budgets and forecasts include the financial results, financial position and cash flows for each division and the Group Centre.

The Group has documented the accounting policies to be applied by all entities in the Group in submitting their financial statements for consolidation. These accounting policies are in compliance with International Financial Reporting Standards and are available on the Group's intranet.

Each month, entities within the Group submit management accounts in local currency to the Group Finance team. The Group Finance team translates foreign currency submissions into sterling using published exchange rates, eliminates all intercompany trading and balances, and then prepares the consolidated management accounts of the Group. The consolidated management accounts include the financial results, financial position, cash flows and projections and are submitted to the Executive Board and subsequently the Board for review. Analysis is included on monthly and year-to-date financial data compared with the latest budgets or forecasts approved by the Board and also compared with prior year data. Analysis is prepared on both a divisional and consolidated basis.

The management accounts of the Group are accompanied by a written report from the Group Finance Director explaining operating and financial performance, the cause and effect of variance from the approved budgets and forecasts and other information that may be relevant from time to time. The written report includes analysis on both a divisional and consolidated basis.

Monthly written divisional trading reports on the performance of each division are provided as part of the Board papers. These are then updated by oral reports from the executive directors at each Board meeting.

The management accounts submitted by members of the Group for June and December are used to prepare the half-yearly and annual financial statements. The Group Finance team reviews the disclosures in the financial statements to ensure that they comply with the latest reporting standards adopted for use in the EU and seeks to ensure they are clear and understandable to the readers. The half-yearly and annual financial statements are reviewed by the Executive Board, the Audit Committee and the Board before publication.

The financial reporting process is reviewed periodically by internal audit in accordance with the programme approved by the Audit Committee each year.

A summary of the key financial risks inherent in the Group's business is given on page 29 and a description of how the Group manages those risks is set out on page 23.

Operational controls

The principal features of the Group's system of operational control are:

- An established management structure comprising the Board with its various committees and an Executive Board.
- Executive Board and Board review of the monthly finance and divisional trading reports. The Board determines appropriate action based on these reviews.
- Documented delegated authority limits from the Board to the Executive Board which are kept under regular review. Larger value proposals and business acquisitions and disposals are controlled by the Board.
- Manuals setting out Group policy and procedures, with which all Group companies must comply. These manuals set out the necessary levels of authorisation applicable for different transactions.
- The Group has certain key areas which are subject to central management or control, which include Company and subsidiary health, safety and environmental, legal, insurance, treasury, real estate, internal and external communication, and company secretarial. These functions report to members of the Executive Board and operate within defined limits and levels of authority.
- One or more members of the Executive Board and, in many cases, either the Chief Executive or the Group Finance Director, attend divisional board meetings.
- During the course of each year members of the Executive Board or other senior operational and financial management visit or review all trading companies, including those located overseas, to discuss and monitor the performance of those businesses.
- The Group has in place a whistle-blowing policy together with a Group response plan to set out a framework for dealing with any allegations of fraud, financial misreporting and any whistle-blowing notification. A copy of the policy is available on the Company's website at www.interserve.com.

OUR SHAREHOLDERS

The Company encourages two-way communication with both institutional and private investors. The Chief Executive, accompanied by the Group Finance Director, attended 53 meetings with analysts and institutional investors during the year ended 31 December 2011. In addition, the Chief Executive, the Group Finance Director and the Group Chairman, accompanied by another member of staff or a representative from one of the Company's joint brokers, attended a further 38, 39 and one meeting each, respectively.

The Chief Executive arranges for the Company's brokers to produce periodic notes of the feedback from institutional investors which are reported to the Board. All directors and the members of the Executive Board also have the opportunity to attend analyst briefings.

The Group's annual and half-yearly results, interim management statements, trading updates and all announcements made through the RIS are published on the Company's website at www.interserve.com. Copies of the presentations given to analysts on the announcement of the half-yearly and final results are also posted on the Company's website.

Shareholders are also kept up to date with Company affairs through the annual and half-year reports, trading updates and the Company's website.

All shareholders are given at least 20 working days' notice of the AGM. It is standard practice for all directors to attend the AGM to which all shareholders are invited and at which they may put questions to the chairmen of the various committees or the Board generally. The proxy votes for and against each resolution, as well as abstentions (which may be recorded on the proxy form accompanying the notice of AGM) are counted before the AGM commences and are made available to shareholders at the close of the formal business of the meeting. The proxy votes are also announced through the RIS and posted on the Company's website shortly after the close of the meeting.

Directors' Remuneration Report

DAVID THORPE
CHAIRMAN OF THE
REMUNERATION COMMITTEE

Dear Shareholder

I am pleased to present the Remuneration Committee's annual report on directors' remuneration.

The Group's management has delivered good results in 2011 against the background of challenging global economic conditions. In particular, headline earnings per share has increased by 15.2 per cent and good progress was made on a number of strategic fronts. Our share price increased by 39 per cent over the year, outperforming our sector by 47.7 per cent.

During the year the Remuneration Committee (the "Committee") was again mindful of the general restraint on pay across the Group. The salaries of the executive directors were increased by 2.5 per cent from 1 July 2011 which was broadly in line with the average increase in salaries across the entire business.

Our remuneration policy has been adjusted in a couple of respects. Following the implementation of the final changes to the taxation of pension schemes, the Committee conducted a review of the pension arrangements for the most senior executives within the UK. From July 2011 the employer contribution for the most senior executives was increased from 10 per cent to 15 per cent of basic salary (subject to an employee contribution of 8 per cent) and provisions were introduced to permit the employer contribution to be taken as a salary supplement by those whose pension savings reach the lifetime allowance.

The performance conditions for the annual variable pay arrangements have been set such that only a performance materially ahead of market expectations in terms of normalised earnings per share ("EPS") would attract a significant payout of variable pay.

During the year I also undertook an exercise which confirmed that the mix of EPS and total shareholder return ("TSR") performance conditions attached to the Company's Performance Share Plan was aligned to the Board's strategic ambitions, which are to grow EPS in a sustainable manner and to deliver long-term superior returns to shareholders.

The Committee has also specifically examined the alignment of the policy on long-term incentives to the Board's belief that the Company has the capability to double earnings per share over five years. In consequence the policy under the Performance Share Plan has been amended so that the award level will be increased but at the same time subject to tougher EPS targets. The Committee, however, remains mindful to strike an appropriate balance between incentivising senior management, providing stretching targets which support the Board's strategic ambitions whilst, at the same time, not encouraging excessive risk taking. Accordingly, to help mitigate risk, tougher shareholding guidelines for executives have been introduced.

The modest increase to pension contributions and the increased Performance Share Plan award level brings total remuneration closer to (but not in excess of) mid-market levels for similar sized FTSE 250 businesses.

Executive pay remains a highly topical issue and the Committee continues to monitor best practice and regulatory guidance to ensure that our policy retains a good link between reward to executives and the performance of the business.

A resolution to approve this report will be put to shareholders at the forthcoming Annual General Meeting and I very much hope that you will vote in favour.

David Thorpe
Chairman of the Remuneration Committee

INTRODUCTION

This report has been prepared by the Committee on behalf of, and has been approved by, the Board of Interserve Plc. The report complies with the Companies Act 2006 (the "2006 Act") and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008. It also meets the relevant requirements of the Listing Rules of the Financial Services Authority and explains how the Company has complied with the principles and provisions of the UK Corporate Governance Code. A resolution to approve this report will be proposed at the Annual General Meeting ("AGM") of the Company.

The Company's auditors are required to report to the Company's members on the auditable section of this report and to state whether in their opinion that part of the report has been properly prepared in accordance with the 2006 Act. The report has therefore been divided into separate sections containing unaudited and audited information. Pages 53 to 57 of this report contain unaudited information and pages 58 to 62 (beginning with Directors' Emoluments and Compensation and ending with Directors' Share Interests) contain audited information.

REMUNERATION COMMITTEE

The Committee is responsible for determining the remuneration of all executive directors, the Group Chairman and the Company Secretary. The terms of reference of the Committee are available on the Company's website at www.interserve.com and on request.

The Committee's role is, after consultation with the Group Chairman and/or the Chief Executive (except where conflicted), to set the remuneration policy and determine the individual remuneration and benefit packages of the Group Chairman, the Chief Executive and the senior management team, comprising the executive directors, the Company Secretary and the other senior executives below the Board who report to the Chief Executive. This includes formulating for Board approval long-term incentive plans which require shareholder consent and overseeing their operation. The Committee also monitors the terms of service for, and level and remuneration structure of, other senior management.

The non-executive directors who have served on the Committee during the year are:

Patrick Balfour
Lord Blackwell
Les Cullen
Keith Ludeman
David Thorpe
David Trapnell

all of whom the Board regards as independent. Following the AGM on 18 May 2011, Patrick Balfour retired from the Board and the Committee, and David Thorpe succeeded David Trapnell as Chairman of the Committee upon the latter's appointment as the Senior Independent Director.

The Committee meets as often as is necessary to discharge its duties and met seven times during the year ended 31 December 2011. The Chief Executive and Group Finance Director are invited to attend meetings as appropriate. They are not present when matters affecting their own remuneration arrangements are decided.

No member of the Committee has any personal financial interest in the Company (other than as a shareholder), any conflict of interest arising from cross-directorships, or any day-to-day involvement in running the business.

In determining the executive directors' remuneration, the Committee consulted with and received recommendations from Adrian Ringrose, the Chief Executive. The Committee also received advice from Hewitt New Bridge Street, a subsidiary of Aon Corporation, and Trevor Bradbury, the Company Secretary, which materially assisted the Committee in relation to the 2011 financial year. Hewitt New Bridge Street also carried out work for the Company by conducting an assessment of its performance in relation to the TSR element of awards made under the Interserve Performance Share Plan 2006. Aon Corporation also provides insurance broking services to the Company.

REMUNERATION POLICY

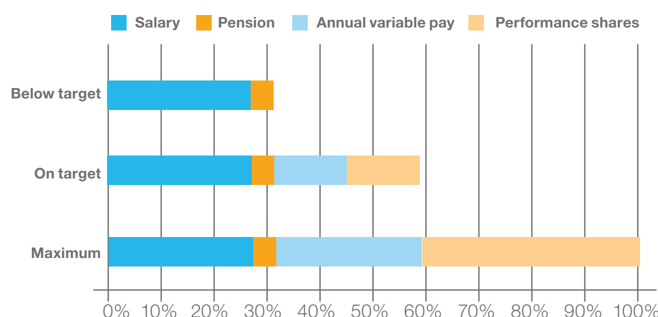
Executive directors' remuneration packages are designed to attract, retain and motivate directors of the quality required to improve the Company's performance, to align the interests of the executive directors with those of the shareholders and to reward them for enhancing shareholder value but without paying more than is necessary.

The determination of the executive directors' annual remuneration packages is undertaken by the Committee in accordance with this policy, taking into account the level of pay awards made to all other employees of the Company and the salaried employees of its subsidiaries, and will be the subject of regular review on this basis during this and future financial years.

The main elements of the remuneration package for executive directors for 2012 and beyond will be:

- basic annual salary and benefits;
- annual variable pay with a requirement to invest a proportion in Company shares;
- participation in a long-term incentive plan – the Interserve Performance Share Plan 2006 (details of the performance conditions of which are set out on pages 54 to 56); and
- pension arrangements.

The chart below shows the proportionate breakdown of the package at below target, target and maximum performance.



The chart shows that a significant proportion of the remuneration package comprises performance-linked elements and the extent to which the remuneration level is conditional upon the level of performance delivered. In particular, the value of awards under the Performance Share Plan is targeted to form a significant proportion of the overall package at outstanding levels of performance, following the changes to the policy for 2012, as described in this report.

The Committee has reviewed the policy to establish whether there is any element of the remuneration policy which could potentially encourage executives to take inappropriate levels of risk. It is satisfied that the packages are appropriately balanced so that the executives can be rewarded under performance-linked elements of the package, but that the targets which are set represent a complementary blend of metrics with target ranges which are stretching and designed to promote the long-term success of the Company, but not so demanding as to lead to them taking excessive risk.

The Committee has reviewed and is satisfied that the remuneration policy supports the Company's strategic ambitions and is linked appropriately to the long-term success of the business. The Committee has chosen to base the incentive targets on the visible outputs of the strategy, namely requiring a sustained and significant improvement in financial performance (as evidenced by EPS growth) and the delivery of superior stock market returns (as evidenced by relative TSR performance).

BASIC ANNUAL SALARY AND BENEFITS

The executive directors' salaries are reviewed by the Committee annually for implementation from 1 July in each year. Ad hoc reviews can also be made. In deciding upon appropriate salary levels, the Committee takes into account current remuneration trends, relative up-to-date information from the comparator group, the provisions of the UK Corporate Governance Code and information on proposed increases in the remuneration of salaried employees and subsidiary company directors across the Group. The Committee determined that, for the second consecutive year, executive directors' salary levels should be increased by 2.5 per cent with effect from 1 July 2011, which was broadly in line with the overall increase for salaried employees and subsidiary company directors across the Group.

In addition to basic salary, the executive directors receive certain benefits-in-kind, principally a fully-expensed car or car allowance and medical and permanent health insurance.

The fees of the Group Chairman and the non-executive directors are determined by the Board and reviewed on an annual interim and biennial full basis within the limits set out in the Articles of Association. At the December 2010 full review the annual basic fees of the Group Chairman and the non-executive directors were increased by £10,000 and £3,000 respectively, from January 2011, the first increase since January 2008. No further increases were agreed at the December 2011 interim review.

The remuneration of the non-executive directors is designed to attract and retain non-executive directors of sufficient calibre to undertake the responsibilities entrusted to them. They neither receive variable remuneration nor do they participate in any incentive arrangements.

ANNUAL VARIABLE PAY

The Committee establishes performance conditions annually which govern the variable pay of the executive directors under the annual variable pay arrangements for each financial year, subject to a maximum variable payment of 100 per cent of basic salary. Variable pay is not pensionable.

The Committee has absolute discretion to determine whether an executive director receives any variable pay and the size (if any) of such a payment.

Performance conditions for variable pay in 2012 are based on the achievement of normalised EPS[1]. The performance conditions have been set such that variable pay of between 20 per cent and 100 per cent of basic salary will become payable upon achievement of between 96.5 per cent and 111 per cent of budgeted normalised EPS[1]. A performance below 96.5 per cent of budgeted normalised EPS[1] will result in no variable pay.

The variable pay arrangements for 2011 and 2012 specify that if an executive director's shareholding in the Company is less than 100 per cent of his basic salary, a percentage of the net variable pay receivable in excess of 25 per cent of basic salary is required to be invested in Company shares according to the following arrangement:

a) for the balance of any variable pay received between 25 per cent and 50 per cent of basic salary, 30 per cent of the net variable pay must be invested in Company shares and 70 per cent may be retained; and

b) for the balance of any variable pay received between 50 per cent and 100 per cent of basic salary, 50 per cent of the net variable pay must be invested in Company shares and 50 per cent may be retained.

Company shares so acquired must be held for three years.

Since 2011, variable pay has been subject to clawback provisions. The Company has the right to reclaim some or all of the variable pay from the Executive Board in circumstances where the Company discovers that it materially misstated its financial results or made an error in the calculation of any performance condition, which resulted in an overpayment to and/or where there has been misconduct on the part of any member of the Executive Board.

LONG-TERM REWARDS

Details of outstanding options granted under the 1997 and the 2002 Executive Share Option Schemes are set out on page 60. Options may no longer be granted under the 1997 Scheme and there are currently no plans to grant any further options under the 2002 Scheme.

Performance Share Plan

The Performance Share Plan 2006 (the "Plan") was approved by shareholders at the AGM held on 17 May 2006 and is the sole long-term reward plan operated for senior executives. Details of awards made to the executive directors from 2008 to 2011 are set out on page 61.

For the awards made in 2009, the TSR element (representing 50 per cent of the awards) will vest in full on 23 March 2012 as the Company achieved upper quartile (top 25 per cent) TSR performance against the peer group. However, none of the EPS element of those awards (representing the other 50 per cent) will vest as the stretching EPS performance conditions were not achieved.

As mentioned in the introductory letter, the Committee has reviewed the policy under the Plan for the awards to be made in 2012.

Award levels will be increased for 2012 from 100 per cent of basic salary to an award over shares worth 150 per cent of basic salary (at the date of grant) for the Executive Board. Lower award levels will be granted to less senior executives. This is

[1] Normalised EPS is basic earnings per share adjusted to remove the effect of IAS 36 *Impairment of assets* and IAS 39 *Financial Instruments* and, when above target performance has been achieved, any return generated from the sale of any of the Group's PFI investments is in excess of the internal rate of return set by the Board at the approval stage for that investment and any other items defined by the Committee.

an increase from the 100 per cent of basic salary award levels made in prior years, with the additional award level being subject to much tougher EPS performance targets, described below. This increase is considered to bring the overall remuneration levels closer to, but not exceeding, remuneration levels in equivalent FTSE 250 businesses and will increase the emphasis on rewarding long-term performance.

The awards will vest no earlier than the third anniversary of the date of grant, provided that the performance conditions have been satisfied over a three-year period and the participant is still employed.

Dividends notionally accrue on awards from the date of award and an equivalent cash sum will become payable on vesting to the extent that the shares ultimately vest.

The performance conditions for the Executive Board will be structured as follows:

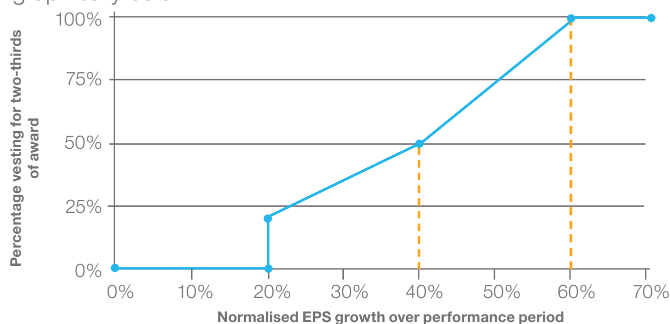
Earnings per share growth

Recognising the increased award level under the Plan and the strategic focus on increasing earnings per share significantly and sustainably, vesting of two-thirds of an award will be dependent upon growth in normalised EPS[2] (over a three-year performance period, commencing on the first day of the 2012 financial year). These targets have been made significantly more stretching, particularly at the upper end of the range, recognising the increased award level. The performance conditions are set out in the table below:

Normalised EPS[2] growth of the Company over the performance period	Vesting percentage of two-thirds of the shares subject to an award
Less than 20%	0%
20% to 40%	20% to 50% (pro-rated)
40% to 60%	50% to 100% (pro-rated)
Greater than 60%	100%

[2]Normalised EPS is basic earnings per share adjusted to remove the effects of IAS 36 *Impairment of assets* and IAS 39 *Financial instruments* and any return generated from the sale of any of the Group's PFI investments in excess of the internal rate of return set by the Board at the approval stage for that investment and any other items defined by the Committee.

This sliding scale of EPS performance and vesting is shown graphically below:



Growth in normalised EPS will be determined by the Committee after verifying calculations made internally.

Total shareholder return

Vesting of the other third of an award will be dependent upon the Company's performance in terms of TSR, as measured against the TSR of each company in the comparator group listed below (the "Comparator Group") over a three-year performance period, commencing on the first day of the 2012 financial year. TSR is calculated as the percentage change in the net return index from the start to the end of the performance period[3]. This essentially measures the return to an investor on a holding of Interserve shares. The Comparator Group is drawn from the Construction & Materials and Support Services FTSE sectors. Many of the Comparator Group companies are recognised by the Executive Board as competitors of the Company, which ensures that this is an effective incentive from their perspective.

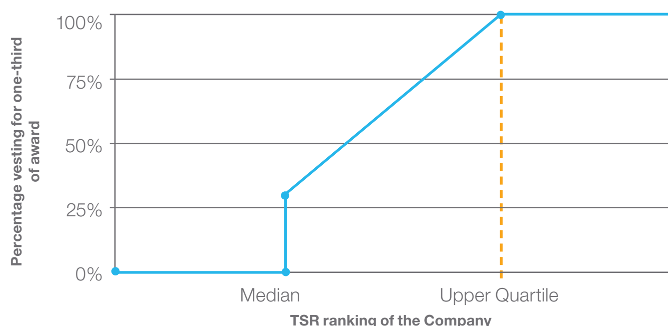
Atkins (WS)	MITIE Group
Babcock International	Morgan Sindall
Balfour Beatty	Mouchel Group
Capita Group	Rentokil Initial
Carillion	RPS Group
Costain Group	Serco
Kier Group	WSP Group
May Gurney Integrated Services	

[3]The return index at the start of the performance period is the average of the net return index over the three months preceding the start of the performance period. The return index at the end of the performance period is the average of the return index over the last three months of the performance period.

The TSR performance conditions are set out in the table below:

TSR ranking of the Company compared to the Comparator Group over the performance period	Vesting percentage of one-third of the shares subject to an award
Below median ranking	0%
Median ranking (top 50%)	30%
Median to upper quartile ranking	30% to 100% (pro-rated)
Upper quartile ranking or above (top 25%)	100%

This sliding scale of TSR performance and vesting is shown graphically below:



TSR will be independently calculated and verified by the Committee.

There is no provision within the rules of the Plan for the re-testing of any of the above performance conditions.

The Committee considers that a combination of normalised EPS and TSR for the Executive Board remains the most appropriate measure of performance for awards made under the Plan. The EPS target rewards significant and sustained increases in value and delivers strong "line of sight" for the Executive Board whilst the TSR performance condition provides balance by rewarding good relative stock market performance and introduces an element of share price-based discipline to the package. The blend of these two complementary measures is considered to reduce the risk level of the Plan compared to the position if a single metric applied to the entire award.

Since 2011, PSP awards to the Executive Board have also been subject to the same clawback provisions set out on page 54.

For participants below Executive Board level the performance condition will be based solely on the targets for growth in normalised EPS set out above over the three-year performance period. This single EPS target has been chosen in order to provide a clearer "line of sight" for those participants.

All-employee share schemes

In order to support the Company's Employer of Choice goal and to encourage share ownership, the Company currently provides two all-employee HMRC-approved share schemes for its employees. At the AGM held on 12 May 2009, the Interserve Sharesave Scheme 2009 (the "Sharesave Scheme") and the Interserve Share Incentive Plan 2009 (the "SIP") were adopted and approved. The executive directors are entitled to participate in both the Sharesave Scheme and the SIP.

Grants under the Sharesave Scheme were made in August 2009, May 2010 and April 2011. Each grant enables eligible employees to invest up to £25 per month for a period of three years. Participants are granted an option to acquire shares in the Company using the proceeds from their savings contract at an exercise price fixed shortly before they start saving. For past grants, the exercise price has been set at 10 per cent below the average of the middle-market share price over the five dealing days immediately preceding the invitation date. The exercise of options on maturity is not dependent upon performance criteria.

Details of options granted to the executive directors are set out on page 60.

It is proposed to make a further grant under the Sharesave Scheme to eligible employees in April 2012. In order to encourage a greater take-up rate, the exercise price for these awards will be set at 20 per cent below the average of the middle-market share price over the five dealing days immediately preceding the invitation date.

Under the SIP, eligible employees are offered the opportunity to invest up to £1,500 per tax year of pre-tax earnings to buy shares in the Company under a regular monthly share purchase plan or by up to two lump sum payments per tax year or by a combination of the two. Shares so purchased are placed in trust. The shares can be released from the trust to participants at any time, but income tax and national insurance contributions are payable on their value should they be released within five years of their purchase date.

The directors' share interests table on page 59 includes shares purchased under the SIP by the executive directors.

Shareholding Guidelines

In June 2006 the Committee introduced Shareholding Guidelines for executive directors with the effect that executive directors are expected to retain no fewer than 50 per cent (increased to 100 per cent in February 2012) of shares net of taxes following an option exercise or award vesting, until such time as a shareholding equivalent to 100 per cent of base salary has been achieved. Shares purchased under the annual variable pay arrangements, Sharesave Scheme and SIP count toward this limit. The executive directors' shareholdings as a percentage of base salary, as at the date of this report, are shown below:

Name	Shareholding as a % of base salary
S L Dance	76.62
T P Haywood	0.44
B A Melizan	77.84
D J Paterson	21.12
A M Ringrose	143.98
D I Sutherland	16.48

Dilution limits

Under present dilution limits the Company is permitted to allocate a rolling ten-year aggregate of up to 10 per cent of its ordinary share capital (12,580,434 shares) under all its share schemes. At 31 December 2011 there remained headroom equivalent to 5,341,844 shares over which options may be granted under the Company's share schemes.

It is currently anticipated that all exercises of options and awards made under both the 1997 and 2002 Schemes and the Plan will be satisfied by newly-issued shares.

PENSION ARRANGEMENTS

Adrian Ringrose and David Paterson are members of the Defined Benefit section of the Interserve Pension Scheme (the "Scheme") which was closed to further accrual on 31 December 2009.

All the executive directors are members of the Defined Contribution section of the Scheme under which employee contributions of up to 8 per cent of basic annual salary are matched by the employer. For those employees who have completed ten years' pensionable service in the Scheme an additional contribution of 2 per cent of basic annual salary became payable by the employer from 1 January 2010. From 1 July 2011 the employer contribution for the most senior executives in the Group was increased to 15 per cent of basic salary, conditional upon that executive maintaining his previous level of contribution to the Scheme.

Where the aggregate of the employer's and employee's pension contributions exceeds the annual allowance (currently £50,000), the employee's contribution may be reduced to maintain the aggregate contributions below the annual allowance. Where the employer's contribution exceeds the annual allowance it may be taken as a salary supplement.

From 1 July 2011, where an employee's pension savings have reached the lifetime allowance and he elects to make no further pension contributions the Company has a discretion, subject to the employee demonstrating to the Company's satisfaction that he has reached the lifetime allowance, to receive the employer's pension contribution as a salary supplement. In such circumstances, death-in-service cover would continue to be maintained by the Scheme.

All the executive directors participated during the year in the Company's "SMART Pensions" arrangement. SMART Pensions is a salary sacrifice arrangement set up by the Company providing an option for employee pension contributions to be met by their employer following a corresponding sacrifice in their contractual pay. This scheme affords the Company a saving in employer's National Insurance contributions.

In the event of death in service, members of the Scheme are covered for a lump sum benefit of four times basic annual salary plus a return of their Retirement Account. This benefit is payable, at the discretion of the Trustee of the Scheme, to one or more of their dependants. In addition, for members of the Defined Benefit section of the Scheme, a spouse's pension would be payable based upon their pensionable service up to 31 December 2009.

Executive directors may elect to retire after reaching the age of 60 and may, upon reaching 65 years of age, request the Company to agree to their deferring their retirement beyond the age of 65.

There are no unfunded or unapproved pension promises or similar arrangements for directors.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

The Company's policy on the duration of directors' service contracts is that all newly appointed executive directors should have contracts terminable at any time on one year's notice save where it is necessary to offer longer notice periods to any new directors recruited from outside the Group, in which case such periods would be reduced to one year after an initial period.

Details of the service contracts of all the executive directors are summarised below. Each contract has an indefinite unexpired term and a notice period of one year.

Name	Date of contract
S L Dance	10 January 2008
T P Haywood	30 November 2010
B A Melizan	10 January 2008
D J Paterson	1 January 2011
A M Ringrose	13 December 2001
D I Sutherland	1 January 2011

In the event of the termination of any service contract the policy of the Company would be not to make payments beyond its contractual obligations.

The service contracts provide that if the contract is terminated summarily (for reasons other than gross misconduct), the Company may elect to make a payment in lieu of notice equal only to the executive's annual basic salary. The Committee feels that any payment at this level is not excessive (as there is no entitlement to other elements of the package) and considers that the certainty for the executive that this provision provides ensures clarity all round. There are no provisions entitling the executive to terminate his employment or receive damages in the event of a change in control of the Company, or for compensation payable by the Company to increase beyond one times annual basic salary. Copies of the service contracts are available for inspection by shareholders at the AGM. The Committee will continue to keep under review the terms of executive directors' service contracts.

None of the executive directors (save for Bruce Melizan who is an unremunerated director of the Safer London Foundation) hold directorships of other companies in which the Company does not have a direct or indirect interest.

GROUP CHAIRMAN AND NON-EXECUTIVE DIRECTORS

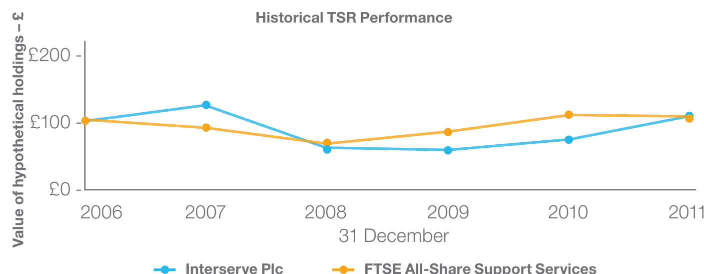
Non-executive directors are appointed initially until the first AGM of the Company following appointment, when they are required to stand for election by shareholders. These appointments are terminable upon one month's notice by either party, without compensation, save for the Group Chairman whose appointment is terminable upon six months' notice by either party, without compensation. The fees of the non-executive directors are determined by the Board as a whole, taking into account amounts paid by other similar-sized listed companies. Details of non-executive appointments held during the financial year ended 31 December 2011 are as follows:

Name	Date first appointed	Date last re-elected
G P Balfour	1 January 2003	Retired 18 May 2011
Lord Blackwell	1 September 2005	18 May 2011
L G Cullen	1 October 2005	10 May 2010
K L Ludeman	1 January 2011	18 May 2011
D A Thorpe	1 January 2009	12 May 2009
D A Trapnell	11 July 2003	12 May 2009

Copies of the individual contracts of appointment are available for inspection by shareholders at the AGM.

PERFORMANCE GRAPH

The graph below shows a comparison of the TSR for the Company's shares for each of the last five financial years against the TSR for the companies comprising the Support Services sector of the FTSE All-Share Index. This was chosen for comparison because it includes the most appropriate readily available group against which the performance of the Company may be judged.



Source: Thomson Reuters Datastream

The graph demonstrates the value on 31 December 2011 of £100 invested in Interserve Plc on 31 December 2006 compared with the value of £100 invested in the Support Services sector of the FTSE All-Share Index.

The following information has been audited:

DIRECTORS' EMOLUMENTS AND COMPENSATION

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

	2011 £	2010 £
Emoluments	**3,991,308**	1,874,991
Compensation for loss of office	**Nil**	Nil
Gains made on the exercise of share options	**Nil**	Nil
Amounts received under long-term incentive schemes	**Nil**	211,324
Money purchase pension contributions (excluding SMART Bonus contributions)	**313,681**	201,751

The following table sets out details of the emoluments and compensation paid or receivable by each director in respect of qualifying services during the financial year ended 31 December 2011:

	2011						2010	
Name	Total in respect of qualifying services £	Other cash emoluments £	Benefits in kind £	Variable pay £	Basic salary/fee received during 2011 £	Annual salary/fee at 31.12.11 £	Annual salary/fee at 31.12.10 £	Total in respect of qualifying services £
G P Balfour	**21,411**[1]	–	–	–	**21,411**[1]	**47,000**[2]	44,000[1]	44,000[1]
Lord Blackwell	**130,000**	–	–	–	**130,000**	**130,000**	120,000	120,000
L G Cullen	**46,000**	–	–	–	**46,000**	**46,000**	43,000	43,000
S L Dance	**543,366**	–	**21,257**	**262,656**[4]	**259,453**[5]	**262,656**	256,250	353,435
T P Haywood	**645,936**	–	**14,311**	**317,750**[4]	**313,875**[5]	**317,750**	310,000	36,093
K L Ludeman[3]	**40,000**	–	–	–	**40,000**	**40,000**	–	–
B A Melizan	**549,492**	**25,557**	**1,826**	**262,656**[4]	**259,453**[5]	**262,656**	256,250	356,859
D J Paterson[3]	**541,822**	–	**19,713**	**262,656**[4]	**259,453**[5]	**262,656**	–	–
A M Ringrose	**899,998**	**19,192**	**3,663**	**441,262**[4]	**435,881**[5]	**441,262**	430,500	576,944
D I Sutherland[3]	**484,347**	**13,896**	**1,826**	**235,750**[4]	**232,875**[5]	**235,750**	–	–
D A Thorpe	**42,692**	–	–	–	**42,692**	**45,000**	37,000	37,000
D A Trapnell	**46,244**	–	–	–	**46,244**	**47,000**	42,000	42,000
Former directors								265,660
Total 2011	**3,991,308**	**58,645**	**62,596**	**1,782,730**	**2,087,337**			
Total 2010	1,874,991	57,104	32,253	290,650	1,494,984			1,874,991

[1]In addition to his remuneration in respect of his directorship of Interserve Plc, Mr Balfour received £12,322 during the year (2010: £7,500) in respect of his directorship of Interserve Trustees Ltd, the corporate trustee of the Interserve Pension Scheme.

[2]As at 18 May 2011, when Mr Balfour retired from the Board.

[3]Appointed to the Board on 1 January 2011.

[4]Variable pay for 2011 was based on the achievement of normalised EPS (i.e. basic earnings per share adjusted to remove the effects of IAS 36 *Impairment of assets* and IAS 39 *Financial instruments*, any return generated from the sale of any of the Group's PFI investments in excess of the internal rate of return set by the Board at the approval stage for that investment, and any other items determined by the Committee). The performance conditions were set such that variable pay of between 10 per cent and 100 per cent of basic salary would become payable upon achievement of between 90 per cent and 115 per cent of budgeted normalised EPS. A performance below 90 per cent of budgeted normalised EPS would result in no variable pay becoming payable. The operation of the variable pay scheme for the 2011 financial year resulted in a payment of 100 per cent of basic salary for each executive director, the details of which are shown in the table above.

[5]Reduced by SMART Pensions arrangement (see table on page 59)

DIRECTORS' PENSION ENTITLEMENTS

Defined Contribution Scheme

All the executive directors who held office during the financial year are members of the Defined Contribution section of the Scheme and participated in the Company's SMART Pensions arrangement (as detailed on page 57). Their base salaries shown in the table on page 58 were, as a result, reduced by the following amounts which were paid by the Company into their pension schemes:

Name	2011 £	2010 £
S L Dance	**19,474**	20,250
T P Haywood	**13,635**	2,067
B A Melizan	**17,051**	20,250
D J Paterson[1]	**19,996**	–
A M Ringrose	**17,220**	34,020
D I Sutherland[1]	**18,630**	–

[1] Appointed to the Board on 1 January 2011.

Details of the total contributions paid by the Company (including SMART contributions) during the year ended 31 December 2011 are as follows:

Name	2011 £	2010 £
S L Dance	**49,422**	62,500
T P Haywood	**49,867**	4,133
B A Melizan	**47,000**	40,500
D J Paterson[1]	**52,508**	–
A M Ringrose	**69,373**	76,545
D I Sutherland[1]	**45,511**	–

[1] Appointed to the Board on 1 January 2011.

Non-executive directors' fees are not pensionable and they have therefore not been included in the above table.

Members of the Scheme have the option to pay additional voluntary contributions ("AVCs"). Neither the contributions nor the resulting benefits of AVCs are included in the above tables.

Defined Benefit Scheme

Following the benefit changes to the Interserve Pension Scheme (the "Scheme"), Adrian Ringrose and David Paterson ceased to accrue any further benefits in the Defined Benefit section of the Scheme from 31 December 2009. Their accrued pensions at that date were £72,337 per annum and £31,056 per annum respectively and these pensions will increase up to the point they draw their benefits broadly in line with price inflation.

DIRECTORS' SHARE INTERESTS

The beneficial interests of each person who served as a director of the Company during the financial year in the ordinary share capital of the Company, together with interests held by his connected persons, are shown below:

	Ordinary shares of 10p each	
Name	31.12.11	31.12.10
G P Balfour	**2,000[1]**	2,000
Lord Blackwell	**10,000**	10,000
L G Cullen	**6,000**	6,000
S L Dance	**64,839**	63,569
T P Haywood	**451**	–
K L Ludeman	**3,000**	–[2]
B A Melizan	**65,950**	64,769
D J Paterson	**17,811**	17,256[2]
A M Ringrose	**204,856**	204,266
D I Sutherland	**12,449**	11,859[2]
D A Thorpe	**12,793**	12,793
D A Trapnell	**4,500**	4,500

[1] As at 18 May 2011, when Mr Balfour retired from the Board.
[2] As at 1 January 2011, when appointed to the Board.

The above figures include shares held in trust pursuant to the Interserve Share Incentive Plan 2009.

Between the year end and the date of this report, Steven Dance, David Paterson, Adrian Ringrose and Dougie Sutherland have purchased an additional 82 shares each pursuant to the Interserve Share Incentive Plan 2009. The shares were purchased on 10 January 2012 (40 shares each at 313.62p per share) and 8 February 2012 (42 shares each at 299.00p per share). Their beneficial interests as at the date of this report are shown below:

	Ordinary shares of 10p each	
Name	29.02.12	31.12.11
S L Dance	**64,921**	**64,839**
D J Paterson	**17,893**	**17,811**
A M Ringrose	**204,938**	**204,856**
D I Sutherland	**12,531**	**12,449**

Share options

The number of options over shares in the Company (pursuant to the 1997 and 2002 Executive Share Option Schemes) held by each person who served as an executive director of the Company during the financial year, is shown below. All options are fully vested, having achieved the respective performance conditions.

	Options over ordinary shares of 10p each				
Name	31.12.11	Lapsed during year	31.12.10	Exercise price pence	Exercise period
S L Dance	**50,000**	**–**	50,000	324.00	09.12.07 – 08.12.14
	83,489	**–**	83,489	359.33	14.03.08 – 13.03.15
T P Haywood	**–**	**–**	–	n/a	n/a
B A Melizan	**75,140**	**–**	75,140	359.33	14.03.08 – 13.03.15
D J Paterson	**5,295**	**–**	5,295[1]	566.50	19.03.05 – 18.03.12
	32,561	**–**	32,561[1]	359.33	14.03.08 – 13.03.15
A M Ringrose	**–**	**5,529**	5,529	542.50	26.03.04 – 25.03.11
	133,333	**–**	133,333	205.83	23.04.06 – 22.04.13
	150,280	**–**	150,280	359.33	14.03.08 – 13.03.15
D I Sutherland	**–**	**–**	–[1]	n/a	n/a

[1] As at 1 January 2011, when appointed to the Board.

No share options were granted to, or exercised by, any of the directors during the year ended 31 December 2011. The aggregate gain made on the exercise of options was £nil (2010: £nil). The market price of the shares as at 31 December 2011 was 320.70p. The highest and lowest market prices of the shares during the financial year were 341.25p and 231.75p respectively.

Sharesave Scheme

The number of options over shares in the Company (pursuant to the Interserve Sharesave Scheme 2009) held by each person who served as an executive director of the Company during the financial year, is shown below.

	Options over ordinary shares of 10p each				
Name	31.12.11	Granted during year	31.12.10	Exercise price pence	Exercise period
S L Dance	**595**	**–**	595	152.50	01.10.12 – 31.03.13
	423	**–**	423	214.50	01.07.13 – 31.12.13
	390	**390**	–	231.00	01.07.14 – 31.12.14
T P Haywood	**390**	**390**	–	231.00	01.07.14 – 31.12.14
B A Melizan	**390**	**390**	–	231.00	01.07.14 – 31.12.14
D J Paterson	**–**	**–**	–[1]	n/a	n/a
A M Ringrose	**595**	**–**	595	152.50	01.10.12 – 31.03.13
	423	**–**	423	214.50	01.07.13 – 31.12.13
D I Sutherland	**595**	**–**	595[1]	152.50	01.10.12 – 31.03.13
	423	**–**	423[1]	214.50	01.07.13 – 31.12.13

[1] As at 1 January 2011, when appointed to the Board.

No options were exercised or lapsed during the year. There are no performance conditions attached to these options, as they were issued under the Interserve Sharesave Scheme 2009, an all-employee scheme.

Performance Share Plan

The number of awards over shares in the Company (pursuant to the Performance Share Plan) held by each person who served as an executive director of the Company during the financial year, is shown below:

Name	Date of award	Mid-market price on award date pence	Awards over ordinary shares of 10p each* 31.12.11	Awarded during year	Vested during year	Lapsed during year	Awards over ordinary shares of 10p each* 31.12.10	Performance period
S L Dance	15.04.08	505.00	–	–	–	42,084	42,084	01.01.08 – 31.12.10[1]
	23.03.09	197.00	123,152	–	–	–	123,152	01.01.09 – 31.12.11[2]
	19.04.10	236.50	104,909	–	–	–	104,909	01.01.10 – 31.12.12[3]
	20.04.11	261.00	99,746	99,746	–	–	–	01.01.11 – 31.12.13[4]
T P Haywood	20.04.11	261.00	120,669	120,669	–	–	–	01.01.11 – 31.12.13[4]
B A Melizan	15.04.08	505.00	–	–	–	42,084	42,084	01.01.08 – 31.12.10[1]
	23.03.09	197.00	123,152	–	–	–	123,152	01.01.09 – 31.12.11[2]
	19.04.10	236.50	104,909	–	–	–	104,909	01.01.10 – 31.12.12[3]
	20.04.11	261.00	99,746	99,746	–	–	–	01.01.11 – 31.12.13[4]
D J Paterson	15.04.08	505.00	–	–	–	24,048	24,048†	01.01.08 – 31.12.10[1]
	23.03.09	197.00	103,448	–	–	–	103,448†	01.01.09 – 31.12.11[2]
	19.04.10	236.50	88,124	–	–	–	88,124†	01.01.10 – 31.12.12[3]
	20.04.11	261.00	99,746	99,746	–	–	–†	01.01.11 – 31.12.13[4]
A M Ringrose	15.04.08	505.00	–	–	–	73,296	73,296	01.01.08 – 31.12.10[1]
	23.03.09	197.00	206,896	–	–	–	206,896	01.01.09 – 31.12.11[2]
	19.04.10	236.50	176,248	–	–	–	176,248	01.01.10 – 31.12.12[3]
	20.04.11	261.00	167,574	167,574	–	–	–	01.01.11 – 31.12.13[4]
D I Sutherland	15.04.08	505.00	–	–	–	33,507	33,507†	01.01.08 – 31.12.10[1]
	23.03.09	197.00	90,600	–	–	–	90,600†	01.01.09 – 31.12.11[2]
	19.04.10	236.50	77,180	–	–	–	77,180†	01.01.10 – 31.12.12[3]
	20.04.11	261.00	89,528	89,528	–	–	–†	01.01.11 – 31.12.13[4]

† As at 1 January 2011, when appointed to the Board.

* The maximum number of shares that could be receivable by the executive if performance conditions set out below are fully met:

[1]The EPS Performance Condition for the 2008 Awards

EPS growth of the Company over the performance period	Vesting percentage of 50% of shares subject to the award
Less than RPI + 20%	0%
RPI + 20%	33%
RPI + 20% to RPI + 40%	33% to 100% (pro-rated)
RPI + 40%	100%

[2]The EPS Performance Condition for the 2009 Awards

EPS growth of the Company over the performance period	Vesting percentage of 50% of shares subject to the award
Less than RPI + 20%	0%
RPI + 20%	33%
RPI + 20% to RPI + 33%	33% to 100% (pro-rated)
RPI + 33%	100%

[3]The EPS Performance Condition for the 2010 Awards

Adjusted Headline EPS growth of the Company over the performance period	Vesting percentage of 50% of shares subject to the award
Less than 5%	0%
5% to 20%	25% to 50% (pro-rated)
20% to 30%	50% to 100% (pro-rated)
Greater than 30%	100%

[4]The EPS Performance Condition for the 2011 Awards

Adjusted Headline EPS growth of the Company over the performance period	Vesting percentage of 50% of shares subject to the award
Less than 15%	0%
15% to 30%	25% to 50% (pro-rated)
30% to 50%	50% to 100% (pro-rated)
Greater than 50%	100%

These awards were granted in the form of nil-cost options, exercisable between 20 April 2014 and 19 April 2016.

[1234]The TSR Performance Condition

This condition is determined by comparing the Company's TSR performance to the TSR of each of a defined list of comparator companies drawn from the Construction and Materials, and Support Services sectors comprising Atkins (WS), Babcock International, Balfour Beatty, Capita Group, Carillion, Costain Group, Kier Group, May Gurney Integrated Services, MITIE Group, Morgan Sindall, Mouchel Group, Rentokil Initial, Rok (not 2011), RPS Group, Serco Group, Spice (not 2011) and WSP Group.

TSR ranking of the Company compared to the comparator group over the performance period	Vesting percentage of 50% of shares subject to the award
Below median ranking	0%
Median ranking (top 50%)	30%
Median to upper quartile ranking	30% to 100% (pro-rated)
Upper quartile ranking (top 25%)	100%

The EPS and TSR performance conditions for the 2012 awards are set out on pages 54 to 56 of this report.

The awards made in 2008 did not vest as neither the EPS or TSR performance conditions were satisfied.

The directors' interests set out in the foregoing tables were as at 31 December 2011. There have been no changes between the year end and the date of this report, other than as indicated on page 59. There have been no variations to the terms and conditions or performance criteria for options or awards during the financial year.

Approval

This report was approved by the Board of Directors on 29 February 2012 and signed on its behalf by:

David Thorpe
Chairman of the Remuneration Committee
29 February 2012

Directors' responsibility statement

The directors are responsible for preparing the Annual 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 are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") (UK Accounting Standards and applicable law). Under company law the directors must not approve the accounts 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 the parent Company financial statements, the directors are required to:

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

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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.

The directors confirm that, to the best of their knowledge:

a) the Company and Group financial statements in this Annual Report, which have been prepared in accordance with UK GAAP and IFRS, respectively, give a true and fair view of the assets, liabilities, financial position and profit of the Company and of the Group taken as a whole; and

b) the Directors' Report contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

A M Ringrose
Chief Executive
29 February 2012

T P Haywood
Group Finance Director

Independent Auditors' Report to the Members of Interserve Plc

INTRODUCTION

We have audited the Group financial statements of Interserve Plc for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity, and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditors' 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

As explained more fully in the Directors' Responsibility Statement, the directors are responsible for the preparation of the Group 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 Group 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.

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 Group'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 inconsistences we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- the part of the Directors' Remuneration Report to be audited is 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.

Under the Listing Rules we are required to review:

- the directors' statement contained within the financial review section of the Directors' Report in relation to going concern;
- the part of the Corporate Governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

OTHER MATTERS

We have reported separately on the parent company financial statements of Interserve Plc for the year ended 31 December 2011.

Stephen Griggs (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
29 February 2012

Consolidated Income Statement

for the year ended 31 December 2011

	Notes	Year ended 31 December 2011 Before exceptional items and amortisation of acquired intangible assets £million	Year ended 31 December 2011 Exceptional items and amortisation of acquired intangible assets £million	Year ended 31 December 2011 Total £million	Year ended 31 December 2010 Before exceptional items and amortisation of acquired intangible assets £million	Year ended 31 December 2010 Exceptional items and amortisation of acquired intangible asset £million	Year ended 31 December 2010 Total £million
Continuing operations							
Revenue including share of associates and joint ventures		2,319.6	–	2,319.6	2,315.4	–	2,315.4
Less: Share of associates and joint ventures	14	(472.1)	–	(472.1)	(443.4)	–	(443.4)
Consolidated revenue	2	1,847.5	–	1,847.5	1,872.0	–	1,872.0
Cost of sales*		(1,643.7)	–	(1,643.7)	(1,688.7)	–	(1,688.7)
Gross profit		203.8	–	203.8	183.3	–	183.3
Administration expenses*		(157.9)	–	(157.9)	(139.9)	–	(139.9)
Amortisation of acquired intangible assets	4	–	(5.2)	(5.2)	–	(5.0)	(5.0)
Total administration expenses		(157.9)	(5.2)	(163.1)	(139.9)	(5.0)	(144.9)
Operating profit		45.9	(5.2)	40.7	43.4	(5.0)	38.4
Share of result	14	27.9	–	27.9	31.0	–	31.0
Amortisation of acquired intangible assets	4	–	(0.5)	(0.5)	–	(0.5)	(0.5)
Share of result of associates and joint ventures		27.9	(0.5)	27.4	31.0	(0.5)	30.5
Total operating profit		73.8	(5.7)	68.1	74.4	(5.5)	68.9
Investment revenue	6	39.7	–	39.7	36.1	–	36.1
Finance costs	7	(40.7)	–	(40.7)	(40.9)	–	(40.9)
Profit before tax		72.8	(5.7)	67.1	69.6	(5.5)	64.1
Tax (charge)/credit	8	(7.9)	1.4	(6.5)	(12.0)	1.4	(10.6)
Profit for the year		64.9	(4.3)	60.6	57.6	(4.1)	53.5
Attributable to:							
Equity holders of the parent		62.0	(4.3)	57.7	53.8	(4.1)	49.7
Minority interest		2.9	–	2.9	3.8	–	3.8
		64.9	(4.3)	60.6	57.6	(4.1)	53.5
Earnings per share	10						
Basic				45.9p			39.5p
Diluted				44.7p			38.5p

* £4.7 million of business unit overheads have been reallocated in the prior period comparatives between cost of sales and administration expenses in line with the movement of business units between divisions (see note 3(a)). This reclassification does not impact operating profit.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	Notes	Year ended 31 December 2011 £million	Year ended 31 December 2010 £million
Profit for the period		**60.6**	53.5
Other comprehensive income			
Exchange differences on translation of foreign operations		**8.0**	7.7
Gains/(loss) on cash flow hedges financial assets (excluding joint ventures)		**1.1**	(0.6)
Actuarial gains/(losses) on defined benefit pension schemes	28	**(32.9)**	19.3
Deferred tax on items taken directly to equity	8	**7.5**	(6.0)
Net impact of items relating to joint-venture entities*		**23.1**	(12.4)
Other comprehensive income net of tax		**6.8**	8.0
Total comprehensive income		**67.4**	61.5
Attributable to:			
Equity holders of the parent		**64.5**	57.7
Minority interest		**2.9**	3.8
		67.4	61.5

* Movements in other comprehensive income within joint-venture entities, previously disclosed separately, have been shown within a single line, net of deferred tax. Prior period comparatives have been reclassified accordingly. This reclassification does not impact total comprehensive income.

Consolidated Balance Sheet

at 31 December 2011

	Notes	31 December 2011 £million	31 December 2010 £million	31 December 2009 £million
Non-current assets				
Goodwill	11	**199.0**	199.6	198.9
Other intangible assets	12	**22.2**	28.7	31.9
Property, plant and equipment	13	**139.7**	149.0	148.8
Interests in joint-venture entities	14	**103.3**	60.1	67.4
Interests in associated undertakings	14	**77.2**	61.7	57.0
Deferred tax asset	15	**23.4**	16.5	31.4
		564.8	515.6	535.4
Current assets				
Inventories	16	**22.2**	19.6	20.1
Trade and other receivables	18	**380.1**	386.1	355.3
Cash and deposits	19	**46.1**	67.6	60.9
		448.4	473.3	436.3
Total assets		**1,013.2**	988.9	971.7
Current liabilities				
Bank overdrafts	19	**(19.3)**	(35.2)	(11.6)
Trade and other payables	21	**(492.7)**	(492.8)	(482.7)
Current tax liabilities		**(5.9)**	(3.9)	(8.5)
Short-term provisions	24	**(28.7)**	(20.2)	(23.1)
		(546.6)	(522.1)	(525.9)
Net current liabilities		**(98.2)**	(78.8)	(89.6)
Non-current liabilities				
Bank loans	19	**(70.0)**	(85.0)	(85.0)
Trade and other payables	22	**(4.1)**	(6.7)	(9.0)
Non-current tax liabilities		**(9.2)**	(9.1)	(9.1)
Long-term provisions	24	**(26.3)**	(26.9)	(25.7)
Retirement benefit obligation	28	**(56.2)**	(51.5)	(95.3)
		(165.8)	(179.2)	(224.1)
Total liabilities		**(712.4)**	(731.3)	(750.0)
Net assets		**300.8**	257.6	221.7
Equity				
Share capital	25	**12.6**	12.6	12.5
Share premium account		**112.7**	112.7	112.7
Capital redemption reserve		**0.1**	0.1	0.1
Merger reserve		**49.0**	49.0	49.0
Hedging and translation reserves		**96.3**	64.2	69.3
Investment in own shares		**(2.8)**	(2.8)	(0.5)
Retained earnings		**28.7**	18.0	(24.1)
Equity attributable to equity holders of the parent		**296.6**	253.8	219.0
Minority interest		**4.2**	3.8	2.7
Total equity		**300.8**	257.6	221.7

These financial statements were approved by the Board of Directors on 29 February 2012.

Signed on behalf of the Board of Directors

A M Ringrose

T P Haywood

Consolidated Cash Flow Statement

for the year ended 31 December 2011

	Notes	Year ended 31 December 2011 £million	Year ended 31 December 2010 £million
Operating activities			
Total operating profit		68.1	68.9
Adjustments for:			
Amortisation of acquired intangible assets	12	5.2	5.0
Amortisation of capitalised software development	12	1.6	1.1
Depreciation of property, plant and equipment	13	28.3	25.2
Pension contributions in excess of the income statement charge		(27.0)	(26.7)
Share of results of associates and joint ventures		(27.4)	(30.5)
Charge relating to share-based payments	27	2.3	1.6
Gain on disposal of plant and equipment – hire fleet		(15.4)	(12.7)
Gain on disposal of plant and equipment – other		(0.1)	(0.3)
Operating cash flows before movements in working capital		35.6	31.6
(Increase)/decrease in inventories		(2.7)	2.6
Decrease/(increase) in receivables		5.6	(29.1)
Increase in payables		6.6	5.0
Cash generated by operations before changes in hire fleet		45.1	10.1
Capital expenditure – hire fleet	13	(21.6)	(12.8)
Proceeds on disposal of plant and equipment - hire fleet		24.6	27.9
Cash generated by operations		48.1	25.2
Taxes paid		(3.2)	(6.3)
Net cash from operating activities		**44.9**	18.9
Investing activities			
Interest received		4.4	3.8
Dividends received from associates and joint ventures	14a	20.6	32.1
Proceeds on disposal of plant and equipment – non-hire fleet		0.5	1.9
Capital expenditure – non-hire fleet	12/13	(9.0)	(7.5)
Purchase of business		–	(21.6)
Investment in joint-venture entities	14b	(19.5)	(6.1)
Investment in associated undertakings	14c	–	(5.0)
Receipt of loan repayment – Investments	14b	0.2	0.1
Net cash used in investing activities		**(2.8)**	(2.3)
Financing activities			
Interest paid		(6.7)	(6.4)
Dividends paid to equity shareholders	9	(23.0)	(22.1)
Dividends paid to minority shareholders		(2.5)	(2.7)
Issue of shares		–	0.1
Purchase of own shares		–	(2.3)
Repayment of bank loans		(15.0)	–
Movement in obligations under finance leases		(0.2)	(0.4)
Net cash used in financing activities		**(47.4)**	(33.8)
Net decrease in cash and cash equivalents		**(5.3)**	(17.2)
Cash and cash equivalents at beginning of period		32.4	49.3
Effect of foreign exchange rate changes		(0.3)	0.3
Cash and cash equivalents at end of period		**26.8**	32.4

	Year ended 31 December 2011 £million	Year ended 31 December 2010 £million
Cash and cash equivalents comprise		
Cash and deposits	**46.1**	67.6
Bank overdrafts	**(19.3)**	(35.2)
	26.8	32.4

Reconciliation of net cash flow to movement in net debt		
Net decrease in cash and cash equivalents	**(5.3)**	(17.2)
Repayment of bank loans	**15.0**	–
Movement in obligations under finance leases	**0.2**	0.4
Change in net debt resulting from cash flows	**9.9**	(16.8)
Effect of foreign exchange rate changes	**(0.3)**	0.3
Movement in net debt during the period	**9.6**	(16.5)
Net debt – opening	**(53.8)**	(37.3)
Net debt – closing	**(44.2)**	(53.8)

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

	Share capital £million	Share premium £million	Capital redemption reserve £million	Merger reserve £million	Hedging and translation reserves £million	Investment in own shares £million	Retained earnings £million	Attributable to equity holders of the parent £million	Minority interest £million	Total £million
Balance at 1 January 2010	12.5	112.7	0.1	49.0	69.3	(0.5)	(24.1)	219.0	2.7	221.7
Total comprehensive income	–	–	–	–	(5.1)	–	62.8	57.7	3.8	61.5
Dividends paid	–	–	–	–	–	–	(22.1)	(22.1)	(2.7)	(24.8)
Shares issued	0.1	–	–	–	–	–	–	0.1	–	0.1
Purchase of Company shares	–	–	–	–	–	(2.3)	–	(2.3)	–	(2.3)
Company shares used to settle share-based payment obligations	–	–	–	–	–	–	–	–	–	–
Share-based payments	–	–	–	–	–	–	1.4	1.4	–	1.4
Balance at 31 December 2010	12.6	112.7	0.1	49.0	64.2	(2.8)	18.0	253.8	3.8	257.6
Total comprehensive income	**–**	**–**	**–**	**–**	**32.1**	**–**	**32.4**	**64.5**	**2.9**	**67.4**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(23.0)**	**(23.0)**	**(2.5)**	**(25.5)**
Company shares used to settle share-based payment obligations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**1.3**	**1.3**	**–**	**1.3**
Balance at 31 December 2011	**12.6**	**112.7**	**0.1**	**49.0**	**96.3**	**(2.8)**	**28.7**	**296.6**	**4.2**	**300.8**

The £49.0 million merger reserve represents £16.4 million premium on the shares issued on the acquisition of Robert M. Douglas Holdings Plc in 1991 and £32.6 million premium on the shares issued on the acquisition of MacLellan Group Plc in 2006.

The investment in own shares reserve represents the cost of shares in Interserve Plc held by the trustees of the How Group, Bandt and Interserve Employee Benefit Trusts. The market value of these shares at 31 December 2011 was £4.2 million (2010: £3.1 million).

The accumulated balance of translation differences, incorporated within the hedging and translation reserve above, amounts to £43.6 million (2010: £35.6 million).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2011

BASIS OF PREPARATION NOTE

The Interserve Plc consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and comply with the IFRS and related Interpretations (SIC and IFRIC interpretations) as adopted by the European Union.

Adoption of new and revised standards

In the current year the following standards were introduced, none of which materially impacted the Group.

IFRS 1 (amended) *First-time adoption of IFRS – limited exemptions from comparative IFRS 7 disclosures*
IFRIC 14 *Prepayments of a minimum funding requirement*
IFRIC 19 *Extinguishing financial liabilities with equity instruments*
IAS 24 *Related party disclosures (amended Nov 2009)*
IFRS 7 (amended) *Financial instruments: disclosures*

At the date of authorisation of these Group financial statements, the following Standards and Interpretations, which have not been applied in these Group financial statements, were in issue but not yet effective:

IFRS 9 *Financial instruments*
IFRS 10 *Consolidated financial statements*
IFRS 11 *Joint arrangements*
IFRS 12 *Disclosures of interests in other entities*
IFRS 13 *Fair value measurement*
IAS 19 (revised) *Employee benefits*
IAS 27 *Separate financial statements*
IAS 28 *Investments in associates and joint ventures*
IAS 12 (amended) *Deferred tax: recovery of underlying assets*

The impact of the sections of IFRS 9 currently issued will result in the Group's project finance interests that are currently treated by the joint-venture companies as being available-for-sale, being treated as a debt carried at "fair value through profit or loss" or "amortised cost". As a result, movements in the fair value will no longer be taken to "Other comprehensive income".

The key impact of IAS 19 (revised) will be to remove the separate assumptions for expected return on plan assets and discounting of scheme liabilities, and replace them with one single discount rate for the net deficit. This will have the impact of increasing the interest charge related to pensions.

Except for IFRS 9 and IAS 19 (revised), listed above, the directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group.

Critical accounting judgements and key sources of estimation and uncertainty

In the preparation of the consolidated financial statements management makes certain judgements and estimates that impact the financial statements. While these judgements are continually reviewed the facts and circumstances underlying these judgements may change resulting in a change to the estimates that could impact the results of the Group. In particular:

Revenue and margin recognition
The policy for revenue recognition on long-term and service contracts is set out in notes 1(d) and (e). Judgements are made on an ongoing basis with regard to the recoverability of amounts due and liabilities arising. Regular forecasts are compiled on the outcomes of these types of contracts, which require assessments and judgements relating to the recovery of pre-contract costs, changes in work scopes, contract programmes and maintenance liabilities.

PFI financial assets and derivative financial instruments
The Group's interests in PFI/PPP investments are classified as "available-for-sale" financial assets by the joint-venture entities. The fair value of these financial assets is measured at each balance sheet date by discounting the future cash flows allocated to the financial asset. The discount rate used is based on long-term LIBOR plus a margin to reflect the risk associated with each project.

The Group's PFI/PPP joint-venture and associate companies use derivative financial instruments to manage the interest rate and inflation rate risks to which the concessions are exposed within their long-term contractual agreements. These derivatives are initially recognised as assets and liabilities at their fair value and subsequently remeasured at each balance sheet date at their fair value. The fair value of derivatives, assessed by discounting future cash flows, constantly changes in response to prevailing market conditions.

Notes to the Consolidated Financial Statements
continued

BASIS OF PREPARATION NOTE (CONTINUED)

Measurement of impairment of goodwill
As set out in note 1(b) the carrying value of goodwill is reviewed for impairment at least annually. In determining whether goodwill is impaired an estimation of the value in use of the cash generating unit (CGU) to which the goodwill has been allocated is required. This calculation of value in use requires estimates to be made relating to the timing and amount of future cash flows expected from the CGU, and suitable discount rates based on the Group's weighted average cost of capital adjusted to reflect the specific economic environment of the relevant CGU.

Retirement benefit obligations
In accordance with IAS 19 *Employee benefits*, the Group has disclosed in note 28 the assumptions used in calculating the defined benefit obligations. In the calculation a number of assumptions around future salary increases, increase in pension benefits, mortality rates, inflation, discount rates and the likely future return on scheme assets have been made.

Property, plant and equipment
The rental fleet in Equipment Services has a carrying value of £102.7 million (2010: £110.0 million). The great majority of equipment in the rental fleet is depreciated on a straight-line basis to a residual value of zero over 10 years. Asset lives are reviewed regularly in light of technological change, prospective utilisation and the physical condition of the assets. Due to the transportable nature of the rental fleet, the review for potential impairment is performed on a global basis.

Carrying value of trade and other receivables
Allowance for doubtful debt and provisions against other receivables, including amounts due on construction contracts and carrying value of accrued income, are made on a specific basis, based on estimates of irrecoverability determined by market knowledge and past experience.

1. ACCOUNTING POLICIES

Interserve Plc (the Company) is a company incorporated in the United Kingdom and bound by the Companies Act 2006. The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in joint ventures and associates. These financial statements are presented in pounds sterling which is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out below.

These financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments.

The financial statements are prepared on a going concern basis. As disclosed on page 29 the directors believe that the Group has adequate resources to continue in operational existence for the foreseeable future.

The significant accounting policies adopted by the directors are set out below and have been applied consistently in dealing with items which are considered material to the Group's financial statements.

(a) Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). The results, assets and liabilities of associates and joint-venture entities are accounted for under the equity method of accounting. The results of subsidiaries acquired or disposed of during the year are included from the effective date of acquisition or until the effective date of disposal respectively.

Minority interests in the net assets of the consolidated subsidiaries are identified separately from the Group's equity interest therein. Minority interests consist of those interests at the date of the original business combination and the minority's share of the changes in equity since the date of the combination. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Where necessary, adjustments are made to the financial statements of the associates, joint ventures and any newly acquired subsidiaries to bring their accounting policies into line with those used by the Group. When an entity has an accounting reference date other than 31 December, due to the influence of a co-shareholder or customer requirements, the consolidation includes management accounts, prepared using these Group accounting policies, drawn up for the year ended 31 December.

Where a Group company is party to a jointly-controlled operation, that company proportionately accounts for its share of the income and expenditure, assets, liabilities and cash flows on a line-by-line basis. Such arrangements are reported in the consolidated financial statements on the same basis.

(b) Business combinations

Business combinations are accounted for using the acquisition accounting method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of acquisition, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquired company. The acquired company's identifiable assets, liabilities and contingent liabilities are recognised at their fair value as at the acquisition date. Before the adoption of IFRS 3 (revised), the cost of acquisition included any costs directly attributable to the business combination. Costs incurred on acquisitions completed since 1 January 2010, the date of adoption of the revision to IFRS 3, are expensed.

1. ACCOUNTING POLICIES (CONTINUED)

(b) Business combinations (continued)

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, associate or jointly-controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP value at that date, subject to being subsequently tested for impairment. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal. Goodwill arising on the acquisition of shares in associated undertakings is included within investments in associated undertakings.

The interest of minority shareholders in the acquired company is initially measured at the minorities' proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(c) Foreign currency

Transactions denominated in foreign currency are translated at the rates ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit for the year.

The financial results and cash flows of foreign subsidiaries, associated undertakings and joint ventures are translated into sterling at the average rate of exchange for the year. The balance sheets are translated into sterling at the closing rate of exchange, and the difference arising from the translation of the opening net assets and financial results for the year at the closing rate is taken directly to reserves.

(d) Revenue

Revenue comprises the fair value of goods and services supplied to external customers, the value of work executed in respect of provision of services and construction contracts and the rental and sale of equipment, excluding VAT. Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see below).

Non-construction revenue and investment revenue is recognised on an accruals basis.

(e) Construction contracts

Where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. Where the outcome of a contract cannot be estimated reliably, revenue is only recognised to the extent that it is probable that it will be recoverable. Profit is only recognised on a construction contract when the final outcome can be assessed with reasonable certainty. Expected losses are recognised immediately. Stage of completion is determined by surveys of work performed by quantity surveyors in conjunction with clients.

(f) Other intangible assets

Intangible assets acquired as part of an acquisition of a business are stated at fair value less accumulated amortisation and any impairment losses, provided that the fair value can be measured reliably on initial recognition.

Operating software acquired as part of a related item of hardware is capitalised within property, plant and equipment along with the hardware acquired. Other software licences acquired are capitalised, along with the cost to bring the software into use, within intangible assets.

Other intangible assets are amortised over their useful economic lives on a straight-line basis, typically between three and ten years.

(g) Property, plant and equipment

(i) Owned property, plant and equipment – tangible fixed assets are carried at historical cost less any accumulated depreciation and any impairment losses. Properties in the course of construction are carried at cost less any recognised impairment loss. Depreciation is charged so as to write off the cost of assets over their expected useful lives.

Depreciation is provided on a straight-line or reducing-balance basis at rates ranging between:

	Straight line	*Reducing balance*
Freehold land	Nil	–
Freehold buildings	2% to 5%	–
Leasehold property	over the period of the lease	–
Plant and equipment	10% to 50%	11.5% to 38%

(ii) Property, plant and equipment held under finance leases are capitalised and depreciated over their expected useful lives. The finance charges are allocated over the primary period of the lease in proportion to the capital element outstanding.

Notes to the Consolidated Financial Statements
continued

1. ACCOUNTING POLICIES (CONTINUED)

(h) Impairment of tangible and other intangible assets

The Group reviews, at least annually, the carrying amounts of its tangible and intangible assets compared to their recoverable amounts to determine whether those assets have suffered an impairment loss (see note 11). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

(i) Investments

Investments are held at fair value at the balance sheet date. Investments are financial assets and are classified as fair value through the profit or loss. Gains or losses arising from the changes in fair value are included in the income statement in the period in which they arise.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(k) Borrowing costs

Project-specific finance costs are capitalised until the asset becomes operational. All other borrowing costs are recognised in the income statement using the effective interest method.

(l) PFI bid costs and other pre-contract costs

In the case of PFI bid costs, on financial close of the project the Group recovers bid costs by charging a fee to the relevant project company. If the fee exceeds the amount held by the Group as an asset, the excess is credited to the balance sheet as deferred income and is released to the income statement over the construction period. If the agreed fee is less than the amount held by the Group as an asset, the loss is recognised as soon as it is anticipated.

Other pre-contract costs are recognised as expenses as incurred, except that directly attributable costs are recognised as an asset when it is virtually certain that a contract will be obtained and the contract is expected to result in future net cash inflows. Virtual certainty of a contract award is a subjective assessment, but normally arises on appointment as preferred bidder or notification from the prospective customer of their intent to appoint Interserve.

(m) Leases

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

Finance leases are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using an appropriate rate that takes into account the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

1. ACCOUNTING POLICIES (CONTINUED)

(o) Financial instruments

Trade receivables

Trade receivables are initially measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement where there is objective evidence that the asset is impaired. Trade receivables are financial assets and classified as loans and receivables.

Cash and deposits

Cash and deposits comprise cash on hand and demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and deposits are financial assets and are classified as loans and receivables.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Bank borrowings are other financial liabilities.

Trade payables

Trade payables are other financial liabilities initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Transactions in derivative financial instruments are for risk management purposes only. The Group uses derivative financial instruments to hedge its exposure to interest rate and foreign currency risk. To the extent that such instruments are matched to underlying assets or liabilities, they are accounted for using hedge accounting.

Derivatives are initially recognised at fair value at the date a derivative contract is taken out and subsequently remeasured at fair value at each balance sheet date. Changes in fair value of derivative instruments that are designated as, and effective as, hedges of future cash flows and net investments are recognised directly in the other comprehensive income statement. Any ineffective portion is recognised immediately in the income statement.

Amounts deferred in equity are recycled through the income statement in the same period in which the underlying hedged item is recognised in the income statement. However, when the transaction that is being hedged results in a non-financial asset or non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of that asset or liability. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss on the hedging instrument recognised in equity at that time is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, any cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Changes in fair value of derivative instruments that do not qualify for hedge accounting, or have not been designated as hedges, are recognised in the income statement as they arise. These derivative instruments are designated as fair value through the profit or loss (FVTPL).

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their economic risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value.

(p) Share-based payments

The Group has applied the requirements of IFRS 2 *Share-based payment*. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as at 1 January 2004.

The Group issues share-based payments to certain employees. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of an appropriate valuation model. The Black-Scholes option pricing model has been used to value the share option plans and the Sharesave Scheme. A stochastic model has been used to value the Performance Share Plan.

Notes to the Consolidated Financial Statements
continued

1. ACCOUNTING POLICIES (CONTINUED)

(q) PFI projects

Treatment on consolidation
The Group's investments in PFI jointly-controlled entities ("Joint ventures – PFI Investments") are accounted for under the equity method.

Treatment in the underlying joint-venture entity
The joint-venture entities have determined the appropriate treatment of the principal assets of, and income streams from, PFI and similar contracts. The balance of risks and rewards derived from the underlying assets is not borne by the entities, and therefore the asset provided is accounted for as a financial asset and is classified as available-for-sale.

Income is recognised on PFI projects both as operating revenue and interest income: a proportion of total cash receivable is allocated to operating revenue by means of a margin on service costs taking account of operational risks, and interest income on the financial asset is recognised in the income statement using the effective interest method. The residual element is allocated to the amortisation of the financial asset.

The fair value of the financial asset is measured at each balance sheet date by computing the discounted future value of the cash flow allocated to the financial asset. Discount rates are determined using long-term interest rates, subject to a floor, plus risk factors specific to individual projects.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity until the asset is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period.

(r) Pensions

The Group has both defined benefit and defined contribution pension schemes for the benefit of permanent members of staff. For the defined benefit schemes the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised directly in equity and presented in the statement of recognised income and expense.

For defined contribution schemes, the amount recognised in the income statement is equal to the contributions payable to the schemes during the year.

(s) Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are calculated at the rates at which they are likely to reverse in the tax jurisdiction to which they relate.

Deferred tax is provided in full on temporary differences which arise between the carrying value of an asset or liability and its tax base. Deferred tax assets are recognised to the extent that it is probable that there will be sufficient profits in the future to enable the assets to be utilised and reviewed at least annually. Deferred tax liabilities are normally recognised for all taxable temporary differences. Deferred tax assets and liabilities are not discounted.

Deferred tax is charged/credited to the income statement except to the extent that the underlying asset or liability is credited/charged to equity in which case the deferred tax follows that treatment to equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(t) Exceptional items

Exceptional items are those that the Group consider to be non-recurring and significant in size or in nature.

2. REVENUE

An analysis of the Group's revenue for the year is as follows:

	Revenue including share of associates and joint ventures		Consolidated revenue	
	2011 £million	2010 £million	**2011 £million**	2010 £million
Continuing operations				
Provision of services	**1,124.1**	1,163.1	**971.7**	1,009.4
Revenue from construction contracts	**1,026.5**	1,012.6	**706.8**	722.9
Equipment sales and leasing income	**169.0**	139.7	**169.0**	139.7
	2,319.6	2,315.4	**1,847.5**	1,872.0

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

The Group is organised into four operating divisions, as set out below. The Group internally reviews and allocates resources to each of these operating divisions and each has a divisional managing director who reports into and forms part of the Executive Board.

- Support Services: provision of outsourced support services to public- and private-sector clients, both in the UK and through Middle East associates.
- Construction: design, construction and maintenance of buildings and infrastructure, both in the UK and through Middle East associates.
- Equipment Services: design, hire and sale of formwork, falsework and associated access equipment.
- Investments: transaction structuring, and management of, the Group's project finance activities. Investments' segmental figures represent the Group's share of the associated special purpose companies.

Costs of central services, including those in Developments relating to managing our PFI investments and central bidding activities, are shown in "Group Services".

Reflecting the growing significance of our international Support Services operations and some minor changes in operational reporting structures, the business segmentation has been revised. The principal changes are:

- the Support Services activities carried out by our Middle East associates, principally the Madina sub-group, have been moved from Construction to Support Services;
- the Engineering business unit has been moved from Support Services to Construction; and
- the Education facilities management business unit has been moved from Construction to Support Services.

Note 3 (a) (i) is prepared on the basis of the new segmentation, with prior periods being restated. Additionally, the analysis under the old classification is presented for information in note 3 (a) (ii).

Notes to the Consolidated Financial Statements
continued

3. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

(a) (i) New segmentation

The segment information below reflects how the business segments will be disclosed henceforth.

	Revenue including share of associates and joint ventures		Consolidated revenue		Result	
	2011 £million	2010 £million *restated*	2011 £million	2010 £million *restated*	2011 £million	2010 £million *restated*
Support Services – UK	**1,069.6**	1,098.7	**1,007.3**	1,024.8	**36.4**	25.1
Support Services – International	**25.9**	23.7	**–**	–	**3.6**	3.4
Support Services	**1,095.5**	1,122.4	**1,007.3**	1,024.8	**40.0**	28.5
Construction – UK	**731.1**	754.3	**731.1**	754.3	**18.0**	24.5
Construction – International	**223.7**	239.2	**–**	–	**16.6**	22.8
Construction	**954.8**	993.5	**731.1**	754.3	**34.6**	47.3
Equipment Services	**154.3**	139.9	**154.3**	139.9	**13.6**	14.4
Investments	**160.2**	106.6	**–**	–	**6.0**	4.2
Group Services	**–**	–	**–**	–	**(20.4)**	(20.0)
Inter-segment elimination	**(45.2)**	(47.0)	**(45.2)**	(47.0)	**–**	–
	2,319.6	2,315.4	**1,847.5**	1,872.0	**73.8**	74.4
Amortisation of acquired intangible assets					**(5.7)**	(5.5)
Total operating profit					**68.1**	68.9
Investment revenue					**39.7**	36.1
Finance costs					**(40.7)**	(40.9)
Profit before tax					**67.1**	64.1
Tax					**(6.5)**	(10.6)
Profit for the year					**60.6**	53.5

	Segment assets		Segment liabilities		Net assets/ (liabilities)	
	2011 £million	2010 £million *restated*	2011 £million	2010 £million *restated*	2011 £million	2010 £million *restated*
Support Services – UK	**217.1**	215.0	**(228.5)**	(224.5)	**(11.4)**	(9.5)
Support Services – International	**21.5**	8.7	**–**	–	**21.5**	8.7
Support Services	**238.6**	223.7	**(228.5)**	(224.5)	**10.1**	(0.8)
Construction – UK	**162.0**	160.9	**(291.7)**	(294.8)	**(129.7)**	(133.9)
Construction – International	**45.6**	42.4	**–**	–	**45.6**	42.4
Construction	**207.6**	203.3	**(291.7)**	(294.8)	**(84.1)**	(91.5)
Equipment Services	**184.9**	188.8	**(32.5)**	(30.8)	**152.4**	158.0
Investments	**103.3**	60.1	**–**	–	**103.3**	60.1
	734.4	675.9	**(552.7)**	(550.1)	**181.7**	125.8
Group Services, goodwill and acquired intangible assets	**232.7**	245.4	**(73.6)**	(63.6)	**159.1**	181.8
	967.1	921.3	**(626.3)**	(613.7)	**340.8**	307.6
Net debt					**(44.2)**	(53.8)
Net assets (excluding minority interest)					**296.6**	253.8

3. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

(a) (i) New segmentation (continued)

	Depreciation and amortisation		Additions to property, plant and equipment and intangible assets	
	2011 £million	2010 £million *restated*	**2011 £million**	2010 £million *restated*
Support Services – UK	**7.9**	6.5	**6.3**	5.6
Support Services – International	**0.4**	0.4	**–**	–
Support Services	**8.3**	6.9	**6.3**	5.6
Construction – UK	**2.4**	2.5	**2.9**	1.1
Construction – International	**0.1**	0.1	**–**	–
Construction	**2.5**	2.6	**2.9**	1.1
Equipment Services	**19.1**	16.7	**20.8**	33.2
Investments	**–**	–	**–**	–
	29.9	26.2	**30.0**	39.9
Group Services	**5.7**	5.6	**0.6**	0.3
	35.6	31.8	**30.6**	40.2

The additions in Equipment Services in 2010 include £18.3 million of property, plant and equipment and £1.6 million intangible assets arising from the acquisition of assets from CMC Construction Services.

(a) (ii) Old segmentation

The business segment information below is prepared on the same basis as presented in the 2010 annual report.

	Revenue including share of associates and joint ventures		Consolidated revenue		Result	
	2011 £million	2010 £million	**2011 £million**	2010 £million	**2011 £million**	2010 £million
Support Services	**1,123.8**	1,167.5	**1,061.5**	1,093.6	**37.5**	27.2
Construction	**983.4**	1,002.9	**733.8**	740.0	**37.1**	48.6
Equipment Services	**154.3**	139.9	**154.3**	139.9	**13.6**	14.4
Investments	**160.2**	106.6	**–**	–	**6.0**	4.2
Group Services	**–**	–	**–**	–	**(20.4)**	(20.0)
Inter-segment elimination	**(102.1)**	(101.5)	**(102.1)**	(101.5)	**–**	–
	2,319.6	2,315.4	**1,847.5**	1,872.0	**73.8**	74.4
Amortisation of acquired intangible assets					**(5.7)**	(5.5)
Total operating profit					**68.1**	68.9
Investment revenue					**39.7**	36.1
Finance costs					**(40.7)**	(40.9)
Profit before tax					**67.1**	64.1
Tax					**(6.5)**	(10.6)
Profit for the year					**60.6**	53.5

Notes to the Consolidated Financial Statements
continued

3. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

(a) (ii) Old segmentation (continued)

	Segment assets		Segment liabilities		Net assets/ (liabilities)	
	2011 £million	2010 £million	2011 £million	2010 £million	2011 £million	2010 £million
Support Services	**224.7**	225.1	**(246.0)**	(242.2)	**(21.3)**	(17.1)
Construction	**221.5**	201.9	**(274.2)**	(277.1)	**(52.7)**	(75.2)
Equipment Services	**184.9**	188.8	**(32.5)**	(30.8)	**152.4**	158.0
Investments	**103.3**	60.1	**–**	–	**103.3**	60.1
	734.4	675.9	**(552.7)**	(550.1)	**181.7**	125.8
Group Services, goodwill and acquired intangible assets	**232.7**	245.4	**(73.6)**	(63.6)	**159.1**	181.8
	967.1	921.3	**(626.3)**	(613.7)	**340.8**	307.6
Net debt					**(44.2)**	(53.8)
Net assets (excluding minority interest)					**296.6**	253.8

	Depreciation and amortisation		Additions to property, plant and equipment and intangible assets	
	2011 £million	2010 £million	2011 £million	2010 £million
Support Services	**7.9**	6.6	**6.3**	5.6
Construction	**2.9**	3.0	**2.9**	1.1
Equipment Services	**19.1**	16.7	**20.8**	33.2
Investments	**–**	–	**–**	–
	29.9	26.3	**30.0**	39.9
Group Services	**5.7**	5.5	**0.6**	0.3
	35.6	31.8	**30.6**	40.2

3. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

(b) Geographical segments

The Support Services and Construction divisions are located in the United Kingdom and the Middle East. Equipment Services has operations in all of the geographic segments listed below. Investments is predominantly based in the United Kingdom.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Revenue including share of associates and joint ventures		Consolidated revenue		Total operating profit	
	2011 £million	2010 £million	2011 £million	2010 £million	2011 £million	2010 £million
United Kingdom	**1,976.1**	1,972.7	**1,753.6**	1,792.2	**60.8**	55.9
Rest of Europe	**10.8**	17.5	**10.8**	17.5	**(4.0)**	(2.8)
Middle East & Africa	**301.0**	323.8	**51.4**	60.9	**22.8**	30.5
Australasia	**48.5**	37.4	**48.5**	37.4	**14.0**	10.5
Far East	**9.5**	6.1	**9.5**	6.1	**1.2**	0.7
Americas	**18.9**	4.9	**18.9**	4.9	**(0.6)**	(0.4)
Group Services	**–**	–	**–**	–	**(20.4)**	(20.0)
Inter-segment elimination	**(45.2)**	(47.0)	**(45.2)**	(47.0)	**–**	–
	2,319.6	2,315.4	**1,847.5**	1,872.0	**73.8**	74.4
Amortisation of acquired intangible assets					**(5.7)**	(5.5)
					68.1	68.9

	Non-current assets	
	2011 £million	2010 £million
United Kingdom	**140.5**	101.4
Rest of Europe	**9.5**	14.7
Middle East & Africa	**118.9**	105.4
Australasia	**19.7**	19.3
Far East	**10.6**	6.3
Americas	**21.8**	26.1
Group Services, goodwill and acquired intangible assets	**220.4**	225.9
	541.4	499.1
Deferred tax asset	**23.4**	16.5
	564.8	515.6

Included in consolidated revenue above are revenues of approximately £97 million (2010: £102 million) which arose from sales to the Group's largest contract customer. 60% of revenue (2010: 63%) was derived from contracts with the public sector.

Notes to the Consolidated Financial Statements
continued

4. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging/(crediting):

	Notes	2011 £million	2010 £million
Depreciation of property, plant and equipment:			
On owned assets	13	**27.8**	24.7
On assets held under finance leases	13	**0.5**	0.5
Amortisation of capitalised software development	12	**1.6**	1.1
Gain on disposal of plant and equipment – hire fleet		**(15.4)**	(12.7)
Gain on disposal of plant and equipment – other		**(0.1)**	(0.3)
Amortisation of acquired intangible assets (subsidiary undertakings)	12	**5.2**	5.0
Amortisation of acquired intangible assets (associated undertakings)	14	**0.5**	0.5
Rentals under operating leases:			
Hire of plant and machinery		**22.0**	17.1
Other lease rentals		**19.2**	19.6
Cost of inventories recognised in cost of sales		**25.6**	28.1
Staff costs	5	**602.1**	610.5
Auditors' remuneration for audit services (see below)		**0.8**	0.8

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below:

	2011 £million	2010 £million
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**0.2**	0.2
The audit of the Company's subsidiaries pursuant to legislation	**0.6**	0.6
Total audit fees	**0.8**	0.8
Audit-related assurance services	**0.1**	0.1
Other taxation advisory services	**0.1**	0.2
Corporate finance services	**0.4**	–
Total non-audit fees	**0.6**	0.3
Total fees paid to the Company's auditors	**1.4**	1.1

Corporate finance services include working capital and reporting accountant work in connection with the aborted acquisition of Mouchel Group plc.

An explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors is set out in the description of the work of the Audit Committee within the Corporate Governance report on page 48.

5. STAFF COSTS

The average number of employees, being full-time equivalents, within each division during the year, including executive directors, was:

	2011 Number	2010 Number restated
Support Services	**16,372**	16,539
Construction	**2,632**	2,778
Equipment Services	**1,176**	1,095
Group Services	**128**	127
	20,308	20,539

Prior period comparatives have been restated to reflect the new business segments and to reflect the full-time equivalent data in Support Services' contracts.

	2011 £million	2010 £million
Their aggregate remuneration comprised:		
Wages and salaries	**537.2**	544.1
Social security costs	**43.4**	45.2
Share-based payments	**2.6**	1.8
Other pension costs (see below)	**18.9**	19.4
	602.1	610.5
Defined benefit scheme current service costs (note 28)	**5.6**	6.3
Other UK – defined contribution	**12.3**	12.2
Other overseas – defined contribution	**1.0**	0.9
Pension costs	**18.9**	19.4

Detailed disclosures of directors' aggregate and individual remuneration and share-based payments are given in the audited section of the Directors' Remuneration Report on pages 58 to 62 and should be regarded as an integral part of this note.

6. INVESTMENT REVENUE

	2011 £million	2010 £million
Bank interest	**0.2**	0.3
Interest income from joint-venture investments	**4.0**	2.8
Return on defined benefit pension assets (note 28)	**35.3**	32.3
Other interest	**0.2**	0.7
	39.7	36.1

7. FINANCE COSTS

	2011 £million	2010 £million
Bank loans and overdrafts and other loans repayable	**(6.7)**	(6.4)
Interest cost on pension obligations (note 28)	**(34.0)**	(34.5)
	(40.7)	(40.9)

Notes to the Consolidated Financial Statements
continued

8. TAX

		2011 £million	2010 £million
Current tax – UK		**0.3**	(1.6)
Current tax – overseas		**5.4**	3.1
Deferred tax (note 15)		**0.8**	9.1
Tax charge for the year		**6.5**	10.6
Tax charge before prior period adjustments	A	**13.9**	11.5
Prior period adjustments – (credits)/charges		**(7.4)**	(0.9)
		6.5	10.6
Profit before tax			
Subsidiary undertakings' profit before tax	B	**39.7**	33.6
Group share of profit after tax of associates and joint ventures		**27.4**	30.5
		67.1	64.1
Effective tax, excluding one-offs, on subsidiary profits before tax	A/B	**35.0%**	34.2%

As explained in the Financial Review on page 25, prior period adjustments include £7.0 million relating to UK Corporation Tax reductions following the restructuring of investment holdings in the Middle East.

UK corporation tax is calculated at 26.5% (2010: 28%) of the estimated taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The total charge for the year can be reconciled to the profit per the income statement as follows:

	2011		2010	
	£million	%	£million	%
Profit before tax	**67.1**		64.1	
Tax at the UK income tax rate of 26.5% (2010: 28.0%)	**17.8**	**26.5%**	17.9	27.9%
Tax effect of expenses not deductible in determining taxable profit	**1.9**	**2.8%**	1.2	1.9%
Tax effect of share of results of associates	**(7.8)**	**(11.6%)**	(8.7)	(13.6%)
Effect of overseas losses unrelieved	**2.0**	**3.0%**	1.1	1.7%
Prior period adjustments	**(7.4)**	**(11.0%)**	(0.9)	(1.4%)
Tax charge and effective tax rate for the year	**6.5**	**9.7%**	10.6	16.5%

In addition to the income tax charged to the income statement, the following deferred tax charges/(credits) have been recorded directly to equity in the year:

	2011 £million	2010 £million *restated*
Tax on actuarial (losses)/gains on pension liability	**(8.2)**	5.2
Impact of change in corporation tax rate on pension liability	**1.0**	1.0
Tax on fair value adjustment on available-for-sale financial assets	**0.2**	(0.2)
Tax on the intrinsic value of share-based payments	**(0.5)**	–
Total	**(7.5)**	6.0

The impact of deferred tax within project finance joint-venture entities, disclosed in prior periods, has been removed from the table above and is now included within "Net impact of items relating to joint-venture entities" within other comprehensive income.

9. DIVIDENDS

	Dividend per share pence	2011 £million	2010 £million
Final dividend for the year ended 31 December 2009	12.0	–	15.1
Interim dividend for the year ended 31 December 2010	5.6	–	7.0
Final dividend for the year ended 31 December 2010	12.4	15.5	–
Interim dividend for the year ended 31 December 2011	6.0	7.5	–
Amount recognised as distribution to equity holders in the period		23.0	22.1
Proposed final dividend for the year ended 31 December 2011	13.0	16.4	

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

10. EARNINGS PER SHARE

Calculation of earnings per share is based on the following data:

Earnings

	2011 £million	2010 £million
Net profit attributable to equity holders of the parent (for basic and diluted basic earnings per share)	57.7	49.7
Adjustments:		
Amortisation of acquired intangible assets	5.7	5.5
Tax effect of above adjustments	(1.4)	(1.4)
Headline earnings (for headline and diluted headline earnings per share)	62.0	53.8

Number of shares

	2011 Number	2010 Number
Weighted average number of ordinary shares for the purposes of basic and headline earnings per share	125,804,346	125,715,700
Effect of dilutive potential ordinary shares:		
Share options and awards	3,399,166	3,283,818
Weighted average number of ordinary shares for the purposes of diluted basic and diluted headline earnings per share	129,203,512	128,999,518

Earnings per share

	2011 pence	2010 pence
Headline earnings per share	49.3	42.8
Diluted headline earnings per share	48.0	41.7
Basic earnings per share	45.9	39.5
Diluted basic earnings per share	44.7	38.5

Notes to the Consolidated Financial Statements

continued

11. GOODWILL

	2011 £million	2010 £million
Cost		
At 1 January	**259.6**	258.9
Additions	**–**	0.7
Change in deferred contingent consideration for subsidiaries acquired in prior years	**(0.6)**	–
At 31 December	**259.0**	259.6
Accumulated impairment		
At 1 January and 31 December	**60.0**	60.0
Carrying amount		
At 31 December	**199.0**	199.6

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination as follows:

	Support Services £million	Equipment Services £million	Total £million
At 1 January 2010	198.7	0.2	198.9
Additions	–	0.7	0.7
At 31 December 2010	198.7	0.9	199.6
Change in deferred contingent consideration for subsidiaries acquired in prior years	**(0.6)**	**–**	**(0.6)**
At 31 December 2011	**198.1**	**0.9**	**199.0**

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, cash flows, growth rates and margins during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The revenue growth rates are based on current Board approved budgets and forecasts and are extrapolated based on expectations of changes in the market. The Group produces three-year plans and then projects a further year based on growth rates of 2.5%, followed by a terminal value based on a perpetuity calculated at a nominal 2.5% growth which does not exceed current market growth rates.

The rate used to discount the future cash flows is 13.0% (2010: 12.2%) and is based on the Group's pre-tax weighted average cost of capital.

As part of this annual review a sensitivity analysis was performed on the impairment test of each CGU, including an increase in the discount rate of up to 2.0% or the limiting of growth over the plan years to 2.5%. No impairment in the carrying value of the goodwill in either Support Servcies or Equipment Services would occur as a result of adopting these sensitivities.

12. OTHER INTANGIBLE ASSETS

		Acquired		
	Computer software £million	Customer relationships £million	Other £million	Total £million
Cost				
At 1 January 2010	6.1	41.4	1.4	48.9
Acquisition from CMC – note 3 (a) (i)	–	1.6	–	1.6
Additions	1.3	–	–	1.3
At 31 December 2010	7.4	43.0	1.4	51.8
Additions	**0.3**	**–**	**–**	**0.3**
At 31 December 2011	**7.7**	**43.0**	**1.4**	**52.1**
Accumulated amortisation				
At 1 January 2010	0.1	16.1	0.8	17.0
Charge for the year	1.1	4.7	0.3	6.1
At 31 December 2010	1.2	20.8	1.1	23.1
Charge for the year	**1.6**	**5.0**	**0.2**	**6.8**
At 31 December 2011	**2.8**	**25.8**	**1.3**	**29.9**
Carrying amount				
At 31 December 2011	**4.9**	**17.2**	**0.1**	**22.2**
At 31 December 2010	6.2	22.2	0.3	28.7
At 1 January 2010	6.0	25.3	0.6	31.9
Useful lives	**5 years**	**5-10 years**	**3-5 years**	

The useful life and amortisation period of each group of intangible assets varies according to the underlying length of benefit expected to be received.

Notes to the Consolidated Financial Statements

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13. PROPERTY, PLANT AND EQUIPMENT

(a) Movements

	Land and buildings £million	Hire fleet £million	Other plant and equipment £million	Total £million
Cost				
At 1 January 2010	19.2	191.9	54.1	265.2
Additions	0.6	12.8	5.6	19.0
Acquisition from CMC – note 3 (a) (i)	–	18.3	–	18.3
Disposals	(0.9)	(17.1)	(2.3)	(20.3)
Exchange differences	0.4	8.7	1.2	10.3
At 31 December 2010	19.3	214.6	58.6	292.5
Additions	**0.5**	**21.6**	**8.2**	**30.3**
Disposals	**(0.4)**	**(17.9)**	**(0.7)**	**(19.0)**
Exchange differences	**(0.1)**	**(2.4)**	**(0.1)**	**(2.6)**
At 31 December 2011	**19.3**	**215.9**	**66.0**	**301.2**
Accumulated depreciation				
At 1 January 2010	6.7	78.5	31.2	116.4
Charge for the year	1.4	16.0	7.8	25.2
Eliminated on disposals	–	(1.2)	(1.5)	(2.7)
Exchange differences	–	4.2	0.4	4.6
At 31 December 2010	8.1	97.5	37.9	143.5
Charge for the year	**1.6**	**18.1**	**8.6**	**28.3**
Eliminated on disposals	**(0.2)**	**(8.8)**	**(0.4)**	**(9.4)**
Exchange differences	**–**	**(0.8)**	**(0.1)**	**(0.9)**
At 31 December 2011	**9.5**	**106.0**	**46.0**	**161.5**
Carrying amount				
At 31 December 2011	**9.8**	**109.9**	**20.0**	**139.7**
At 31 December 2010	11.2	117.1	20.7	149.0
At 1 January 2010	12.5	113.4	22.9	148.8

The carrying amount of the Group's plant and equipment includes an amount of £1.2 million (2010: £1.6 million) in respect of assets held under finance leases. Details of property, plant and equipment held under finance leases are shown in note 23.

(b) Carrying amount of land and buildings

	2011 £million	2010 £million
Freehold:		
Land at cost	**2.3**	2.3
Buildings at cost less depreciation	**3.5**	3.9
	5.8	6.2
Leaseholds over 50 years at cost less depreciation	**–**	–
Leaseholds under 50 years at cost less depreciation	**4.0**	5.0
	9.8	11.2

(c) Future capital expenditure not provided for in the financial statements

	2011 £million	2010 £million
Committed	**1.3**	0.3

14. INTERESTS IN ASSOCIATES AND JOINT-VENTURE ENTITIES

(a) Share of results and net assets of joint-venture entities and associated undertakings

There are no significant restrictions on the ability of associates and joint-venture entities to pay dividends or repay loans if agreed by the shareholders.

The share of results from joint-venture entities and associated undertakings were as follows:

	Year ended 31 December 2011				Year ended 31 December 2010			
	Construction £million	Support Services £million	Investments £million	Total £million	Construction £million*	Support Services £million*	Investments £million	Total £million
Revenues	223.7	88.2	160.2	472.1	239.2	97.6	106.6	443.4
Operating profit	18.8	4.7	1.9	25.4	24.6	4.3	3.8	32.7
Net interest receivable	0.5	0.1	7.5	8.1	1.0	0.1	2.8	3.9
Taxation	(1.6)	(0.6)	(3.4)	(5.6)	(2.6)	(0.6)	(2.4)	(5.6)
Group share of profit	17.7	4.2	6.0	27.9	23.0	3.8	4.2	31.0
Amortisation of acquired intangibles	(0.1)	(0.4)	–	(0.5)	(0.1)	(0.4)	–	(0.5)
Total operating profit	17.6	3.8	6.0	27.4	22.9	3.4	4.2	30.5
Dividends	(12.8)	(2.6)	(5.2)	(20.6)	(24.3)	(2.6)	(5.2)	(32.1)
Retained profits	4.8	1.2	0.8	6.8	(1.4)	0.8	(1.0)	(1.6)

Share of net assets of joint-venture entities and associated undertakings were as follows:

	Year ended 31 December 2011				Year ended 31 December 2010			
	Construction £million	Support Services £million	Investments £million	Total £million	Construction £million*	Support Services £million*	Investments £million	Total £million
Non-current assets	30.0	14.1	847.2	891.3	24.4	2.4	703.6	730.4
Current assets	168.9	22.1	61.6	252.6	173.6	18.9	58.3	250.8
Current liabilities	(132.7)	(13.7)	(54.5)	(200.9)	(127.4)	(12.6)	(54.2)	(194.2)
Non-current liabilities	(20.6)	(1.0)	(751.0)	(772.6)	(28.2)	–	(647.6)	(675.8)
	45.6	21.5	103.3	170.4	42.4	8.7	60.1	111.2
Goodwill	4.3	3.5	–	7.8	4.3	3.5	–	7.8
Acquired intangible assets	0.8	1.5	–	2.3	0.9	1.9	–	2.8
Carrying value of net assets and goodwill	50.7	26.5	103.3	180.5	47.6	14.1	60.1	121.8

*In line with the revised reporting of segmental results (see note 3), certain activities carried out by our Middle East associates have been moved from Construction to Support Services, and the prior period's results have been restated.

The liabilities of the joint-venture entities principally relate to the non-recourse debt within those businesses as part of funding the construction of the underlying asset.

The most substantial joint-venture entity is Health Management (UCLH) Holdings Ltd. The Group's share of gross assets is £112.7 million (2010: £110.0 million), current liabilities £22.7 million (2010: £19.4 million) and liabilities falling due after more than one year £84.1 million (2010: £85.1 million).

Further details of the Group's investment in PPP/PFI schemes are included in note 30.

At 31 December 2011 the Group had a commitment for additional investment in joint-venture entities of £13.0 million (2010: £30.1 million).

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14. INTERESTS IN ASSOCIATES AND JOINT-VENTURE ENTITIES (CONTINUED)

(b) Joint ventures – PFI investments

	Shares £million	Loans £million	Share of reserves £million	Total £million
At 1 January 2010	1.7	18.1	47.6	67.4
Acquisitions and advances	–	6.1	–	6.1
Repayments to the Group	–	(0.1)	–	(0.1)
Fair value adjustment to financial instruments and derivatives	–	–	(12.3)	(12.3)
Share of retained profits	–	–	(1.0)	(1.0)
At 31 December 2010	1.7	24.1	34.3	60.1
Acquisitions and advances	**–**	**19.5**	**–**	**19.5**
Repayments to the Group	**–**	**(0.2)**	**–**	**(0.2)**
Fair value adjustment to financial instruments and derivatives	**–**	**–**	**23.1**	**23.1**
Share of retained profits	**–**	**–**	**0.8**	**0.8**
At 31 December 2011	**1.7**	**43.4**	**58.2**	**103.3**

(c) Associated undertakings

	Shares £million	Loans £million	Share of reserves £million	Total £million
At 1 January 2010	5.7	8.8	42.5	57.0
Additions	5.0	–	–	5.0
Share of retained profits net of amortisation	–	–	(0.6)	(0.6)
Exchange differences	–	–	0.3	0.3
At 31 December 2010	10.7	8.8	42.2	61.7
Share of retained profits net of amortisation	**–**	**–**	**6.0**	**6.0**
Exchange differences	**–**	**–**	**9.5**	**9.5**
At 31 December 2011	**10.7**	**8.8**	**57.7**	**77.2**

15. DEFERRED TAXATION

The following are the major deferred tax assets and (liabilities) recognised by the Group.

	Retirement benefit obligations £million	Acquired intangible assets £million	Accelerated capital allowances £million	Other timing differences £million	Total £million
At 1 January 2010	39.6	(7.3)	(6.1)	5.2	31.4
(Charge)/credit to income	(11.2)	1.4	1.1	(0.4)	(9.1)
(Charge)/credit to equity	(6.2)	–	–	0.2	(6.0)
Exchange differences	–	–	(0.4)	0.6	0.2
At 31 December 2010	22.2	(5.9)	(5.4)	5.6	16.5
(Charge)/credit to income	**(11.2)**	**1.8**	**7.8**	**0.8**	**(0.8)**
Credit to equity	**7.2**	**–**	**–**	**0.3**	**7.5**
Exchange differences	**–**	**–**	**–**	**0.2**	**0.2**
At 31 December 2011	**18.2**	**(4.1)**	**2.4**	**6.9**	**23.4**

Included in the movements in the year ended 31 December 2011 are amounts reflecting the change in corporation tax that was enacted during the year, amounting to £1.0 million charged to equity and £0.6 million credited to the income statement.

Certain deferred tax assets and liabilities, as shown below, have been offset on the consolidated balance sheet.

	2011 £million	2010 £million
Deferred tax liabilities	**(4.1)**	(11.3)
Deferred tax assets	**27.5**	27.8
	23.4	16.5

No deferred tax asset has been recognised in respect of certain unused tax losses available for offset against future profits due to the unpredictability of future profit streams in those businesses. The accumulated tax value of these losses is £6.3 million (2010: £2.6 million) on gross losses of £25.2 million (2010: £9.6 million).

16. INVENTORIES

	31 December 2011 £million	31 December 2010 £million	31 December 2009 £million
Goods held for resale	**21.4**	19.2	19.9
Materials	**0.8**	0.4	0.2
	22.2	19.6	20.1

17. CONSTRUCTION CONTRACTS

Balances related to contracts in progress at the balance sheet date were:

	31 December 2011 £million	31 December 2010 £million	31 December 2009 £million
Amounts due from contract customers included in trade and other receivables	**32.0**	39.0	38.5
Amounts due to contract customers included in trade and other payables	**(25.9)**	(31.7)	(46.0)
	6.1	7.3	(7.5)
Contract costs incurred plus recognised profits less recognised losses to date	**4,456.8**	4,090.6	3,938.9
Less: progress billings	**(4,450.7)**	(4,083.3)	(3,946.4)
	6.1	7.3	(7.5)

At 31 December 2011, retentions held by customers for contract work amounted to £23.3 million (2010: £23.0 million) of which £3.6 million (2010: £9.8 million) is receivable after one year. Advances received were £25.9 million (2010: £31.7 million) of which £nil is repayable after one year (2010: £nil).

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18. TRADE AND OTHER RECEIVABLES

	31 December 2011 £million	31 December 2010 £million	31 December 2009 £million
Amounts recoverable from the sale of goods and services	**256.5**	248.7	235.8
Allowances for doubtful debts	**(33.8)**	(33.1)	(37.2)
	222.7	215.6	198.6
Amounts due from construction contract customers	**32.0**	39.0	38.5
Retentions	**23.3**	23.0	19.2
Amounts owed by joint-venture and associated undertakings	**4.8**	3.4	2.8
Other receivables	**8.2**	7.8	8.7
Prepayments and accrued income	**89.1**	97.3	87.5
	380.1	386.1	355.3

Included in the above are the following amounts recoverable after more than one year:

	31 December 2011 £million	31 December 2010 £million	31 December 2009 £million
Retentions	**3.6**	9.8	8.5

The directors consider that the carrying amount of trade and other receivables approximates their fair value. Trade and other receivables are included as part of the financial assets.

Average credit period taken on the sale of goods and services is 41 days (2010: 36 days). Allowances for doubtful debt are provided for on a specific basis, based on estimates of irrecoverability determined by market knowledge and past experience.

Ageing of trade receivables, not impaired but net of allowances for doubtful debt, is as follows:

	31 December 2011 £million	31 December 2010 £million	31 December 2009 £million
Not more than one month past due	**26.8**	22.8	17.9
Between one and three months past due	**14.7**	17.5	15.1
Between three and six months past due	**14.0**	14.0	16.5
Greater than six months	**9.7**	7.5	2.2
Total past due but not impaired	**65.2**	61.8	51.7
Not past due	**157.5**	153.8	146.9
Total net receivables	**222.7**	215.6	198.6

The average age of the receivables past due but not impaired is 89 days (2010: 86 days).

Movement in allowance for doubtful debt is as follows:

	2011 £million	2010 £million
Balance at 1 January	**33.1**	37.2
Amounts written off as uncollectable	**(11.1)**	(13.5)
Impairment losses recognised in the year	**18.0**	15.7
Amounts recovered during the year	**(5.8)**	(7.7)
Exchange differences	**(0.4)**	1.4
Balance at 31 December	**33.8**	33.1

19. CASH, DEPOSITS AND BORROWINGS

Cash and deposits comprise cash held by the Group and short-term bank deposits that have an original maturity of three months or less. Deposits receive interest at floating rates related to UK base rates.

	31 December 2011 £million	31 December 2010 £million	31 December 2009 £million
Cash and deposits	**46.1**	67.6	60.9
Bank overdrafts	**(19.3)**	(35.2)	(11.6)
Bank loans	**(70.0)**	(85.0)	(85.0)
	(89.3)	(120.2)	(96.6)
Finance leases (note 23)	**(1.0)**	(1.2)	(1.6)
Total borrowings	**(90.3)**	(121.4)	(98.2)
Net debt	**(44.2)**	(53.8)	(37.3)

Included within cash and deposits is £31.9 million (2010: £27.6 million) which is subject to various constraints on the Group's ability to utilise these balances. These constraints relate to minority interest holdings in the relevant companies and the regulatory cash funding requirements on the Group's captive insurance company.

Total borrowings are repayable as follows:

	31 December 2011 £million	31 December 2010 £million	31 December 2009 £million
On demand or within one year	**19.8**	35.8	12.1
In the second year	**70.3**	0.4	85.5
In the third to fifth years inclusive	**0.2**	85.2	0.6
	90.3	121.4	98.2
Less: Amount due for settlement within 12 months	**(19.8)**	(35.8)	(12.1)
Amount due for settlement after 12 months	**70.5**	85.6	86.1

The analysis of utilisation of committed bank facilities is as follows:

	31 December 2011 £million	31 December 2010 £million	31 December 2009 £million
Drawn facilities	**70.0**	85.0	85.0
Undrawn facilities within one to two years	**180.0**	–	140.0
Undrawn facilities within more than two years but not more than five years remaining	**–**	165.0	25.0
Total facilities	**250.0**	250.0	250.0

During April 2010 the Group entered into a syndicated loan facility of £250 million maturing in October 2013. Fees paid as a result of entering into this new facility are held as a prepayment and are being amortised over the expected life of the facility of 36 months.

Subsequent to the balance sheet date, the Group has secured long-term refinancing (see note 32).

The majority of the Group's borrowings bear interest at floating rates which are set according to published LIBOR rates. The remainder bear interest at rates that are determined by bank base rates. The Group has access to committed borrowing facilities that expire in one to two years. Amounts are drawn down against these facilities on a short-term basis but the ageing of the total amount borrowed is classified according to the maturity of the facilities. Contractual interest on bank loans, that will accrue between the year end and the date of rollover of the amounts drawn down, is £0.4 million and is all due for payment within one year (2010: £0.9 million within one year).

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20. FINANCIAL RISK MANAGEMENT

Financial assets comprise trade and other receivables (excluding construction contracts, prepaid and accrued income), long-term debtors and cash and deposits. Financial assets and liabilities have fair values not materially different to the carrying values. Financial liabilities comprise trade and other payables (excluding construction contracts, accruals, deferred income and other tax and social security), bank borrowings, finance leases, loan notes, long-term creditors and interest rate hedges.

The Group has the following categories of financial assets and liabilities:

	31 December 2011 £million	31 December 2010 £million
Loans and receivables		
Cash and deposits	**46.1**	67.6
Trade and other receivables (excluding construction contracts, prepaid and accrued income)	**235.7**	226.8
Total financial assets	**281.8**	294.4

	31 December 2011			31 December 2010		
	Other financial liabilities £million	Derivatives used for hedging £million	Total £million	Other financial liabilities £million	Derivatives used for hedging £million	Total £million
Bank loans and overdrafts and finance leases	**(90.3)**	**–**	**(90.3)**	(121.4)	–	(121.4)
Trade and other payables (excluding construction contracts, accruals, deferred income and other tax and social security)	**222.6**	**–**	**222.6**	225.7	–	225.7
Interest rate hedge (non-PFI investments)	**–**	**1.8**	**1.8**	–	2.2	2.2
Total financial liabilities	**132.3**	**1.8**	**134.1**	104.3	2.2	106.5

Trade and other receivables and trade and other payables are held at amortised cost. The directors consider these values to approximate their fair values. The interest rate hedges are held at fair value at each balance sheet date.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into three levels based on the degree to which the fair value is observable, as defined by IFRS 7 paragraph 27:

- Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 fair value measurements are those derived from inputs, other than quoted prices included within “Level 1”, that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

Classification of financial assets/(liabilities) held at fair value according to the definitions set out in IFRS 7 paragraph 27:

	31 December 2011 £million	31 December 2010 £million
Level 2	**(1.8)**	(2.2)

Derivatives used for hedging financial liabilities are considered to be within the grouping referred to as “Level 2”. Their fair values are calculated based on the valuation models operated by the relevant counterparty bank, based on market interest rates in force on the date of valuation.

No financial instruments have been transferred between Levels during the year.

Exposure to credit risk on liquid funds and derivative financial instruments is managed by the Group’s requirement to trade with counterparties with strong credit ratings as determined by international credit rating agencies. The transactional banking requirements are met by local banks in each location with significant cash balances being remitted to Group treasury where short-term cash surpluses or cash not available for use by the Group is deposited with investment grade rated banks.

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Currency exposures

Where material trade is transacted in non-local currency, the Company hedges the currency exposure and ordinarily this will be achieved with forward contracts.

Analysis of financial assets, by currency:

	31 December 2011				31 December 2010			
	Floating rates £million	Fixed rates £million	Non-interest bearing £million	Total £million	Floating rates £million	Fixed rates £million	Non-interest bearing £million	Total £million
Sterling	**31.3**	**–**	**186.9**	**218.2**	45.8	–	179.3	225.1
US dollar	**1.9**	**–**	**3.5**	**5.4**	3.7	–	0.7	4.4
Euro	**4.6**	**–**	**4.1**	**8.7**	7.3	–	7.1	14.4
Australian dollar	**2.5**	**–**	**8.3**	**10.8**	3.2	–	6.7	9.9
Dirham	**0.7**	**–**	**17.5**	**18.2**	1.0	–	22.5	23.5
Other	**5.1**	**–**	**15.4**	**20.5**	6.6	–	10.5	17.1
	46.1	**–**	**235.7**	**281.8**	67.6	–	226.8	294.4

Analysis of financial liabilities, excluding derivatives used for hedging, by currency:

	31 December 2011				31 December 2010			
	Floating rates £million	Fixed rates £million	Non-interest bearing £million	Total £million	Floating rates £million	Fixed rates £million	Non-interest bearing £million	Total £million
Sterling	**40.8**	**49.0**	**210.8**	**300.6**	69.3	51.2	211.6	332.1
US dollar	**–**	**–**	**0.2**	**0.2**	–	–	0.2	0.2
Euro	**0.5**	**–**	**2.8**	**3.3**	0.9	–	4.8	5.7
Australian dollar	**–**	**–**	**1.6**	**1.6**	–	–	1.3	1.3
Dirham	**–**	**–**	**5.5**	**5.5**	–	–	7.1	7.1
Other	**–**	**–**	**1.7**	**1.7**	–	–	0.7	0.7
	41.3	**49.0**	**222.6**	**312.9**	70.2	51.2	225.7	347.1
Weighted average interest rates excluding amortisation of arrangement fees and bank margin	**0.9%**	**3.6%**			0.6%	3.6%		

Where the Group has overseas operations, the revenues and costs of the business will typically be denominated in local currency. Gains and losses arising on retranslation of monetary assets and liabilities that are not denominated in the functional currency of individual Group companies are recognised in the income statement. The Group enters into forward foreign exchange contracts to manage material currency exposures that arise on cashflows from sales or purchases not denominated in functional currencies immediately those sales or purchases are contracted. Taking into account the effect of forward contracts, Group companies did not have a material exposure to foreign exchange gains or losses on monetary assets and monetary liabilities denominated in foreign currencies at 31 December 2011.

The Group does not hedge anticipated future sales and purchases.

Gains and losses arising on the retranslation of foreign operations' net assets into the consolidation currency are recognised directly in equity. The Group does not hedge these translation differences.

The Group's exposure to fluctuations in exchange rates is shown below where a change in value of foreign currencies against sterling would have the following impact on the results of the Group:

	31 December 2011 £million	31 December 2010 £million
A 1% change in exchange rates results in:		
Change in profit	**0.2**	0.3
Change in reserves / net assets	**1.5**	1.4

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market price risk – interest rate hedges

The Group seeks to control its exposure to changes in interest rates by using interest rate swaps to limit the impact on the interest charge in the income statement. Contracts in place at the year end were as follows:

	31 December 2011				31 December 2010			
		Nominal value £million	Maturity	Strike price		Nominal value £million	Maturity	Strike price
Interest rate swaps	**Current**	**20.0**	**2012**	**3.62%**	Current	20.0	2012	3.62%
	Current	**30.0**	**2013**	**3.56%**	Current	30.0	2013	3.56%

The fair value of interest rate hedges at 31 December 2011 is estimated at (£1.8) million (2010: (£2.2) million). The contracts are designated as cash flow hedges and to the extent that the hedges are effective hedges, changes in their fair value are recognised directly in equity. The fair values of the hedge instruments are calculated based on the valuation computer models operated by the relevant counterparty bank valuation models. No charges have gone through the income statement in the year (2010: £nil) in respect of changes in the fair value of the hedges. A gain of £1.1 million (2010: loss of £0.6 million) was credited through other comprehensive income in respect to changes in fair value of the hedges.

The use of interest rate caps and swaps, where appropriate, diminishes the impact of an interest rate change. The impact of a 1% change in interest rate to the Group's results is shown in the table below:

	31 December 2011 £million	31 December 2010 £million
A 1% change in interest rate results in:		
Change in profit	**–**	–

(c) Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. To manage this risk, credit references are taken and where appropriate parent company guarantees are sought along with monthly monitoring of age and recoverability of trade receivables.

Apart from receivables due from customers related to HM Government, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(d) Liquidity risk

The Group seeks to maintain sufficient facilities to ensure that it has access to funding to meet current and anticipated future funding requirements determined from budgets and medium-term plans.

The maturity of financial assets and liabilities, with the exception of interest rate hedges above, are discussed in the specific asset and liability notes.

(e) Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns, whilst seeking to optimise the debt and equity balance, in order to maximise the return to stakeholders. The capital structure of the Group consists of net debt, which includes cash, deposits and borrowings (note 19), and equity attributable to equity holders of the parent.

The Group has, over recent years, had a policy of progressively increasing dividends paid to shareholders. The Group may adjust the capital structure of the Group by returning capital to shareholders, issue new shares or sell assets to reduce debt.

The Group is not subject to externally imposed capital requirements but is subject to covenants in its loan agreements which seek to maintain the level of debt and interest that the Group may service at reasonable levels by reference to the Group's earnings which ultimately limits the amount of debt that the Group can take on.

21. TRADE AND OTHER PAYABLES – AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2011 £million	31 December 2010 £million	31 December 2009 £million
Obligations under finance leases (note 23)	**0.5**	0.6	0.5
Trade payables	**191.5**	194.7	202.1
Advances received	**25.9**	31.7	46.0
Other taxation and social security	**30.4**	29.4	25.5
Other payables	**30.8**	30.5	37.8
Accruals and deferred income	**213.6**	205.9	170.8
	492.7	492.8	482.7

22. TRADE AND OTHER PAYABLES – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 December 2011 £million	31 December 2010 £million	31 December 2009 £million
Obligations under finance leases (note 23)	**0.5**	0.6	1.1
Trade payables	**0.3**	0.5	0.3
Other payables	**3.3**	5.6	7.6
	4.1	6.7	9.0

The carrying amount of trade and other payables approximates to their fair value.

On average our suppliers are paid within 82 days of receipt of invoice (2010: 76 days).

Ageing of amounts payable excluding advances, finance leases, accruals and deferred income is as follows:

	31 December 2011 £million	31 December 2010 £million	31 December 2009 £million
Less than one year	**252.7**	254.6	265.4
Between one and two years	**3.6**	6.1	7.9
	256.3	260.7	273.3

23. OBLIGATIONS UNDER FINANCE AND OPERATING LEASES

(a) Finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2011 £million	2010 £million	2011 £million	2010 £million
Amounts payable under finance leases:				
Within one year	**0.5**	0.6	**0.5**	0.6
In the second to fifth years inclusive	**0.6**	0.7	**0.5**	0.6
	1.1	1.3	**1.0**	1.2
Less: future finance charges	**(0.1)**	(0.1)	**n/a**	n/a
Present value of lease obligations	**1.0**	1.2	**1.0**	1.2

Certain of the Group's plant and equipment is held under finance leases. The average lease term is four to six years. For the year ended 31 December 2011, the average effective borrowing rate was 4.0% (2010: 4.3%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All finance lease obligations are denominated in sterling.

The carrying amount of the Group's finance lease obligations approximate their fair value.

The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

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23. OBLIGATIONS UNDER FINANCE AND OPERATING LEASES (CONTINUED)

(b) Operating leases

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2011			2010		
	Land and buildings £million	Other £million	Total £million	Land and buildings £million	Other £million	Total £million
Within one year	**11.4**	**7.1**	**18.5**	11.4	8.1	19.5
In the second to fifth years inclusive	**28.0**	**10.0**	**38.0**	23.4	10.2	33.6
After five years	**17.5**	**0.1**	**17.6**	20.8	0.2	21.0
	56.9	**17.2**	**74.1**	55.6	18.5	74.1

The majority of leases of land and buildings are subject to rent reviews at periodic intervals of between three and five years and are based on market rates.

24. PROVISIONS

	Deferred consideration £million	Contract provisions £million	Other £million	Total £million
At 1 January 2010	0.7	39.7	8.4	48.8
Additional provision in the year	–	13.2	2.5	15.7
Release	–	(2.5)	–	(2.5)
Utilisation of provision	–	(13.6)	(1.6)	(15.2)
Exchange differences	–	(0.4)	0.7	0.3
At 31 December 2010	0.7	36.4	10.0	47.1
Additional provision in the year	**–**	**17.0**	**2.4**	**19.4**
Release	**(0.7)**	**(2.0)**	**(0.8)**	**(3.5)**
Utilisation of provision	**–**	**(6.6)**	**(1.4)**	**(8.0)**
Exchange differences	**–**	**–**	**–**	–
At 31 December 2011	**–**	**44.8**	**10.2**	**55.0**

	31 December 2011 £million	31 December 2010 £million	31 December 2009 £million
Included in current liabilities	**28.7**	20.2	23.1
Included in non-current liabilities	**26.3**	26.9	25.7
	55.0	47.1	48.8

The impact of discounting is not material.

The deferred consideration of £0.7 million at 31 December 2010 related to the acquisition of R & D Holdings Ltd in 2008. Following the expiry of the qualifying period for earn-out payments, this provision was released in the year ended 31 December 2011.

Contract provisions include costs of site clearance, remedial costs and other contractual provisions. These are expected to be utilised on final settlement of the relevant contracts.

25. SHARE CAPITAL

	31 December 2011 £million	31 December 2010 £million	31 December 2009 £million
Authorised: Under the Companies Act 2006, companies are no longer required to have an authorised share capital and a resolution was passed by shareholders on 10 May 2010 to take advantage of the deregulating measure. The Company, therefore, no longer has an authorised share capital (2009: 210,000,000 ordinary shares of 10p each).	**n/a**	n/a	21.0
Issued and fully paid: 125,804,346 ordinary shares of 10p each (2010: 125,804,346 ordinary shares of 10p each)	**12.6**	12.6	12.5

	Shares thousands	Share capital £million
At 1 January 2010	125,367.8	12.5
Share awards issued in 2010	436.6	0.1
At 31 December 2010 and 31 December 2011	**125,804.4**	**12.6**

Awards were granted during the year as indicated below. Exercise and vesting details are stated in the Directors' Remuneration Report on pages 52 to 62. Outstanding options and awards over shares in the Company at 31 December 2011 were as follows:

			31 December 2011		31 December 2010	
	Date of grant	Subscription price per 10p share	Number of beneficiaries including directors	Number of shares	Number of beneficiaries including directors	Number of shares
(a) Executive share option schemes	26 March 2001	542.50p	**–**	**–**	3	16,587
	25 April 2001	587.00p	**–**	**–**	1	5,110
	19 March 2002	566.50p	**4**	**21,180**	4	21,180
	23 April 2003	205.83p	**1**	**133,333**	1	133,333
	26 May 2004	253.25p	**9**	**255,000**	9	255,000
	9 December 2004	324.00p	**1**	**50,000**	1	50,000
	14 March 2005	359.33p	**23**	**808,723**	23	808,723
				1,268,236		1,289,933
(b) Performance Share Plan	15 April 2008	Nil	**–**	**–**	62	972,438
	23 March 2009	Nil	**61**	**1,937,812**	63	1,967,883
	19 April 2010	Nil	**58**	**1,593,319**	59	1,605,782
	27 April 2010	Nil	**1**	**10,386**	1	10,386
	20 April 2011	Nil	**62**	**2,001,138**	–	–
				5,542,655		4,556,489
(c) Sharesave Scheme	7 August 2009	152.50p	**1,346**	**780,138**	1,520	875,361
	14 May 2010	214.50p	**836**	**345,805**	950	391,702
	15 April 2011	231.00p	**912**	**345,774**	–	–
				1,471,717		1,267,063

Notes to the Consolidated Financial Statements
continued

26. CONTINGENT LIABILITIES

The Company and its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. Appropriate provision has been made in these accounts for all material uninsured liabilities resulting from proceedings that are, in the opinion of the directors, likely to materialise.

The Company and certain subsidiary undertakings have, in the normal course of business, given performance guarantees and provided indemnities to third parties in relation to performance bonds and other contract related guarantees. These relate to the Group's own contracts and to the Group's share of the contractual obligations of certain joint ventures and associated undertakings. The Group acts as guarantor for the following:

	Maximum guarantee		Amounts utilised	
	2011 £million	2010 £million	2011 £million	2010 £million
Associated undertakings' borrowings	**7.3**	17.1	**0.2**	0.2
Joint-venture and associated undertakings' bonds and guarantees	**206.4**	200.6	**127.4**	119.3
	213.7	217.7	**127.6**	119.5

27. SHARE-BASED PAYMENTS

Under the Group's share-based incentive schemes the following expense was charged:

	2011 £million	2010 £million
Performance Share Plan	**2.1**	1.3
Sharesave Scheme	**0.2**	0.3
Total charge	**2.3**	1.6
Cash settled	**1.0**	0.2
Equity settled	**1.3**	1.4
Total charge	**2.3**	1.6

(a) Executive share option schemes

The executive share option schemes provide for a grant price equal to the average quoted market price of the Group's shares on the date of grant. The vesting period was generally three to four years. If the options remain unexercised after a period of 10 years from the date of grant, the options lapse. Furthermore, options are normally forfeited if the employee leaves the Group before the options vest.

	2011		2010	
	Options number	Weighted average exercise price £	Options number	Weighted average exercise price £
Options granted before 7 November 2002 and hence not included in charge calculations:				
Outstanding at beginning of period	**42,877**	**5.60**	53,701	5.59
Exercised during the period	**–**	**–**	–	–
Lapsed during the period	**(21,697)**	**5.53**	(10,824)	5.54
Outstanding and exercisable at the end of the period	**21,180**	**5.67**	42,877	5.60
Options granted since 7 November 2002:				
Outstanding at beginning of period	**1,247,056**	**3.20**	1,420,252	3.24
Exercised during the period	**–**	**–**	–	–
Lapsed during the period	**–**	**–**	(173,196)	3.51
Outstanding and exercisable at the end of the period	**1,247,056**	**3.20**	1,247,056	3.20

The average share price during the year was £2.96. The outstanding options at the end of the period had exercise prices ranging from £2.06 to £5.67 and had a remaining weighted average contractual life of 2.8 years.

The inputs to the Black-Scholes models in respect of the grants up to 2005 are set out in the 2010 Annual Report and Financial Statements. There have been no grants under these schemes since 2005.

27. SHARE-BASED PAYMENTS (CONTINUED)

(b) Performance Share Plan

The Performance Share Plan is a "free" share award with an effective exercise price of £nil, half of which is subject to a Total Shareholder Return (TSR) performance condition with performance compared to a comparator group. The other half is subject to an Earnings Per Share (EPS) performance condition. The vesting period is three years. Further details of these conditions are set out in the Directors' Remuneration Report on pages 52 to 62. Awards are normally forfeited if the employee leaves the Group before the awards vest.

	2011 Awards number	2010 Awards number
Outstanding at beginning of period	**4,556,489**	4,303,450
Granted during the period	**2,015,501**	1,876,572
Vested during the period	**–**	(435,869)
Lapsed during the period	**(1,029,335)**	(1,187,664)
Outstanding at the end of the period	**5,542,655**	4,556,489
Exercisable at the end of the period	**–**	–

The remaining weighted average contractual life is 1.3 years (2010: 1.4 years).

The Group engaged external consultants to calculate the fair value of these awards at the date of grant. The valuation model used to calculate the fair value of the awards granted under this plan was a stochastic valuation model, the inputs of which are detailed below:

	2011 grants	2010 grants	2009 grants	2008 grants
Weighted average share price	**261.0p**	236.5p	197.0p	505.0p
Weighted average exercise price	**0p**	0p	0p	0p
Expected volatility	**49.0%**	48.5%	47.0%	30.3%
Expected life	**3 years**	3 years	3 years	3 years
Risk-free rate	**1.6%**	1.8%	1.8%	4.2%
Expected dividend yield	**0.0%**	0.0%	0.0%	0.0%
Average fair value of award per share	**231.9p**	195.7p	158.1p	431.2p

(c) Sharesave Scheme

The Sharesave Scheme is an all-employee HMRC-approved share scheme. The scheme involves employees saving a set amount from their salary for a period of three years. At the end of the three-year period the employee is offered the opportunity to purchase shares based on the amount saved at an option price set at the start of the period. The option price is set at a 10% discount of the average share price over five days trading prior to the offer date of the scheme.

	2011		2010	
	Options number	Weighted average exercise price £	Options number	Weighted average exercise price £
Outstanding at beginning of period	**1,267,063**	**1.72**	958,304	1.53
Granted during the period	**360,828**	**2.31**	398,739	2.15
Exercised during the period	**(12,904)**	**1.63**	(1,781)	1.53
Lapsed during the period	**(143,270)**	**1.80**	(88,199)	1.57
Outstanding and exercisable at the end of the period	**1,471,717**	**1.86**	1,267,063	1.72

The outstanding options at the end of the period had a weighted average exercise price of £1.86 (2010: £1.72) and had a remaining weighted average contractual life of 1.3 years (2010: 2.0 years).

Notes to the Consolidated Financial Statements
continued

27. SHARE-BASED PAYMENTS (CONTINUED)

(c) Sharesave Scheme (continued)

The inputs into the Black-Scholes model are as follows:

	2011 grants	2010 grants	2009 grants
Share price at date of grant	**260.5p**	235.75p	218.7p
Exercise price	**231.0p**	214.5p	152.5p
Expected volatility	**27.4%**	41.5%	45.5%
Expected life	**3 years**	3 years	3 years
Risk-free rate	**1.7%**	3.3%	3.7%
Expected dividend yield	**8.1%**	7.4%	7.5%
Fair value of award per share	**32.5p**	38.3p	69.0p

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

28. DEFINED BENEFIT RETIREMENT SCHEMES

The principal pension schemes within the Group have been valued for the purposes of IAS 19 *Employee benefits*. For each of these pension schemes, valuation information has been updated by Lane Clark & Peacock LLP, qualified independent actuaries, to take account of the requirements of IAS 19 in order to assess the liabilities of the various schemes as at 31 December 2009.

Actuarial gains and losses are recognised in full in the period in which they occur. As permitted by IAS 19, actuarial gains and losses are recognised outside profit or loss and presented in other comprehensive income. The liability recognised in the balance sheet represents the present value of the various defined benefit obligations, as reduced by the fair value of plan assets. The cost of providing benefits is determined using the projected unit credit method.

In February 2011, the RMD Ireland Pension Scheme was closed to future accrual of benefit and as a result a £0.4 million curtailment gain has been recognised in the year ended 31 December 2011.

The following table sets out the key IAS 19 assumptions used to assess the present value of the defined benefit obligation:

	2011	2010	2009
Retail price inflation	**3.10% pa**	3.40% pa	3.50% pa
Consumer price index	**2.10% pa**	2.80% pa	n/a
Discount rate	**4.80% pa**	5.40% pa	5.60% pa
Pension increases in payment:			
LPI/RPI	**3.00%/3.10%**	3.30%/3.40%	3.40%/3.50%
Fixed 5%	**5.00%**	5.00%	5.00%
3% or RPI if higher (capped at 5%)	**3.60%**	3.70%	3.70%
General salary increases	**3.85-4.60% pa**	4.15-4.90% pa	4.25-5.00% pa

The expected rate of return is derived by taking the weighted average of the long-term expected rate of return on each of the asset classes that the pension schemes were invested in at 31 December 2010 and making a deduction of 0.4% (2010: 0.4% pa) for the expenses incurred in running the schemes (where these are not met separately). For the Interserve Pension Scheme, which represents the majority of plan assets, the expected rate of return on assets during 2011 (net of expenses) was 6.0% pa (2010: 6.0% pa).

The post-retirement mortality assumption used to value the benefit obligation allows for future improvements in mortality and implies for the majority of the obligation (that associated with the Interserve Pension Scheme) that a 65-year-old current pensioner is expected to live until age: male 86.0 (2010: age 85.9) and female 87.9 (2010: age 87.9). A future pensioner who is currently aged 45 and retires at age 65 is expected to live until age: male 87.8 (2010: age 87.7) and female 89.1 (2010: age 89.0).

28. DEFINED BENEFIT RETIREMENT SCHEMES (CONTINUED)

The amount included in the balance sheet arising from the Group's obligations in respect of the various pension schemes is as follows:

	2011 £million	2010 £million	2009 £million	2008 £million	2007 £million
Present value of defined benefit obligation	**695.0**	642.3	627.4	534.2	563.4
Fair value of schemes' assets	**(638.8)**	(590.8)	(532.1)	(381.1)	(480.3)
Liability recognised in the balance sheet	**56.2**	51.5	95.3	153.1	83.1

The amounts recognised in the income statement are as follows:

	2011 £million	2010 £million
Employer's part of current service cost	**5.6**	6.3
Interest cost	**34.0**	34.5
Expected return on schemes' assets	**(35.3)**	(32.3)
Gains on curtailments and settlements	**(0.4)**	–
Total expense recognised in the income statement	**3.9**	8.5

The current service cost and curtailment gain are included within operating profit. The interest cost and expected return on assets are included within financing costs.

The actual return on the schemes' assets over the year was a gain of £40.4 million (2010: gain of £50.4 million).

The current allocation of the schemes' assets is as follows:

	2011			˜2010			2009		
	Current allocation	Fair value £million	Average expected return per annum	Current allocation	Fair value £million	Average expected return per annum	Current allocation	Fair value £million	Average expected return per annum
Performance-seeking	**44%**	**278.6**	**7.0%**	48%	285.7	8.0%	46%	245.7	8.0%
Defensive	**47%**	**299.8**	**3.8%**	41%	242.0	4.5%	42%	224.9	4.7%
Infrastructure	**9%**	**60.4**	**5.5%**	11%	63.1	6.5%	12%	61.5	6.5%
Expected return before scheme expenses	**100%**	**638.8**	**5.3%**	100%	590.8	6.4%	100%	532.1	6.3%

Performance-seeking assets include asset classes such as equities, diversified growth funds and fund of hedge funds. Defensive assets include government and corporate bonds and cash. The infrastructure holding is the portfolio of 13 PFI investments transferred by Interserve to the Interserve Pension Scheme at the end of November 2009.

A reconciliation of the present value of the defined benefit obligation is as follows:

	2011 £million	2010 £million
Opening defined benefit obligation	**642.3**	627.4
Employer's part of current service cost	**5.6**	6.3
Interest cost	**34.0**	34.5
Contributions by schemes' participants	**1.2**	1.4
Actuarial loss/(gain)	**38.0**	(1.2)
Benefits paid	**(25.0)**	(26.7)
Curtailments and settlements	**(0.4)**	–
Bulk transfers	**(0.7)**	0.6
Closing defined benefit obligation	**695.0**	642.3

Notes to the Consolidated Financial Statements
continued

28. DEFINED BENEFIT RETIREMENT SCHEMES (CONTINUED)

A reconciliation of the fair value of the schemes' assets is as follows:

	2011 £million	2010 £million
Opening fair value of the schemes' assets	**590.8**	532.1
Expected return on schemes' assets	**35.3**	32.3
Actuarial gain	**5.1**	18.1
Contributions by the employer	**32.1**	33.0
Contributions by schemes' participants	**1.2**	1.4
Benefits paid	**(25.0)**	(26.7)
Bulk transfers	**(0.7)**	0.6
Closing fair value of the schemes' assets	**638.8**	590.8

	2011 £million	2010 £million	2009 £million	2008 £million	2007 £million
Experience adjustments on the schemes' assets					
Amount of gain/(loss)	**5.1**	18.1	60.0	(141.1)	(6.8)
Percentage of the schemes' assets	**1%**	3%	11%	(37%)	(1%)
Experience adjustments on the schemes' liabilities					
Amount of (loss)/gain	**(5.9)**	(2.8)	10.1	(3.8)	2.0
Percentage of the present value of the schemes' liabilities	**(1%)**	–	2%	(1%)	–
Gain/(loss) due to changes in assumptions					
Amount of (loss)/gain	**(32.1)**	4.0	(101.1)	64.2	20.5
Percentage of the present value of the schemes' liabilities	**(5%)**	1%	(16%)	12%	4%
Total actuarial gains and (losses) recognised directly in equity in the year	**(32.9)**	19.3	(31.0)	(80.7)	15.7
Cumulative amount of gains and (losses) recognised in other comprehensive income	**(108.4)**	(75.5)	(94.8)	(63.8)	16.9

Based on current contribution rates and payroll, the Group expects to contribute £32.8 million to the various defined benefit arrangements during 2012. This includes a deficit contribution of £23.2 million.

29. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below.

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

	Sales of goods and services		Purchases of goods and services		Amounts owed by related parties		Amounts owed to related parties	
	2011 £million	2010 £million	2011 £million	2010 £million	2011 £million	2010 £million	2011 £million	2010 £million
Joint-venture entities – PFI Investments	**180.2**	225.2	**–**	0.1	**1.6**	1.1	**–**	–
Associates	**98.6**	103.1	**1.1**	1.0	**3.3**	2.3	**0.4**	–

Sales and purchases of goods and services to related parties were made on normal trading terms.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received in respect of the outstanding balances. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Key management personnel are considered to be the directors of Interserve Plc. Amounts paid to key management personnel are given in the audited section of the Directors' Remuneration Report on pages 58 to 62.

30. PFI/PPP ARRANGEMENTS

PFI/PPP arrangements that have reached financial close as at 31 December 2011:

	Interserve services				Dates			Share of equity/ sub-debt		
Contract	Design/ build	Operate	Whole-life value £million	Status	Awarded	Fully operational	Contract end	%	£million	Total capital required £million
Health										
Cumberland Infirmary		yes	135	operational	late 1997	early 2000	2030	50	2.9	84.0
UCL Hospital		yes	403	operational	mid 2000	mid 2005	2040	33	1.4	292.0
Newcastle NHS Trust		yes	130	operational	early 2005	mid 2013	2043	20	4.9	337.0
Tunbridge Wells		yes	67	operational	early 2008	mid 2011	2042	25	5.4	279.5
Enniskillen		yes	60	construction	early 2009	early 2012	2042	37	10.6	276.3
Education										
Holy Cross		yes	19	operational	late 2006	late 2008	2033	50	1.5	32.0
Plymouth Schools	yes	yes	59	operational	early 2007	late 2008	2033	50	1.7	45.0
Leeds BSF	yes	yes	279	operational	early 2007	mid 2009	2034	40	3.4	123.0
Leeds Phase 2	yes	yes	48	operational	early 2008	mid 2009	2034	40	1.0	35.0
Leeds Phase 3	yes	yes	49	operational	mid 2008	mid 2010	2035	45	1.0	31.2
Derry Schools		yes	23	operational	late 2008	early 2011	2036	50	2.0	45.3
Down & Connor		yes	17	operational	mid 2009	early 2011	2035	50	1.9	35.2
Downpatrick		yes	10	operational	mid 2009	early 2011	2036	50	1.0	18.0
Sandwell	yes	yes	114	operational	mid 2009	late 2011	2036	40	2.8	51.1
St Helens	yes	yes	63	construction	late 2010	early 2013	2038	50	1.7	33.0
Leeds Phase 4	yes	yes	25	construction	late 2011	late 2013	2038	50	0.7	18.0
Custodial										
Ashford Prison	yes		47	operational	late 2002	mid 2004	2029	33	1.9	65.0
Peterborough Prison	yes		60	operational	early 2003	early 2005	2030	33	2.3	90.0
Addiewell Prison	yes		73	operational	mid 2006	late 2008	2033	33	3.0	100.0
Defence										
Defence Training Estate		yes	600	operational	early 2003	mid 2003	2013	51	-	-
Corsham		yes	200	operational	mid 2008	late 2011	2033	50	6.8	90.0
Central/local government										
Inland Revenue, Newcastle		yes	135	operational	early 1998	late 2002	2031	20	0.2	256.0
									58.1	
Invested to date										
Shares									1.7	
Loans									43.4	
Remaining commitment									13.0	
									58.1	

The Group's share of the capital commitments of the joint ventures above amounts to £10.6 million (2010: £43.2 million).

Notes to the Consolidated Financial Statements

continued

31. RECONCILIATION OF NON-STATUTORY MEASURES

The Group uses a number of key performance indicators to monitor the performance of its business. This note reconciles these key performance indicators to individual lines in the financial statements.

(a) Headline pre-tax profit

	2011 £million	2010 £million	2009 £million
Profit before tax	**67.1**	64.1	89.2
Adjusted for:			
Amortisation of acquired intangible assets	**5.2**	5.0	5.0
Share of associates' amortisation of acquired intangible assets	**0.5**	0.5	0.4
Exceptional items	**–**	–	(16.3)
Headline pre-tax profit	**72.8**	69.6	78.3

(b) Operating cash flow

	2011 £million	2010 £million	2009 £million
Cash generated by operations	**48.1**	25.2	37.6
Adjusted for:			
Pension contributions in excess of income statement charge	**27.0**	26.7	15.5
Special pension contribution	**–**	–	61.5
Proceeds on disposal of plant and equipment – non-hire fleet	**0.5**	1.9	0.6
Capital expenditure – non-hire fleet	**(9.0)**	(7.5)	(13.1)
Cash impact of exceptional items	**–**	–	11.6
Operating cash flow	**66.6**	46.3	113.7

(c) Free cash flow

	2011 £million	2010 £million	2009 £million
Operating cash flow	**66.6**	46.3	113.7
Adjusted for:			
Pension contributions in excess of income statement charge	**(27.0)**	(26.7)	(15.5)
Taxes paid	**(3.2)**	(6.3)	(15.7)
Dividends received from associates and joint ventures	**20.6**	32.1	17.6
Interest received	**4.4**	3.8	7.2
Interest paid	**(6.7)**	(6.4)	(5.8)
Effect of foreign exchange rate change	**(0.3)**	0.3	(0.6)
Free cash flow	**54.4**	43.1	100.9

(d) Operating cash conversion

	2011 £million	2010 £million	2009 £million
Operating cash flow	**66.6**	46.3	113.7
Operating profit, before exceptional items and amortisation of acquired intangible assets	**45.9**	43.4	56.6
Full-year operating cash conversion	**145.1%**	106.7%	200.9%
Three-year rolling operating cash flow	**226.6**	194.7	199.6
Three-year rolling operating profit, before exceptional items and amortisation of acquired intangible assets	**145.9**	159.4	170.8
Operating cash conversion, three-year rolling average	**155.3%**	122.1%	116.9%

31. RECONCILIATION OF NON-STATUTORY MEASURES (CONTINUED)

(e) Gross operating cash conversion

	2011 £million	2010 £million	2009 £million
Operating cash flow	**66.6**	46.3	113.7
Dividends received from associates and joint ventures	**20.6**	32.1	17.6
Gross operating cash flow	**87.2**	78.4	131.3
Operating profit, before exceptional items and amortisation of acquired intangible assets	**45.9**	43.4	56.6
Share of results of associates and joint ventures, before exceptional items and amortisation of acquired intangible assets	**27.9**	31.0	29.1
Total operating profit, before exceptional items and amortisation of acquired intangible assets	**73.8**	74.4	85.7
Full-year gross operating cash conversion	**118.2%**	105.4%	153.2%
Three-year rolling gross operating cashflow	**296.9**	257.9	239.1
Three-year rolling total operating profit before exceptional items and amortisation of acquired intangible assets	**233.9**	248.1	247.0
Gross operating cash conversion, three-year rolling average	**126.9%**	104.0%	96.8%

(f) Gross revenue

	2011 £million	2010 £million	2009 £million
Consolidated revenue	**1,847.5**	1,872.0	1,906.8
Share of revenues of associates and joint ventures	**472.1**	443.4	563.9
Gross revenue	**2,319.6**	2,315.4	2,470.7

(g) Operating margins

	2011 £million	2010 £million	2009 £million
Total operating profit, before exceptional items and amortisation of acquired intangible assets	**73.8**	74.4	85.7
Gross revenue	**2,319.6**	2,315.4	2,470.7
Total operating margin	**3.2%**	3.2%	3.5%

32. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date, the Group has secured long-term refinancing. This has seen the previous £250 million syndicated revolving credit facility, which was due to expire in October 2013, replaced with a series of committed facilities of £225 million and €25 million (combined total of £246 million, at exchange rates on 29 February 2012). These new facilities run in parallel with each other and provide a diverse maturity profile extending, at most, five years to February 2017.

Independent Auditors' Report to the Members of Interserve Plc

INTRODUCTION

We have audited the parent company financial statements of Interserve Plc for the year ended 31 December 2011 which comprise the Company balance sheet and the related notes A to P. 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).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditors' 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

As explained more fully in the Directors' Responsibility Statement, the directors are responsible for the preparation of the parent company 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 parent company 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.

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 parent 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 parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited 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.

OTHER MATTERS

We have reported separately on the Group financial statements of Interserve Plc for the year ended 31 December 2011.

Stephen Griggs (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
29 February 2012

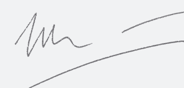
Company Balance Sheet

at 31 December 2011

	Notes	2011 £million	2010 £million
Fixed assets			
Tangible fixed assets	E	**3.1**	3.1
Interests in associated undertakings	F	**2.7**	2.7
Investments in subsidiary undertakings	G	**464.6**	464.6
		470.4	470.4
Current assets			
Debtors:			
Due within one year	H	**62.2**	50.6
Due after one year	H	**2.6**	2.4
Cash at bank and in hand		**8.8**	1.5
		73.6	54.5
Creditors: amounts falling due within one year			
Bank overdrafts and loans		**(140.5)**	(134.1)
Trade creditors		**(0.7)**	(0.1)
Other creditors	I	**(25.6)**	(32.8)
Short-term provisions	J	**(0.1)**	(0.1)
		(166.9)	(167.1)
Net current assets		**(93.3)**	(112.6)
Total assets less current liabilities		**377.1**	357.8
Creditors: amounts falling due after more than one year			
Other creditors	K	**(6.4)**	(6.4)
Long-term provisions	J	**(0.2)**	(0.2)
Net assets		**370.5**	351.2
Capital and reserves			
Called up share capital	M	**12.6**	12.6
Share premium account	N	**112.7**	112.7
Capital redemption reserve	N	**0.1**	0.1
Acquisition reserve	N	**108.5**	108.5
Profit and loss account	N	**136.6**	117.3
Shareholders' funds	O	**370.5**	351.2

These financial statements were approved by the Board of Directors on 29 February 2012.
Signed on behalf of the Board of Directors

A M Ringrose
Director



T P Haywood
Director

Company number: 88456

Notes to the Company Financial Statements

for the year ended 31 December 2011

A) ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards. The accounting policies have been applied consistently throughout the year and the previous year.

The particular policies adopted by the directors are described below.

Basis of accounting

These financial statements have been prepared in accordance with the historical cost convention.

Foreign currency

Transactions denominated in foreign currency are translated at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit for the year.

Property, plant and equipment

Tangible fixed assets are carried at cost less any accumulated depreciation and any impairment losses. Depreciation is provided on a straight-line basis at rates ranging between:

Freehold land	Nil
Freehold buildings	2%
Leasehold property	Over period of lease
Computer hardware	33.3%
Computer software	33.3%
Furniture and office equipment	33.3%
Plant and equipment	10% to 20%

The costs of operating leases are charged to the profit and loss account as they accrue.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using an appropriate rate that takes into account the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Investments

Investments are stated at cost less provision for any impairment in value.

Pensions

The Company operates two principal pension schemes for the benefit of permanent members of staff: the Interserve Pension Scheme which is of the defined benefit type and the Interserve Retirement Plan which is of the defined contribution type. The Company also set up a new defined contribution section of the Interserve Pension Scheme with effect from 1 November 2002. Actuarial valuations of the Interserve Pension Scheme are carried out every three years.

For the purposes of FRS 17 *Retirement benefits*, the Company is unable to identify its share of the underlying assets and liabilities in the main Group scheme, the Interserve Pension Scheme, on a consistent and reasonable basis. Therefore, the Company will account for contributions to the scheme as if it were a defined contribution scheme. Note 28 to the Annual Report and Financial Statements of the Group sets out details of the IAS 19 net pension liability of £56.2 million (2010: £51.5 million).

For defined contribution schemes, the amount recognised in the profit and loss account is equal to the contributions payable to the schemes during the year.

The defined benefit scheme was closed on 31 December 2009 with the exception of passport members. All non-passport members transferred to the defined contribution scheme as at 1 January 2010.

A) ACCOUNTING POLICIES (CONTINUED)

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries or associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Financial instruments

Trade receivables

Trade receivables are measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement where there is objective evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are measured at fair value.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Transactions in derivative financial instruments are for risk management purposes only. The Company uses derivative financial instruments to hedge its exposure to interest rate and foreign currency risk. To the extent that such instruments are matched to underlying assets or liabilities, they are accounted for using hedge accounting. Derivatives are initially recognised at fair value at the date a derivative contract is taken out and subsequently remeasured at fair value at each balance sheet date. Changes in fair value of derivative instruments that are designated as, and effective as, hedges of future cash flows and net investments are recognised directly in the other income statement. Any ineffective portion is recognised immediately in the income statement. Amounts deferred in equity are recycled through the income statement in the same period in which the underlying hedged item is recognised in the income statement. However, when the transaction that is being hedged results in a non-financial asset or non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of that asset or liability. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss on the hedging instrument recognised in equity at that time is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, any cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Changes in fair value of derivative instruments that do not qualify for hedge accounting, or have not been designated as hedges, are recognised in the income statement as they arise. These derivative instruments are designated as fair value through the profit or loss. Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their economic risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value.

Share-based payments

The Company has applied the requirements of FRS 20 *Share-based payment*. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after November 2002 that were unvested as at January 2004. The Company issues share-based payments to certain employees of the Group headed by the Company. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. Fair value for grants pre-2006 was measured by the use of the Black-Scholes model and subsequently a stochastic model was used. Note 27 to the Annual Report and Financial Statements of the Group sets out details of the share-based payments. The total value of equity-settled share-based payments is credited to the profit and loss reserve of the Company. Share-based payments to employees of subsidiaries of the Company are recharged to the relevant employer and the recharged income is credited to the profit and loss account of the Company.

Notes to the Company Financial Statements
continued

A) ACCOUNTING POLICIES (CONTINUED)

Exemptions
The Company's financial statements are included in the Interserve Plc consolidated financial statements for the year ended 31 December 2011. As permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. The Company has also taken advantage of the exemption from presenting a cash flow statement under the terms of FRS 1 *Cash flow statements*. The Company is also exempt under the terms of FRS 8 *Related party disclosures* from disclosing transactions with other members of the Interserve Group. The Interserve Plc consolidated financial statements for the year ended 31 December 2011 contain financial instrument disclosures which comply with FRS 29 *Financial instruments: disclosures*; therefore, the Company has taken advantage of the exemption in FRS 29 not to present separate financial instrument disclosures for the Company.

B) PROFIT FOR THE YEAR

Interserve Plc reported a profit after taxation for the financial year ended 31 December 2011 of £39.3 million (2010: £35.3 million).

The auditors' remuneration for audit services to the Company was £0.2 million (2010: £0.2 million).

C) EMPLOYEES

The average number of persons employed, being full-time equivalents, by the Company during the year, including directors, was 74 (2010: 81).

The costs incurred in respect of these employees were:

	2011 £million	2010 £million
Wages and salaries	**6.6**	5.7
Social security costs	**0.6**	0.5
Share-based payments	**1.2**	0.7
Pension costs	**0.7**	0.8
	9.1	7.7

	2011 £million	2010 £million
Share-based payments to employees of the Company	**1.2**	0.7
Share-based payments to employees of subsidiaries	**1.1**	0.9
Group share-based payment charge	**2.3**	1.6
Cash settled	**1.0**	0.2
Equity settled	**1.3**	1.4
Group share-based payment charge	**2.3**	1.6

Directors' remuneration
Detailed disclosures of directors' aggregated individual remuneration and share-based payments included in the above analysis are given in the audited section of the Directors' Remuneration Report on pages 58 to 62 and should be regarded as an integral part of this note.

D) DIVIDENDS

	2011 £million	2010 £million
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2010 of 12.4p (2009: 12.0p) per share	**15.5**	15.1
Interim dividend for the year ended 31 December 2011 of 6.0p (2010: 5.6p) per share	**7.5**	7.0
	23.0	22.1
Proposed final dividend for the year ended 31 December 2011 of 13.0p per share	**16.4**	

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

E) TANGIBLE FIXED ASSETS

(a) Movement during the year

	Land and buildings £million	Other £million	Total £million
Cost			
At 1 January 2011	**4.2**	**2.7**	**6.9**
Additions	**0.1**	**0.3**	**0.4**
At 31 December 2011	**4.3**	**3.0**	**7.3**
Depreciation			
At 1 January 2011	**1.6**	**2.2**	**3.8**
Provided in year	**0.2**	**0.2**	**0.4**
At 31 December 2011	**1.8**	**2.4**	**4.2**
Net book value			
At 31 December 2011	**2.5**	**0.6**	**3.1**
At 31 December 2010	2.6	0.5	3.1

(b) Land and buildings

	2011 £million	2010 £million
Net book value of land and buildings		
Freehold:		
Land at cost	**1.0**	1.0
Buildings at cost less depreciation	**–**	0.1
	1.0	1.1
Leaseholds over 50 years at cost less depreciation	**1.5**	1.5
	2.5	2.6

(c) Operating leases

The Company had annual commitments under non-cancellable operating leases that expire as follows:

	Land and buildings		Other	
	2011 £million	2010 £million	2011 £million	2010 £million
Within one year	**–**	–	**–**	–
Within two to five years	**0.3**	0.3	**0.1**	0.1
After five years	**1.1**	1.1	**–**	–
	1.4	1.4	**0.1**	0.1

The majority of leases of land and buildings are subject to rent reviews at periodic intervals of between three and five years.

F) INVESTMENT IN ASSOCIATE UNDERTAKINGS

	2011 £million	2010 £million
Investment	**2.7**	2.7

Notes to the Company Financial Statements
continued

G) INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	Shares at cost £million
Cost	
At 1 January 2011	485.9
Additions	0.6
At 31 December 2011	486.5
Provisions	
At 1 January 2011	21.3
Increase in provision	0.6
At 31 December 2011	21.9
Net book value	
At 31 December 2011	464.6
At 31 December 2010	464.6

Details of principal Group undertakings are given on pages 117 to 124, which form part of these financial statements.

H) DEBTORS

	2011 £million	2010 £million
Amounts falling due within one year:		
Trade debtors	–	0.2
Amounts owed by subsidiary undertakings	56.6	43.2
Corporation tax	2.9	3.1
Prepayments and accrued income	2.7	4.1
	62.2	50.6
Amounts falling due after more than one year:		
Deferred taxation (note L)	2.6	2.4
	2.6	2.4

I) OTHER CREDITORS

	2011 £million	2010 £million
Amounts owed to subsidiary undertakings	2.2	8.0
Other creditors	17.9	19.8
Accruals and deferred income	5.5	5.0
	25.6	32.8

J) PROVISIONS

	2011 £million	2010 £million
At 1 January	(0.3)	(0.2)
Provision utilisation	–	–
Additional provision in the year	–	(0.1)
At 31 December	(0.3)	(0.3)
Included in current liabilities	(0.1)	(0.1)
Included in non-current liabilities	(0.2)	(0.2)

K) OTHER CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2011 £million	2010 £million
Corporation tax	6.4	6.4
Amounts payable:		
After five years	6.4	6.4

L) DEFERRED TAXATION ASSET

	2011 £million	2010 £million
Movement in year		
At 1 January	2.4	1.9
Provided in the year	0.2	0.5
At 31 December	2.6	2.4
The source of the balance on deferred tax account is as follows:		
Accelerated capital allowances	–	–
Other timing differences	2.6	2.4
At 31 December	2.6	2.4

M) SHARE CAPITAL

	2011 £million	2010 £million
Allotted and fully paid		
125,804,346 ordinary shares of 10p each (2010: 125,804,346 ordinary shares of 10p each)	12.6	12.6

N) RESERVES

	Share premium £million	Capital redemption reserve £million	Acquisition reserve £million	Profit and loss reserve £million	Total £million
At 1 January 2011	112.7	0.1	108.5	117.3	338.6
Profit for the financial year (note B)	–	–	–	39.3	39.3
Dividends paid (note D)	–	–	–	(23.0)	(23.0)
Fair value adjustment	–	–	–	1.1	1.1
Investment in own shares	–	–	–	0.1	0.1
Deferred tax on items taken directly to equity	–	–	–	0.5	0.5
Share-based payments	–	–	–	1.3	1.3
At 31 December 2011	112.7	0.1	108.5	136.6	357.9

Of the balance of £136.6 million in the profit and loss account at 31 December 2011, £56.6 million (2010: £56.6 million) is considered to be unrealised and is therefore not distributable. A gain of £1.1 million (2010: loss of £0.6 million) was recorded in the profit and loss reserve in respect of changes in the fair value of interest rate hedges.

O) RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	£million
Profit for the financial year attributable to the members of Interserve Plc	39.3
Dividends	(23.0)
	16.3
Share-based payments	1.3
Deferred tax on items taken directly to equity	0.5
Investment in own shares	0.1
Fair value adjustments on hedging	1.1
Net increase to shareholders' funds	19.3
Shareholders' funds at 31 December 2010	351.2
Shareholders' funds at 31 December 2011	370.5

Notes to the Company Financial Statements

continued

P) CONTINGENT LIABILITIES

At 31 December 2011, there were guarantees given in the ordinary course of business of the Company. The Company has given guarantees covering bank overdrafts in its subsidiary and associated undertakings. At 31 December 2011, these amounted to £0.2 million (2010: £0.2 million). The Company has provided a guarantee to the Interserve Pension Scheme for future contributions due from subsidiary undertakings amounting to £149.6 million (2010: £172.2 million) in respect of the past funding deficit. In addition, contributions will also be payable in respect of future service benefits.

The Company has given guarantees in respect of borrowing and guarantee facilities made available to joint-venture and associated undertakings for sums not exceeding £9.3 million (2010: £12.4 million) in respect of borrowings and £171.5 million (2010: £141.1 million) in respect of guarantees. At 31 December 2011, £0.2 million (2010: £0.2 million) had been utilised in borrowings and £109.0 million (2010: £106.0 million) in guarantees.

Principal Subsidiaries, Associated Undertakings, Jointly-controlled Entities and Jointly-controlled Operations

The principal subsidiaries, associated undertakings, jointly-controlled entities and jointly-controlled operations of the Group listed below are those that, in the opinion of the directors, principally affect the figures shown in the financial statements as at 31 December 2011. A full list of Group companies will be annexed to the next annual return of Interserve Plc. Except where shown:

(a) the principal operations of each company are conducted in its country of incorporation or registration;

(b) the shareholdings of all subsidiaries relate to ordinary share capital and are equivalent to the percentage of voting rights held by the Group;

(c) the equity capital of all subsidiaries, associated undertakings, jointly-controlled entities and jointly-controlled operations are held by subsidiary undertakings of Interserve Plc;

(d) the accounting reference date is 31 December; and

(e) the consolidated financial statements include the results for the twelve months to 31 December even if the accounting reference date is different.

	Principal activities	Country of incorporation or registration	Group holding
(A) PRINCIPAL SUBSIDIARIES			
Support Services			
First Security (Guards) Ltd[1]	Provision of security manpower and associated support services	England & Wales	100%
Interserve (Defence) Ltd	Property and facilities management services to the Ministry of Defence	England & Wales	100%
Interserve Environmental Services Ltd	Provision of asbestos services to the private, public and social housing sectors	England & Wales	100%
Interserve (Facilities Management) Ltd	Facilities management services in the public and private sectors, engineering services to the building industry, and refrigeration and air conditioning maintenance	England & Wales	100%
Interserve (Facilities Services-Slough) Ltd[2 3]	Building, maintenance and cleaning services to office buildings and for 8,000 council-owned homes	England & Wales	100%
Interserve*fm* Ltd[4]	Holding company	England & Wales	100%
Interserve Industrial Services Ltd	Industrial support services, including thermal insulation, system scaffolding, engineering construction and project management	England & Wales	100%
Interserve Security Ltd	Provision of security personnel into the retail, transport and leisure markets; event management and electronic security solutions to the retail sector	England & Wales	100%
Interserve Security (Fire & Electronics) Ltd	Supply, installation and maintenance of electronic security equipment and CCTV surveillance equipment	England & Wales	100%
Interserve Technical Services Ltd	Provision of technical services to the private, public and social housing sectors including mechanical, electrical, boiler, lift, fabric and air conditioning installation and maintenance	England & Wales	100%

Principal Subsidiaries, Associated Undertakings, Jointly-controlled Entities and Jointly-controlled Operations

continued

	Principal activities	Country of incorporation or registration	Group holding
(A) PRINCIPAL SUBSIDIARIES (CONTINUED)			
Support Services (continued)			
Landmarc Support Services Ltd[2]	Management of the Ministry of Defence Army Training Estate	England & Wales	51%
MacLellan International Ltd	Facilities management services	England & Wales	100%
SSD UK Ltd	Provision of internal and external window cleaning services and specialist working at heights	England & Wales	100%
TASS (Europe) Ltd	Installation and testing of specialist building access equipment	England & Wales	100%
Construction			
Interserve Construction Ltd (formerly Interserve Project Services Ltd)	Creation of sustainable solutions for the built environment and delivery of these built assets and infrastructure primarily via PFI, frameworks and other long-term customer alliances	England & Wales	100%
Interserve Engineering Services Ltd	Design, installation and commissioning of mechanical, electrical and public health building engineering services	England & Wales	100%
Equipment Services			
RMD Kwikform (Al Maha) Qatar WLL[5]	Equipment hire and sales	Qatar	49%
RMD Kwikform Almoayed Bahrain WLL[6]	Equipment hire and sales	Kingdom of Bahrain	49%
Rapid Metal Developments (Australia) Pty Ltd	Equipment hire and sales	Australia	100%
RMD Kwikform Middle East LLC[7]	Equipment hire and sales	Emirate of Sharjah	49%
Rapid Metal Developments (NZ) Ltd[8]	Equipment hire and sales	New Zealand	100%
RMD Kwikform Chile SA	Equipment hire and sales	Chile	100%
RMD Kwikform Guam, LLC	Equipment hire and sales	Guam	100%
RMD Kwikform Holdings Ltd	Holding company	England & Wales	100%
RMD Kwikform Hong Kong Ltd[9]	Equipment hire and sales	Hong Kong SAR	100%
RMD Kwikform Ibérica, SA	Equipment hire and sales	Spain	95%
RMD Kwikform Ibérica – Cofragens e Construções Metálicas, Unipessoal, Lda	Equipment hire and sales	Portugal	95%
RMD Kwikform Ireland Ltd	Equipment hire and sales	Republic of Ireland	100%
RMD Kwikform Ltd	Equipment hire and sales	England & Wales	100%
RMD Kwikform North America Inc	Equipment hire and sales	USA	100%
RMD Kwikform Oman LLC	Equipment hire and sales	Sultanate of Oman	70%
RMD Kwikform Panama, SA	Equipment hire and sales	Republic of Panama	100%
RMD Kwikform Philippines, Inc[9]	Equipment hire and sales	Philippines	100%

	Principal activities	Country of incorporation or registration	Group holding
(A) PRINCIPAL SUBSIDIARIES (CONTINUED)			
Equipment Services (continued)			
RMD Kwikform Saudi Arabia LLC	Equipment hire	Kingdom of Saudi Arabia	100%
RMD Kwikform Singapore Pte Ltd	Equipment hire and sales	Republic of Singapore	100%
RMD Kwikform (South Africa) (Proprietary) Ltd	Equipment hire and sales	Republic of South Africa	100%
Developments			
Interserve Investments Ltd	Holding company	England & Wales	100%
Group Services			
Interserve Finance Ltd	Group funding entity	England & Wales	100%
Interserve Group Holdings Ltd[9]	Holding company	England & Wales	100%
Interserve Holdings Ltd	Holding company	England & Wales	100%
Interserve Insurance Company Ltd	Insurance	Guernsey	100%

Principal Subsidiaries, Associated Undertakings, Jointly-controlled Entities and Jointly-controlled Operations

continued

	Principal activities	Country of incorporation or registration	Issued share capital	Group holding
(B) ASSOCIATED UNDERTAKINGS				
Support Services				
Khansaheb Group LLC	Facilities management and maintenance services	United Arab Emirates	3,000 shares of 1,000 UAE Dirhams	49%
Madina Group WLL	Fabrication, engineering and maintenance solutions for the oil, gas and petrochemical industries, both on and off shore	Qatar	1,000 shares of 1,000 Qatari Riyals	49%
Occupational Training Institute LLC	HSE and leadership training for operatives and management to recognised international standards	Sultanate of Oman	150,000 shares of 1 Omani Rial	49%
Qatar Inspection Services WLL	Provision of non-destructive testing and third party inspection services for the processing industry	Qatar	200 shares of 1,000 Qatari Riyals	49%
Qatar International Safety Centre WLL	HSE and leadership training for operatives and management to recognised international standards	Qatar	200 shares of 1,000 Qatari Riyals	49%
Severn Glocon (Qatar) WLL	Supply of valves and valve maintenance services for the process industry	Qatar	200 shares of 1,000 Qatari Riyals	49%
Construction				
Douglas OHI LLC	Civil engineering and building	Sultanate of Oman	100,000 shares of 10 Omani Rials	49%
Gulf Contracting Co WLL	Civil engineering, building and maintenance services	Qatar	1,000 shares of 1,000 Qatari Riyals	49%
How United Services WLL	Installation, testing and commissioning of building services; maintenance and facilities services	Qatar	9,000 shares of 1,000 Qatari Riyals	49%
Khansaheb Civil Engineering LLC	Civil engineering, building and maintenance services	United Arab Emirates	11,000 shares of 1,000 UAE Dirhams	45%
Khansaheb Civil Engineering LLC	Roads and infrastructure construction	Sultanate of Oman	250,000 shares of 1 Omani Rial	46.36%
Khansaheb Hussain LLC	Civil engineering, building and maintenance services	United Arab Emirates	1,000 shares of 1,000 UAE Dirhams	49%
SSPDL Interserve Private Ltd	Civil engineering, building and maintenance services	India	1,000,000 shares of 1 Rupee	49%

	Principal activities	Address of principal place(s) of business	Group holding

(C) JOINTLY-CONTROLLED ENTITIES

Jointly-controlled entities are where strategic and operating decisions of an incorporated joint venture require unanimous consent of the parties sharing control.

	Principal activities	Address of principal place(s) of business	Group holding
Support Services			
PriDE (SERP) Ltd[2]	Estate management services under the Ministry of Defence South East Regional Prime Contract	Aldershot, Hampshire, England	50%
The Newcastle Estate Partnership Ltd[2]	Design, build, finance and operation of the Newcastle Estate for HMRC and the Department for Work and Pensions	Benton Park View, Longbenton, Newcastle upon Tyne, England	20%
Developments			
Addiewell Prison Ltd[2]	Design, build, finance and operation of Addiewell Prison	HMP Addiewell, West Lothian, Scotland	33.33%
Ashford Prison Services Ltd[2]	Design, build, finance and operation of Bronzefield Prison	HMP Bronzefield, Ashford, Middlesex, England	33.33%
Belfast Educational Services (Derry) Ltd[2]	Design, build, finance and operation of St Mary's College and St Cecilia's College	St Mary's College, Derry, Northern Ireland; St Cecilia's College, Derry, Northern Ireland	50%
Belfast Educational Services (Down & Connor) Ltd[2]	Design, build, finance and operation of three new schools in the diocese of Down and Connor, Northern Ireland	St Mary's Primary School, Portglenone, Co Antrim, Northern Ireland; St Joseph's Primary School, Carryduff, Northern Ireland; Our Lady and St Patrick's College, Knock, Belfast, Northern Ireland	50%
Belfast Educational Services (Downpatrick) Ltd[2]	Design, build, finance and operation of St Patrick's Grammar School	St Patrick's Grammar School, Downpatrick, Co Down, Northern Ireland	50%
Belfast Educational Services (Strabane) Ltd[10]	Design, build, finance and operation of Holy Cross College	Holy Cross College, Strabane, Northern Ireland	50%
Environments for Learning Ltd[10]	Investment company for the Building Schools for the Future initiative	Twyford, Reading, England	50%
Environments for Learning Leeds PFI Four Ltd[10]	Design, build, finance and operation of a Wellbeing Centre for Leeds City Council	Holt Park Wellbeing Centre, Cookridge, Leeds, England	50%

Principal Subsidiaries, Associated Undertakings, Jointly-controlled Entities and Jointly-controlled Operations

continued

	Principal activities	Address of principal place(s) of business	Group holding
(C) JOINTLY-CONTROLLED ENTITIES (CONTINUED)			
Developments (continued)			
Environments for Learning Leeds PFI One Ltd[10]	Design, build, finance and operation of four schools for Leeds City Council	Allerton Grange School, Moortown, Leeds, England; Allerton High School, Moortown, Leeds, England; Pudsey Grangefield Maths & Computing College, Pudsey, Leeds, England; Rodillian School, Lofthouse, Wakefield, Leeds, England	40%
Environments for Learning Leeds PFI Three Ltd[10]	Design, build, finance and operation of two leisure centres for Leeds City Council	Armley Leisure Centre, Armley, Leeds, England; Morley Leisure Centre, Morley, Leeds, England	45%
Environments for Learning Leeds PFI Two Ltd[10]	Design, build, finance and operation of Swallow Hill Community College	Swallow Hill Community College, Armley, Leeds, England	40%
Environments for Learning Sandwell PFI One Ltd[10]	Design, build, finance and operation of educational establishments for the Borough of Sandwell Council	Rowley Regis Learning Campus (St Michael's C of E High School, The Westminster School and Whiteheath Education Centre), Rowley Regis, West Midlands, England	40%
Environments for Learning St Helens PFI Ltd[10]	Design, build, finance and operation of two schools for St Helens Council	De La Salle School, Eccleston, St Helens, England; Rainford High Technology College, Rainford, St Helens, England	49.5%
Harmondsworth Detention Services Ltd[11]	Design, build and operation of Harmondsworth Immigration Removal Centre	Harmondsworth Immigration Removal Centre, West Drayton, England	49%
Healthcare Support (Newcastle) Ltd	Design, build, finance and operation of two hospitals for the Newcastle upon Tyne Hospitals NHS Foundation Trust	Freeman Hospital, Newcastle upon Tyne, England; Royal Victoria Infirmary, Newcastle upon Tyne, England	20%
Health Management (Carlisle) Ltd	Design, build, finance and operation of hospitals for the North Cumbria University Hospitals NHS Trust	Cumberland Infirmary, Carlisle, England	50%
Health Management (UCLH) PLC	Design, build, finance and operation of the University College Hospital	University College Hospital, London, England	33.33%
Inteq Services Ltd[2]	Design, build, finance and operation of the Ministry of Defence's new office and accommodation complex at Corsham	MOD Corsham, Corsham, Wiltshire, England	50%

	Principal activities	Address of principal place(s) of business	Group holding
(C) JOINTLY-CONTROLLED ENTITIES (CONTINUED)			
Developments (continued)			
Kent and East Sussex Weald Hospital Ltd	Design, build, finance and operation of Tunbridge Wells Hospital	Tunbridge Wells Hospital, Tunbridge Wells, Kent, England	25%
Leeds D&B One Ltd[10]	Design and build of various schools for Leeds City Council	Cockburn School, Beeston, Leeds, England; Temple Moor High School and Science College, Leeds, England; Crawshaw School, Pudsey, Leeds, England; Priesthorpe School, Pudsey, Leeds, England; Mount St Mary's Catholic High School, Leeds, England; Corpus Christi Catholic College, Leeds, England; Leeds West Academy, Rodley, Leeds, England; Farnley Park Maths and Computing College, New Farnley, Leeds, England	40%
Leeds LEP Ltd[10]	Development and management of the build and running of various schools for Leeds City Council	Merrion Street, Leeds, England	40%
NIHG South West Health Partnership Ltd	Design, build, finance, operation and maintenance of the new acute hospital at Enniskillen	Enniskillen Hospital, Enniskillen, County Fermanagh, Northern Ireland	36.5%
Peterborough Prison Management Ltd[2]	Design, build, finance and operation of Peterborough Prison	HMP Peterborough, Peterborough, England	33.33%
Pyramid Schools (Plymouth) Design & Build Ltd[10]	Design and build of two schools for Plymouth City Council	Ernsettle Community School, Plymouth, England; Shakespeare Primary School, Plymouth, England	50%
Pyramid Schools (Plymouth) Ltd[10]	Design, build, finance and operation of two schools for Plymouth City Council	Riverside Community Primary School, Plymouth, England; Whitleigh Community Primary School, Plymouth, England	50%
Rehab Jobfit LLP	Employment-related support services to the Department for Work and Pensions	Twyford, Reading, England	49%
Sandwell Futures Ltd[10]	Development and management of the build and running of various schools for Sandwell Borough Council	Pope's Lane, Oldbury, West Midlands, England	40%

Principal Subsidiaries, Associated Undertakings, Jointly-controlled Entities and Jointly-controlled Operations

continued

	Principal activities	Address of principal place(s) of business	Group interest
(D) JOINTLY-CONTROLLED OPERATIONS			
Construction			
Acciona Agua SAU Joint Venture	Water desalination project for Thames Water Utilities Ltd	Beckton Water Treatment Works, Jenkins Lane, London, England	47%
KMI Plus Water Joint Venture	Water project framework for United Utilities	Wigan, Lancashire, England	30.83%
KMI Water Joint Venture	Water project framework for United Utilities	Wigan, Lancashire, England	33.33%

Notes:

1 Issued share capital consists of 200 'A' deferred shares of 50 pence each, 99,800 'B' deferred shares of 50 pence each and 200 ordinary shares of 1 pence each.

2 Accounting reference date is 31 March.

3 Issued share capital consists of 100 ordinary shares of £1 each and 100 deferred shares of £1 each.

4 Issued share capital consists of 15,000,000 redeemable ordinary shares of £1 each, 6,158 ordinary shares of 1 US cent each and 2 deferred shares of £1 each.

5 The Group has the right to appoint and remove the General Manager giving it control over the strategic and operating decisions of the company. It is therefore consolidated as a subsidiary undertaking. Issued share capital consists of 200 shares of 1,000 Qatari Riyals each.

6 The Group has the right to appoint the Board of Managers and thus exercises control over the strategic and operating decisions of the company. It is therefore consolidated as a subsidiary undertaking. Issued share capital consists of 200 shares of 100 Bahraini Dinars each.

7 The Group has the right to appoint the Manager and thus exercises control over the strategic and operating decisions of the company. It is therefore consolidated as a subsidiary undertaking. Issued share capital consists of 500 shares of 1,000 UAE Dirhams each.

8 Shareholding split between Interserve Plc (2 ordinary shares of NZ$1 each) and Interserve Holdings Ltd (249,998 ordinary shares of NZ$1 each).

9 Shareholding held directly by Interserve Plc.

10 Accounting reference date is 30 September.

11 Accounting reference date is 31 August.

Five-Year Analysis

The revenue and headline profit of prior periods have been restated in line with the revised segmental analysis

	2011 £million	2010 £million	2009 £million	2008 £million	2007 £million
Revenue including share of associates and joint ventures					
Support Services – UK	**1,069.6**	1,098.7	1,051.3	981.6	910.8
Support Services – International	**25.9**	23.7	19.0	12.3	6.8
Support Services	**1,095.5**	1,122.4	1,070.3	993.9	917.6
Construction – UK	**731.1**	754.3	822.7	772.7	763.4
Construction – International	**223.7**	239.2	300.1	271.9	186.4
Construction	**954.8**	993.5	1,122.8	1,044.6	949.8
Equipment Services	**154.3**	139.9	157.1	171.7	132.0
Investments	**160.2**	106.6	156.7	134.5	69.0
Inter-segment elimination	**(45.2)**	(47.0)	(36.2)	(42.9)	(12.2)
	2,319.6	2,315.4	2,470.7	2,301.8	2,056.2
Consolidated revenue					
Support Services – UK	**1,007.3**	1,024.8	963.2	898.5	854.8
Support Services – International	**–**	–	–	–	–
Support Services	**1,007.3**	1,024.8	963.2	898.5	854.8
Construction – UK	**731.1**	754.3	822.7	772.7	763.4
Construction – International	**–**	–	–	–	–
Construction	**731.1**	754.3	822.7	772.7	763.4
Equipment Services	**154.3**	139.9	157.1	171.7	132.0
Investments	**–**	–	–	–	–
Inter-segment elimination	**(45.2)**	(47.0)	(36.2)	(42.9)	(12.2)
	1,847.5	1,872.0	1,906.8	1,800.0	1,738.0
Headline profit					
Support Services – UK	**36.4**	25.1	21.3	35.1	31.4
Support Services – International	**3.6**	3.4	2.1	1.1	0.6
Support Services	**40.0**	28.5	23.4	36.2	32.0
Construction – UK	**18.0**	24.5	17.0	22.5	22.1
Construction – International	**16.6**	22.8	22.4	14.8	9.9
Construction	**34.6**	47.3	39.4	37.3	32.0
Equipment Services	**13.6**	14.4	35.9	29.6	23.9
Investments	**6.0**	4.2	4.7	2.8	2.1
Group Services	**(20.4)**	(20.0)	(17.7)	(17.9)	(16.7)
Total operating profit	**73.8**	74.4	85.7	88.0	73.3
Investment revenue	**39.7**	36.1	31.6	39.9	38.1
Finance costs	**(40.7)**	(40.9)	(39.0)	(42.7)	(38.0)
Headline profit	**72.8**	69.6	78.3	85.2	73.4
Earnings per share, pence					
Basic EPS	**45.9**	39.5	54.9	43.5	37.5
Headline EPS	**49.3**	42.8	49.7	46.7	39.9
Dividend per share, pence					
Interim	**6.0**	5.6	5.5	5.3	5.0
Final	**13.0**	12.4	12.0	11.7	11.2

Five-Year Analysis
continued

	2011 £million	2010 £million	2009 £million	2008 £million	2007 £million
Balance sheet					
Intangible assets	**221.2**	228.3	230.8	262.3	263.2
Property, plant and equipment	**139.7**	149.0	148.8	156.8	117.6
Interests in joint ventures	**103.3**	60.1	67.4	114.0	82.1
Interests in associated undertakings	**77.2**	61.7	57.0	72.5	39.3
Investments	**-**	-	-	-	0.1
Deferred tax asset	**23.4**	16.5	31.4	19.2	5.1
Non-current assets	**564.8**	515.6	535.4	624.8	507.4
Inventories	**22.2**	19.6	20.1	27.8	15.6
Trade and other receivables	**380.1**	386.1	355.3	372.1	370.7
Cash and deposits	**46.1**	67.6	60.9	61.3	69.4
Bank overdrafts and loans	**(19.3)**	(35.2)	(11.6)	(3.1)	(5.9)
Trade and other payables	**(498.6)**	(496.7)	(491.2)	(479.8)	(478.3)
Short-term provisions	**(28.7)**	(20.2)	(23.1)	(14.0)	(5.8)
Net current liabilities	**(98.2)**	(78.8)	(89.6)	(35.7)	(34.3)
Bank loans	**(70.0)**	(85.0)	(85.0)	(165.5)	(163.0)
Trade and other payables	**(13.3)**	(15.8)	(18.1)	(14.2)	(17.8)
Long-term provisions	**(26.3)**	(26.9)	(25.7)	(24.0)	(26.0)
Retirement benefit obligation	**(56.2)**	(51.5)	(95.3)	(153.1)	(83.1)
Non-current liablilites	**(165.8)**	(179.2)	(224.1)	(356.8)	(289.9)
Net assets	**300.8**	257.6	221.7	232.3	183.2
Cash flow					
Operating cash flows before movements in working capital	**35.6**	31.6	(11.6)	65.8	60.4
Movement in working capital	**9.5**	(21.5)	52.6	(7.2)	4.6
Changes in hire fleet	**3.0**	15.1	(3.4)	(20.4)	(8.0)
Taxes paid	**(3.2)**	(6.3)	(15.7)	(14.0)	(4.5)
Net cash from operating activities	**44.9**	18.9	21.9	24.2	52.5
Acquisitions and investments	**(19.3)**	(32.6)	83.7	(7.7)	(11.9)
Net capital expenditure - non-hire fleet	**(8.5)**	(5.6)	(27.6)	(14.2)	(14.3)
Dividends from joint ventures and associates	**20.6**	32.1	17.6	13.5	8.4
Interest received	**4.4**	3.8	7.2	7.3	6.5
Net cash used in investing activities	**(2.8)**	(2.3)	80.9	(1.1)	(11.3)
Interest paid	**(6.7)**	(6.4)	(5.8)	(10.2)	(9.1)
Dividends paid	**(25.5)**	(24.8)	(24.5)	(23.5)	(21.9)
Other	**-**	(2.2)	-	0.8	2.7
Net cash used in financing activities excluding debt	**(32.2)**	(33.4)	(30.3)	(32.9)	(28.3)
Effect of foreign exchange	**(0.3)**	0.3	(0.6)	2.2	0.3
Movement in net debt	**9.6**	(16.5)	71.9	(7.6)	13.2
Closing net debt	**(44.2)**	(53.8)	(37.3)	(109.2)	(101.6)

Shareholder Information

FINANCIAL CALENDAR 2012

Final results announcement for the year ended 31 December 2011	29 February 2012
Publication of Annual Report and Financial Statements	28 March 2012
Annual General Meeting	16 May 2012
Interim management statement	16 May 2012
Final dividend payable (record date 10 April 2012)	24 May 2012
Half-year results announcement for the six months ended 30 June 2012	15 August 2012
Publication of Half-Year Report	Late August 2012
Interim dividend payable	October 2012
Interim management statement	12 November 2012

SHARE PRICE

As at 31 December 2011	320.70p
Lowest for the year	231.75p
Highest for year	341.25p

The current price of the Company's shares is available on the Company's website at www.interserve.com.

ANALYSIS OF REGISTERED SHAREHOLDINGS

	Holders		Shares	
	Number	%	Number	%
Notifiable interests	7	0.18	44,929,798	35.71
Banks, institutions and nominees	1,003	26.60	71,731,334	57.02
Private shareholders	2,761	73.22	9,143,214	7.27
Total as at 29 February 2012	3,771	100.00	125,804,346	100.00

SHAREHOLDER ENQUIRIES

If you have any questions about your shareholding or if you require any other guidance (e.g. to notify a change of address), please contact our Registrar – Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU (telephone: +44 (0)20 8639 3399; facsimile: +44 (0)1484 600911; email: ssd@capitaregistrars.com).

SHARE PORTAL (www.capitashareportal.com)

Through the website of Capita Registrars, shareholders are able to manage their shareholding online by registering for the Share Portal – a free, secure, online access to their shareholding. Facilities include:

- **Electronic communications**
  This offers shareholders the option of receiving an email notification that shareholder communications such as annual reports, half-yearly reports and notices of shareholder meetings are available for access on the Company's website. It also provides an online proxy voting facility. You may request a hard copy of the shareholder documents or change your election at any time.

- **Account enquiry**
  This allows shareholders to access their personal shareholding, including share transaction history and dividend payment history, and to obtain an up-to-date shareholding valuation.

- **Amendment of standing data**
  This allows shareholders to change their registered postal address, add, change or delete dividend mandate instructions and change their preferred method of communication.

Shareholders can also download from this site change of address, stock transfer and dividend mandate forms as well as buy and sell shares in the Company. To make use of any of these facilities, please log on to Capita Registrars' website at www.capitashareportal.com.

Should you have any queries in respect of the above facilities, please contact the Capita Share Portal helpline on +44 (0)20 8639 3367, or by email at shareportal@capita.co.uk.

SHARE DEALING SERVICES

The Company's shares can be traded through most banks, building societies, stockbrokers or "share shops". Capita Registrars also offer an online and telephone dealing service for existing Interserve shareholders. Further information is available from www.capitadeal.com or by telephoning +44 (0)20 3367 2686.

Shareholder Information

continued

DIRECT DIVIDEND PAYMENTS

Dividends can be paid automatically into shareholders' bank or building society accounts. This means that you will receive your dividends more quickly as the payment is made directly into your account on the payment date (you do not have to wait for the cheque to clear) and is more secure than receiving a cheque through the post. The service also helps Interserve improve its efficiency by reducing postage, printing and cheque clearing costs. A tax voucher is issued each time a dividend is paid to the shareholder's registered address. To register for this service, please contact Capita Registrars (telephone: +44 (0)20 8639 3399; facsimile: +44 (0)1484 600911; email: ssd@capitaregistrars.com or go to www.capitashareportal.com).

DIVIDEND REINVESTMENT PLAN

The Dividend Reinvestment Plan provided by Capita IRG Trustees Limited is a convenient way to build up your shareholding by using your cash dividends to buy additional shares in Interserve Plc. If you would prefer to receive shares for your next dividend instead of cash please complete an application form online at www.capitashareportal.com or call Capita IRG Trustees on +44 (0)20 8639 3402.

SHAREGIFT

ShareGift, the charity share donation scheme, is a free service for shareholders wishing to give shares to charitable causes. It is particularly useful for shareholders who wish to dispose of a small number of shares where the market value makes it uneconomic to sell on a commission basis. Further details are available at www.sharegift.org.uk or by telephoning +44 (0)20 7930 3737.

BENEFICIAL OWNERS OF SHARES WITH "INFORMATION RIGHTS"

Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Company's Registrar, Capita Registrars, or to the Company directly.

CAPITAL GAINS TAX

The market value of the Company's shares as at 31 March 1982 for the purpose of capital gains tax was 16.67p per share. This has been adjusted to take account of all capitalisation changes to 29 February 2012, as indicated below, other than the rights issue in 1986 (one new share for every three existing shares at 140p per share).

CAPITALISATION CHANGES

22 June 1982	–	sub-division of each £1 share into four shares of 25p; bonus issue of two new 25p shares for each £1 share held;
10 June 1983	–	bonus issue of one new share of 25p for every four shares held; and
31 October 1997	–	share split of five new 10p shares for every two 25p shares held.

WARNING TO SHAREHOLDERS REGARDING UNSOLICITED INVESTMENT CONTACTS

In recent years many companies have become aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas-based "brokers" who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as "boiler rooms". The "brokers" can be very persistent and extremely persuasive. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports into the Company.

If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation.
- Check that they are properly authorised by the FSA before getting involved. You can check at www.fsa.gov.uk/register/home.do.
- The FSA also maintains on its website a list of unauthorised overseas firms who are targeting, or have targeted, UK investors and any approach from such organisations should be reported to the FSA so that this list can be kept up to date and any other appropriate action can be considered. If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml.
- Inform Capita Registrars' compliance department on +44 (0)20 8639 2041 or email compliance@capitaregistrars.com.

More detailed information on this or similar activity can be found at www.moneyadviceservice.org.uk.

Details of all share dealing facilities that the Company endorses are detailed above.

Please note that any electronic address provided in this document to communicate with the Company may not be used for any purpose other than that expressly stated.

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The printer is accredited with ISO 14001 Environmental Management Systems and Forest Stewardship Council accredited. The paper is produced with 55% recycled fibre from both pre- and post-consumer sources, together with 45% virgin ECF fibre comprising a selected combination of FSC, PEFC and SFI fibre.

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