INGENUITY AT WORK

2012 ANNUAL REPORT AND FINANCIAL STATEMENTS

Interserve

INGENUITY AT WORK

INGENIOUS, INQUISITIVE - WITH A STRONG FOCUS ON DELIVERY

What does ingenuity look like? To us it's using our skills and capabilities to realise our vision of redefining the future for people and places. As one of the world's foremost support services and construction companies, we seek to improve the important places in peoples' lives – their homes, hospitals, schools and in the communities in which they work and live.

Connecting with our partners across the world, we strive to improve working and learning environments for millions of people – in education, healthcare, workplaces, retail, among others.

We take our role in creating, improving and supporting to heart, with the primary aim of delivering value at every stage in the process.

CHANGING LIVES THROUGH SUSTAINABLE JOBS

Working alongside our partners, we combine their experience in getting people into long-term employment with our record of large-scale service delivery to Government.

Read more on page 12

DELIVERING A WORLD-CLASS SUPPORT SERVICE TO ALLIANCE BOOTS

A world-class company like Alliance Boots needed a market-leading solution to total facilities management.

Read more on page 14

COMPLEX FORMWORK SOLUTION FOR MAKKAH MOSQUE IN MECCA

No job too big - RMD Kwikform mobilised a team and supplied 15,000 tonnes of formwork and shoring for the expansion of the Makkah Mosque in Saudi Arabia.

Read more on page 21

TURNING WASTE INTO RENEWED WATER

Tackling Qatar's major environmental challenge by use of innovative purification systems.

Read more on page 31

FINANCIAL HIGHLIGHTS

UNDERLYING HEADLINE EPS*
47.2p +8%

PROFIT BEFORE TAX
£182.9m +173%

FULL-YEAR DIVIDEND
20.5p +8%

GROSS OPERATING CASH CONVERSION*
94%

NET CASH
£25.8m

NON-FINANCIAL HIGHLIGHTS

ALL-LABOUR ACCIDENT INCIDENCE RATE (AIR)
298 per **100,000** -4%

FUTURE WORKLOAD
£6.3bn +13%

*See notes 11 and 33 to the consolidated financial statements on pages 91 and 116 respectively for a reconciliation of non-statutory measures to their statutory equivalents.

CONTENTS

CHAIRMAN'S STATEMENT

IN 2011 WE OUTLINED OUR STRATEGY DESIGNED TO TRANSFORM THE BUSINESS, DELIVERING GROWTH AND SHAREHOLDER VALUE WITH A BOLD ASPIRATION TO DOUBLE HEADLINE EARNINGS PER SHARE BY 2015. 2012 HAS BEEN A WATERSHED YEAR IN THIS EVOLUTION.

LORD BLACKWELL CHAIRMAN

While economic headwinds have been tougher and more enduring than most of us expected, I am encouraged by the progress we have made in delivering our strategy. In addition to achieving strong organic growth in mixed economic conditions, we realised significant latent value from our PFI portfolio and started to invest this cash in growth markets, new sectors and strengthening the funding position of the pension scheme.

In line with our growth strategy, we continued to expand our frontline services capability though the acquisition of a welfare-to-work business in May, a home healthcare business in December and in January 2013 a Middle East oil and gas services provider. Organically we have invested in new territories through our Equipment Services division and new markets for the Construction division, such as energy from waste, as well as creating a new Justice business unit. Justice remains an important market for us and while the appointment of a new Secretary of State for Justice in 2012 signalled a short-term delay in the outsourcing programme, there are clear indications this will lead to accelerated outsourcing activity in the medium term from which we expect to see opportunities emerging in 2013.

The breadth and scope of our operations is of significant benefit to the business. Our Support Services business has grown strongly, as the trend towards increased outsourcing in the UK accelerates and opportunities emerge in the oil and gas sector internationally. Our Construction division has been resilient, despite low demand in the UK and high levels of competition internationally, because of our continued focus on recurring business under framework contracts and our ability to innovate and differentiate ourselves from peers. Equipment Services, our most geographically diverse business, has experienced a wide range of local market conditions during the year. Active management of our global fleet has ensured that we have been well-placed to take advantage of the strongest markets, while making best use of our invested capital. We are now looking to increase levels of investment in this business as future demand progresses.

During the year, we completed a major review of the Interserve brand, giving a better understanding of and a new emphasis on the unique strengths of the Company, which will help drive performance and improve the focus of our marketing. This is summarised by the phrase, "Ingenuity at Work", which describes the intelligent approach our people take when designing solutions and dealing with the day-to-day challenges of meeting and hopefully exceeding, our customers' expectations. Having redefined our vision and core values, we are engaged in a major communications programme across the business.

We have developed plans for the imminent launch of a far-reaching and, in our view, bold sustainability strategy – Sustain*Abilities*. This plan builds on our longstanding credentials in this increasingly important area: we have long recognised the need to develop not only financial capital, but also to look to areas such as environmental, social and knowledge 'capitals', to build a truly resilient, sustainable business. During the course of the year we have shaped this into a sustainability plan which underpins our corporate strategy.

In addition, clear communication of both our brand and of Sustain*Abilities*, will help ensure that potential customers and stakeholders have a better understanding of Interserve and the full extent of our capabilities.

On behalf of the Board, I would like to thank all of our people for their continued hard work in bringing their ingenuity and commitment to providing great service to our customers and to furthering their individual as well as our corporate development. During the last 12 months the Company has won numerous awards, including Learning and Career Development from the British Institute of Facilities Management, gold and silver awards for health and safety from RoSPA, the UK Excellence Award, the British Quality Foundation's Achievement Award for Leadership, Project of the Year Award from the Chartered Institute of Building and the National Engineering Award, presented by the Association for Project Safety.

A number of Board changes were announced in January which were brought about by the retirements of David Paterson and David Trapnell. I would like to thank them both for their long years of excellent service to the Company, and to welcome their successors, Anne Fahy as non-executive director to the Group Board and George Franks and Ian Renhard as members of the Executive Board.

We remain confident in the delivery of our strategy and our medium-term outlook and we are therefore recommending an increased final dividend of 14.1p (2011: 13.0p), bringing the total dividend for the year to 20.5p (2011: 19.0p), an increase of 7.9 per cent. The final dividend will be paid on 20 May 2013 to shareholders on the register at the close of business on 5 April 2013.

Lord Blackwell
Chairman
27 February 2013

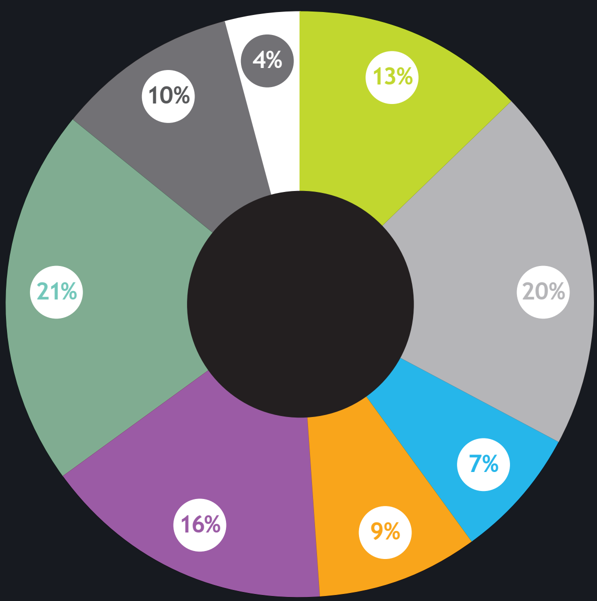
OUR BUSINESS

HOW WE CREATE SHAREHOLDER VALUE

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 CONSOLIDATED REVENUE)

- 13% HEALTH
- 20% DEFENCE
- 7% INDUSTRY
- 9% CENTRAL / LOCAL GOVT
- 16% INFRASTRUCTURE
- 21% COMMERCE
- 10% EDUCATION
- 4% JUSTICE



STRENGTH AND RESILIENCE

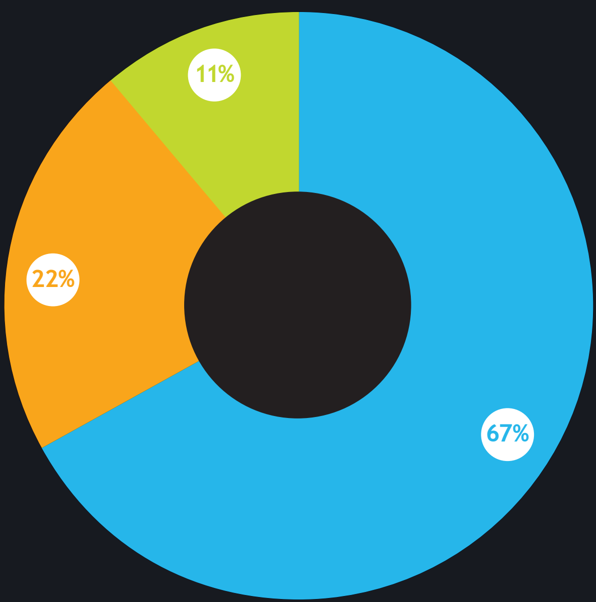
- The combination of our business's working capital profiles ensures a high overall conversion of profit to cash - insulating us through economic cycles.
- Further strengthening of our balance sheet through realising latent value from our PFI portfolio.
- Diversifying earnings, both geographically and through the business mix.
- Strong organic growth augmented by acquisitions, each a good fit with our overall corporate strategy.
- An emphasis on long-term framework contracts, lowering the risk associated with the construction sector.
- Our exposure to risk in international markets is contained by operating through strong local partnerships, using tried and tested methods and deploying key people into our international operations.
- We have further reduced our pension risk by utilising the value of our PFI investments.
- Strong relationships with associate companies across the world lend weight to our overall proposition and extend our operational capabilities.
- The skills and experience of our global workforce allow us to deliver our promise to clients and customers every day.

OUR EXPERTISE

- Designing bespoke solutions for our clients across a range of services - from infrastructure to facilities management and from major construction projects to complex formwork projects.
- Our added value comes from:
  - An integrated approach, leveraging our experience to deliver a range of support services and construction - combining end-to-end design and consultancy.
  - Ensuring sustainable growth is at the core of our strategy and business model to drive further success.
  - Being flexible and responsive to the needs of our clients.
  - Nurturing and effective management of a complex supply chain, as part of an overall contract delivery approach.
  - Identifying and carefully assessing commercial opportunities that offer the potential of creating long-term returns.

GEOGRAPHIC (BY CONTRIBUTION TO TOTAL OPERATING PROFIT)*

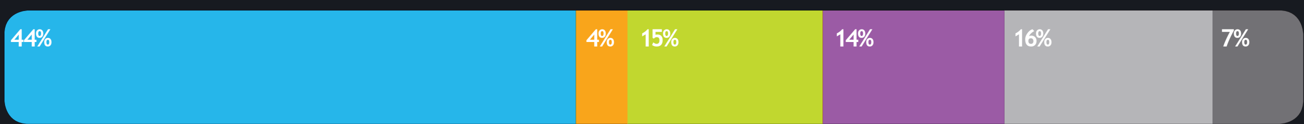
- ▶ 67% UNITED KINGDOM
- ▶ 22% MIDDLE EAST & AFRICA
- ▶ 11% REST OF WORLD



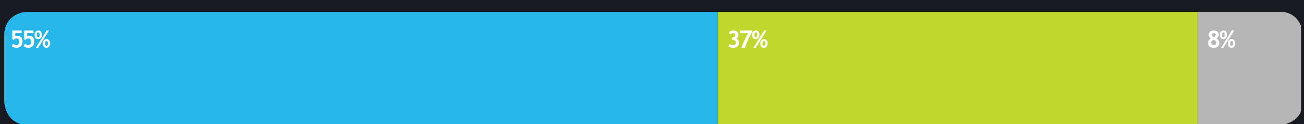
GROWTH PROSPECTS

- Our structure, expertise and focus on client needs means we are well-placed to take advantage of growth in the UK support services and infrastructure market.
- Around 33 per cent of our profits are derived from international markets, where we have access to growth in infrastructure spend to opportunities for support services as markets.

SEGMENTAL (BY CONTRIBUTION TO TOTAL OPERATING PROFIT)*



SEGMENTAL (BY CONSOLIDATED REVENUE)



■ Support Services (UK) ■ Support Services (Int'l) ■ Construction (UK) ■ Construction (Int'l) ■ Equipment Services ■ Investments

*Total Operating Profit before central costs, amortisation of acquired intangible assets and exceptional items.

OUR MARKETS

WE OPERATE IN THE OUTSOURCED SERVICES AND CONSTRUCTION MARKETS, BOTH IN THE UK AND INTERNATIONALLY.

OUR MARKETS

SUPPORT SERVICES

- Our market includes facilities management (FM) i.e. activities concerned both with maintaining buildings or estates and with supplying services to people using the facilities.
- We also deliver a broader set of services as part of our support services provision for specific groups, such as employment assistance, healthcare, waste management and training.
- Our specific skills are in providing end-to-end capability, including design, management and delivery of such services.
- We are making progress on increasing our footprint in a strengthening healthcare market for outsourced services – driven by cost-reduction requirements.
- Reduced funding in local government is stimulating new models for partnership and delivery.

UK

- With a continued trend towards outsourcing and service integration, we are well-placed to take advantage of market growth in mature markets such as the UK.
- In a fragmented UK market, with a range of small providers, Interserve is among the leaders (source: Frost and Sullivan).
- The UK leads the way in the adoption of modern outsourcing and co-ordinated 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).
- A widening range of operations includes Work Programme services, helping to get the long-term unemployed back into work and frontline domiciliary healthcare.

INTERNATIONAL

- Almost all international markets for outsourcing of FM services are significantly less developed than the UK. UK providers therefore have an opportunity to use their experience to enter these markets at an advantage.
- Our presence in the Middle East provides a base from which to introduce our support services across several countries and markets in the region. This includes conventional building repairs, plant maintenance, health and safety training and assurance services in the oil and gas sector.
- The Middle East outsourcing market continues to emerge, following significant increase in infrastructure development over recent years. We are making strategic progress in the region – evidenced through our investment in oil and gas maintenance business TOCO/Willbros Middle East Ltd.

CONSTRUCTION

UK

- Our strategic focus is on long-term repeat business with clients that trust us to deliver on our promise.
- We have the capacity to deliver a range of projects from small works through to complex and high profile projects of up to £250 million in value.
- Our expertise encompasses all technical and commercial aspects of building and engineering services and we are experienced in delivering complex high-value, multi-site projects in both the public and private sectors.
- We have a number of strands to our construction proposition:
  - As a contractor, taking responsibility for the construction of buildings and infrastructure
  - As a site services provider to companies undertaking construction, engineering and FM
  - Interiors design and fit-out

INTERNATIONAL

- Working with strong partners, we focus on key sectors across markets: infrastructure, roads, rail, port schemes, power, water and drainage.
- We operate from a network of regional offices, specialising in mid-sized contracts, while our specialist fit-out business provides joinery, steelwork and specialist temporary buildings.
- We have been active in the Middle East for over 30 years, where our client base is more oriented towards the private sector.
- Drawing on the market positioning of our local partners, our businesses are also characterised by a focus on recurring work from long-term relationships.

EQUIPMENT SERVICES

- RMD Kwikform is a well-respected and established brand, as a designer and provider of specialised formwork, falsework and shoring equipment used in major projects across the world.
- The business operates around centres of excellence in the UK, Australia and the Middle East from where design and engineering support is provided to the operating units based in the UK and across international markets.

OUR STRATEGY

HOW WE DELIVER GROWTH

OBJECTIVES

DRIVERS

BUILD STRONG CORE BUSINESSES

CASE STUDY:
ALLIANCE BOOTS
PAGE 14

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

CASE STUDY:
BIONEST
PAGE 31

- Emerging and high-growth markets
- Opportunities arising from recovering economies
- Markets moving closer to UK outsourcing model
- Leveraging existing relationships

CAPTURE RELATED EXPANSION OPPORTUNITIES

CASE STUDY:
WELFARE TO WORK
PAGE 12

- Demand for increased integration and efficiencies across the asset life cycle
- Consolidation
- Enhancing existing offering or market extension through acquisition

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

Year	Workload for next year
2012	78%
2011	78%
2010	73%
2009	79%
2008	79%

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

Year	Headline earnings per share
2012	47.2p
2011	49.3p*
2010	42.8p
2009	49.7p
2008	46.7.p

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

Year	Operating cash conversion
2012	116.8%
2011	155.3%
2010	122.1%
2009	116.9%
2008	88.6%

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

STRATEGY

Focus on long-term, added-value client relationships

- Understand client dynamics 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 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 £5 billion

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%

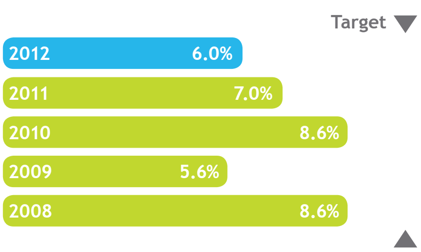
International construction c. 6%

Equipment services c. 15%

Strong cash conversion, supporting:

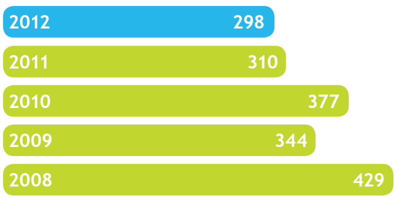
- Selective, accretive acquisitions
- Progressive dividend policy
- Elimination of pension deficit

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%



ANNUALISED ALL-EMPLOYEE ACCIDENT INCIDENCE RATE (per 100,000 employees)

Target: Halve the rate by 2020 from a 2010 base

[1] See note 33 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.
* This includes a non-recurring Middle East tax benefit of 5.6 pps

CHIEF EXECUTIVE'S STATEMENT (Q&A)

ADRIAN RINGROSE CHIEF EXECUTIVE

1 HOW HAS INTERSERVE PERFORMED IN 2012?

2012 has been a very good year for Interserve in the face of mixed market conditions. I am pleased with the continued progress we have made against our stated strategic objectives. We have grown revenue and profits and continue to build a strong future workload.

In the UK, we have made good progress in spite of the economic environment, notably in our Support Services division, where we have grown revenue and remain on track to meet our margin target of five per cent by the end of 2013. Overseas we continue to build our support services business and we will look to continue this trend in 2013.

The UK construction industry has faced challenges over the year, but our business here has shown good resilience and we continue to win work, growing future workload to £6.3 billion. Internationally, our construction business has shown a mixed performance, experiencing varying demand in different countries. Latterly we have started to see positive signs of recovery in the UAE, as well as signs of emerging infrastructure development in Oman and Qatar.

Revenue and margins continue to improve in our Equipment Services business, which we have achieved through intelligent management of our global fleet, a timely pricing review and accessing new, attractive markets.

Strategically, we have made good progress in growing our business as planned, realising the latent value in our PFI portfolio to reinvest in future growth. During the year we increased our capacity for the delivery of services direct to the citizen, firstly in welfare with our acquisition of BEST (now Interserve Working Futures) and in the health sector with Advantage Healthcare.

2 HOW ARE YOU PERFORMING AGAINST COMPANY STRATEGY?

Our strategy is to build strong core businesses, expand internationally and expand the scope of our core businesses. We have made good progress against all three aspects of this in 2012 and expect to see further progress in 2013.

We are ambitious and optimistic about our medium-term growth potential. By crystallising value in our PFI assets we have further strengthened our balance sheet and are well placed to exploit opportunities for growth in line with our strategy. In 2012 we have done this both by building our capability in the justice market, and also through the acquisition of BEST and Advantage Healthcare, expanding our frontline service capability and exploiting adjacent markets.

Our UK construction business has not only focused on long-term commercial structures such as framework agreements, but also continues to innovate with technologies such as PassivHaus and our own proprietary construction system - Podsolve. The UK business has also expanded the scope of its operations in attractive growth areas such as the energy from waste sector. Overseas we have developed our specialist joinery and interior fit-out operations in Qatar and UAE and remain well placed for infrastructure development in the region.

Support Services in the UK has delivered strong revenue growth of 11 per cent based on the ongoing need for government and businesses to increase efficiencies and maximise effectiveness in difficult economic conditions.

Overseas we continue to expand our capability, notably in our provision of services to the oil and gas industry, both through work-winning, but also with the acquisition of TOCO at the turn of the year.

Equipment Services is our most global business and continues to expand its geographic reach, establishing new branch locations in India, Chile, Panama and latterly Kazakhstan. In addition we are also exporting to less developed markets in Central Africa, Iraq and the Caspian region, moving our equipment fleet to follow demand and capture new opportunities.

3 WHAT ARE YOUR PLANS FOR 2013?

We will continue to build our core businesses, access adjacent markets and develop new opportunities for growth. At the start of the year, we acquired TOCO, which will enhance our existing capabilities in the provision of services to the oil and gas sector. The strength of our balance sheet leaves us well-placed to exploit further growth opportunities both in the UK and overseas.

In December, the UK government announced PF2 and reasserted its commitment to infrastructure building projects, notably through a schools building programme. Both of these developments are positive signs for Interserve and play to our strengths of experience and innovation. We expect to see further outsourcing opportunities from both the private and public sector, through a combination of macroeconomic pressures and increasing demand for public services from a growing and ageing population.

Developing and delivering our frontline capability will be a focus in areas such as health, welfare and justice, building on our 2012 activities. The justice market remains an important opportunity for Interserve, with the UK government's announcement of a 'rehabilitation revolution' in December 2012 and a clear commitment to outsourcing services.

We look forward with confidence to making further progress against our strategy in 2013 and beyond.

CHANGING LIVES THROUGH SUSTAINABLE JOBS

WELFARE TO WORK

Interserve is working with its partners to make a difference to people's lives, by helping them to find long-term employment.

The Work Programme is the UK Government's largest and most ambitious Government back-to-work initiative ever commissioned and caters for the long-term unemployed, or those with substantial difficulties in finding work.

The programme brings together many of the best features of previous initiatives and combines them with some new approaches, all of which are designed to move more people into sustained employment.

We are proud to be involved in the delivery of this flagship programme, delivered across West Yorkshire through **Interserve Working Futures** and in the South West and Wales through a joint venture with the Rehab Group called **Rehab Jobfit**.

Our partnership with Work Programme providers blends their existing expertise in providing training, employment, health and social care and commercial services with our track record of large-scale service delivery to Government and management of supply chains.

INGENUITY AT WORK

STRATEGIC OVERVIEW

IN 2012 WE MADE SIGNIFICANT PROGRESS AGAINST OUR CORPORATE STRATEGY: BUILDING STRONG CORE BUSINESSES, EXPANDING THEIR SCOPE AND CONTINUING OUR INTERNATIONAL GROWTH. OUR BUSINESSES HAVE PERFORMED WELL IN 2012 AND ARE POISED FOR FURTHER SUSTAINED ORGANIC PROGRESS.

WE HAVE CREATED A STRONG BALANCE SHEET GIVING US THE CAPACITY TO SEIZE ON GROWTH OPPORTUNITIES WHILST SUBSTANTIALLY ADDRESSING OUR PENSION FUNDING POSITION.

In building our core businesses we benefit from long-term client relationships, through framework agreements, repeat business and account growth. We continue to reinvest in new operating models, business development and new asset purchases. We also continue to innovate through new products and technologies. This is reflected in our strong work-winning, notably in our UK operations and has also played a major part in providing a strong platform for growth.

We have been expanding the scope of our operations by taking our core skills into new areas, notably in extending our offering in outsourced public services, in areas such as health and welfare-to-work and energy from waste infrastructure.

We have also expanded our service offering to the oil and gas sector through the acquisition of TOCO in Oman, enabling us to service our clients over a wider geographic footprint.

We continue to target growth in Equipment Services, increasing our investment in countries such as Saudi Arabia, Chile and Colombia and further expanding our reach through export opportunities to countries such as Kazakhstan and Iraq.

We are a strong, sustainable and ambitious business and as we continue to develop we will invest in the training and development of our people and the management of complex supply chains. The development and imminent launch of our far-reaching Sustain*Abilities* plan will further differentiate the Company through our approach to sustainable communities and the environments in which we operate. Our corporate strategy and the continued evolution of our capabilities place us well to meet both the risks and the opportunities that the future brings.

GROUP OUTLOOK

We have confidence in our ability to make further progress in 2013. We expect Support Services to continue its strong progress with margins trending towards our medium-term targets.

We also expect Construction's performance to remain resilient in continuing difficult market conditions and that Equipment Services' revenues will continue to show improvement. We remain on track to deliver strong medium-term growth.

DELIVERING A WORLD-CLASS SUPPORT SERVICE TO ALLIANCE BOOTS

SUPPORT SERVICES

Our total facilities management contract with international health and beauty group, Alliance Boots, serves some 8,000 staff across eight office locations and more than 1,000 stores, establishing us as their single national provider across the UK and Ireland.

Interserve's team focuses on delivering facilities management services around the needs of Alliance Boots staff, their customers and visitors right across the company's estate – including its headquarters building.

The existing relationship between the two companies, which began in 2006, was central to Alliance Boots' decision to select Interserve as its support services partner.

"Delivering a common facilities management model across all our UK businesses and corporate offices supports our ambition to provide legendary customer care and feel-good moments for all of our visitors and colleagues. In addition, this new partnership supports Alliance Boots in generating significant synergies and efficiencies across our estate."

Jim Townsend
Head of Procurement and Facilities Management, Alliance Boots.

INGENUITY AT WORK

OPERATIONAL REVIEW

KPI TABLE

	Target	2012	2011	2010	2009	2008
Workload for next year	Visibility over 70% of next 12 months revenue (market consensus)	78%	78%	73%	79%	79%
Headline earnings per share (EPS)	Double headline EPS over 5 years to 2015	47.2p	49.3p*	42.8p	49.7p	46.7p
Operating cash conversion[1] 3-year rolling average	100% over medium term	116.8%	155.3%	122.1%	116.9%	88.6%
Annualised staff turnover[2]	Below 10%	6.0%	7.0%	8.6%	5.6%	8.6%
Annualised all-employee accident incidence rate (per 100,000 employees)	Halve the rate by 2020 from a 2010 base	298	310	377	344	429

1 See note 33 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

*This includes a non-recurring Middle East tax benefit of 5.6 pps

We segment our operational results into: Support Services, Construction and Equipment Services. Support Services and Construction are each subdivided into UK and International businesses. We also have Group Services, which consists of the Board and a range of central services and our investment activities. We allocate all central costs to Group Services, including those related to our financing and central bidding activities, and show the performance of our PFI investments separately as the Investments segment. Group Services' costs in 2012 were £19.1 million (2011: £20.4 million).

SUPPORT SERVICES

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

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 2012	31 December 2011
Forward orders	£4.7 billion	£4.5 billion
Pipeline	£1.6 billion	£1.1 billion
Future workload	£6.3 billion	£5.6 billion

As a result of reorganisation we have reclassified £0.3 billion of future workload in 2011 from Construction UK to Support Services UK.

Results summary (Support Services):

	2012	2011	Change
Revenue			
- UK	£1,118.1m	£1,007.3m	+11.0%
- International*	£31.3m	£25.9m	+20.8%
Contribution to Total Operating Profit	£48.0m	£40.0m	+20.0%
- UK	£44.3m	£36.4m	+21.7%
- International*	£3.7m	£3.6m	+2.8%
Operating margin (UK)	4.0%	3.6%	+0.4%pts
Operating margin (International)	12.8%	15.1%	-2.3%pts

*Share of associates

United Kingdom

In the period revenues increased 11.0 per cent with margins improving from 3.6 per cent in 2011 to 4.0 per cent in 2012. Revenue growth was primarily due to our success in developing our relationships with existing customers, but also reflected the benefits of continued strong work winning in current and prior years.

This strong performance reflects our core capabilities to provide innovative and cost effective solutions, to help customers invest more efficiently and to develop existing relationships, thereby leading to an increased scope of activity.

This is exemplified by our long-standing relationship which, in partnership with Alliance Boots, we have grown from a contract to provide cleaning services to 320 stores into a total facilities management (TFM) service for eight office locations and cleaning services across more than 1,000 stores in the UK and Ireland.

We have continued to improve our margins in this division through a combination of investment in new systems and processes, a rationalisation of our organisational structures and a further drive to increase procurement efficiency. These activities, together with the benefits of increasing scale are also contributing to our continued progress towards our target of exiting 2013 with a margin of 5 per cent.

The business has performed well in winning work during the year, with a number of significant contract wins with customers such as ScottishPower, Carphone Warehouse, East Thames Group, West Yorkshire Police Authority, London Borough of Southwark, London Universities Purchasing Consortium, The Environment Agency and the Defence Infrastructure Organisation.

As a result future workload for the division increased to £5.2 billion in 2012 (2011: £4.5 billion), a strong platform for future years.

We believe that demand for public services will continue to accelerate from a growing and ageing population, and that we are only now beginning to see the long-anticipated shift in thinking that will lead to the more widespread use of outsourcing as the most efficient way to maintain such services while reducing unit costs.

Anticipating the acceleration of this trend, we have sought to position ourselves to take advantage of outsourcing in frontline services. To date we have made strategic investments in justice, welfare-to-work and healthcare.

During the year we increased our investment in the provision of frontline welfare services through the acquisition of Yorkshire-based BEST (now renamed Interserve Working Futures). Combined with our existing joint venture, Rehab Jobfit, which operates in Wales and the South West, we are now one of the largest providers of training and work-placement services for the long-term unemployed, principally through the Government's flagship Work Programme.

In December we acquired Advantage Healthcare which provides community healthcare services including case management, social care, clinical and nursing services, for Primary Care Trusts (PCTs), private clients and through GP referrals. Our entry into the community healthcare market, which complements our existing offering to healthcare clients, anticipates the increasing demand for more flexible and cost effective service provision in this sector.

The increasing range of our capabilities and the growing complexity of customers' requirements were exemplified in the Leicestershire NHS Trust estate management contract win, announced in September. This is notable because of both its scale and the scope of services involved and also through its innovative relationship across three separate NHS Trusts. The contract comprises a full suite of support services ranging from facilities and estate management to strategic consultancy and advice, marking a new and radical approach leveraging the collective scale and rationalising the combined assets of the three Trusts. It will support three acute hospitals and a range of health facilities including mental health units, primary care facilities, and community and district hospitals in the area.

In addition we have developed organically a new capability in the justice market to meet the demand from Government for greater private sector involvement in the prison and probation services market.

Strategically these developments extend our offering in 'frontline services', building on the Company's extensive experience and capability in outsourced government services, where we see significant and ongoing potential for growth.

Outlook

We expect the business to continue its strong progress as we expand into new markets, deliver more for our current customers, win new client contracts and execute our services more efficiently through our margin improvement programme.

International

This business provides fabrication, maintenance, turnaround services and training to the oil and gas industry and hard and soft facilities management services across a broad range of markets across the Middle East.

In the period we continued to build on our offering, winning more turnaround and long-term services contracts with both current and new clients including: Oryx (extension to onsite mechanical maintenance on their gas-to-liquid plant), Shell Pearl (five-year services contract and turnaround services), Dolphin Energy (five-year contract for plant modification works and maintenance services both on and offshore) and Punj Lloyd Limited (fabrication, installation and pre-commissioning of pipework for a polysilicon plant).

We aim to expand our engineering services and facilities management activities in the Middle East, where economic progress is increasingly generating requirements for outsourced services. This has generated opportunities for us to harness the expertise gained from our outsourcing experience across many sectors in the UK with our knowledge of Gulf Cooperation Council markets.

In January 2013 we expanded the footprint of our activities with the acquisition of TOCO, an Oman-based business specialising in fabrication, maintenance and repair services for oil and gas refineries and offshore facilities. The acquisition extends Interserve's service offering in Oman, a key growth market offering c.US$2.5 billion of oil, gas and power contracts per annum as well as growing our offering across the region.

Outlook

We expect revenues and profits to progress well, driven by the petrochemical sector with margins trending towards our medium-term targets. We are intent on building a sizeable support services presence in this important region.

CONSTRUCTION

In the UK and internationally we offer design and construction services in the creation of a broad range of buildings and infrastructure. The majority of our UK revenue comes through long-term framework agreements and from repeat business with blue-chip clients, with over three-quarters of this activity in the public and utilities sectors. We operate from a network of regional offices, specialising in mid-sized contracts.

In the Middle East, where we have been active for over 30 years, our client base is more oriented towards the private sector. However, drawing on the market positioning of our local partners, our businesses are also characterised by a focus on recurring work from long-term relationships.

United Kingdom

Despite challenging conditions, 2012 was a year of continued successful performance, innovation and new market development. The division's contribution to Total Operating Profit fell by £3.4 million to £14.6 million at a margin of 2.0 per cent, reflecting increased competitive pressures in line with our expectations. We continue to expect margins to trend between 1.5 to 2.0 per cent over the medium term.

During the year we have worked hard with local authority customers to address their twin problems of affordable build costs and sustainable running costs. Richmond Hill Primary School, which achieved the groundbreaking PassivHaus certification, exemplifies this well: the school will use up to 80 per cent less energy than a conventionally built equivalent facility.

We have also extended our reach into targeted growth markets, such as energy-from-waste, completing the design and build of a plant in Westbury, Wiltshire and winning a £150 million contract with Viridor for the construction of Glasgow City Council's new Residual Waste Treatment facility. The contract involves the design and build of a facility to treat up to 200,000 tonnes p.a. of waste via recycling, anaerobic digestion and energy recovery by gasification.

Our sustainability credentials are becoming an increasingly important element of our offering alongside our more established operational and project finance capabilities, as evidenced by our success with West Yorkshire Police (in a £150 million PFI project to design, build, finance and operate three police facilities). Our proposal for this contract involved a significant amount of investment in community projects, generating local jobs and training and exemplified our ability to make places and deliver services that enhance peoples' lives.

Results summary:

	2012	2011	Change
Revenue			
- UK	£737.2m	£731.1m	+0.8%
- International*	£201.6m	£223.7m	-9.9%
Contribution to Total Operating Profit	£28.9m	£34.6m	-16.5%
- UK	£14.6m	£18.0m	-18.9%
- International*	£14.3m	£16.6m	-13.9%
Operating margin (UK)	2.0%	2.5%	-0.50% pts
Operating margin (International)	6.5%	8.4%	-1.90% pts

*Share of associates

These skills, together with our traditional ability to tackle complex construction challenges, have also been brought to bear in our successful proposals for the refurbishment and renovation of 200-year old buildings at Advocate's Close, Edinburgh. The new mixed-use development will comprise serviced apartments, restaurants, a bistro/bar and offices/retail units revitalising an area formerly occupied by the City of Edinburgh Council.

In addition to the contracts mentioned above, we have enjoyed other successes, including: a multi-million pound project with Jaguar Land Rover to build a circa 65,000 square metre facility in Wolverhampton to produce a family of all-new advanced technology, low emission 4-cylinder Jaguar Land Rover petrol and diesel engines; further work under existing framework agreements with the NHS in England, Scotland and Wales, and with National Grid; together with numerous other contracts for English Heritage, St Luke's Hospice, and the Highways Agency. As a result, our future workload as at 31 December 2012 has remained at £0.9 billion.

Outlook

We expect the UK construction market to continue to remain challenging during 2013, before a resumption of gradual growth from 2014, stimulated by increased government spending on infrastructure and some recovery in private sector investment. However, we have a strong order book and continue to diversify the business to position ourselves for growth across an expanding set of market segments.

International

Both volumes and profits continued to be affected by short-term client caution. Nevertheless we were able to continue to maintain our shape and readiness for an increase in demand, which we expect to materialise in the coming years given the underlying economic strength of the Middle East region.

Against this overall backdrop of restraint, we are beginning to see cause for medium-term optimism. For example, in the UAE, we are starting to see an improvement in trading conditions, and during the year we won a number of sizeable contracts with both new and existing clients. These included: infrastructure projects such as the £11 million Fujairah internal roads system and the £6 million regional headquarters for the Habib Bank AG Zurich; shopping centres, such as the £49 million Jumeirah Beach Village and the £38 million Fujairah City Centre; and a £28 million contract for General Electric for the construction of Emirates' Engine Overhaul Facility. Our fit-out business continues to see demand with the winning of numerous contracts including the Saint Regis Hotel in Abu Dhabi and the Bab Al Bahr Hotel in Ajman.

In Qatar, which was more subdued, we are well prepared for the anticipated increase in infrastructure investment in the run-up to the 2022 World Cup. We won an important contract to fit out the main halls and 17 lounges at the new Doha International Airport which will compete as a new major international hub. Fit-out continues to be an important market for us, with prestigious contracts secured for the Private Engineers Office and the Al Deeble Tower in Doha. The planned new city of Lusail, to the north of Doha, is starting to generate demand for construction services. Over the year we have started to deliver infrastructure projects including the construction, installation and commissioning of two substations for Hyosung worth approximately £30 million and chilled water piping diversions for Ashghal who are building the Expressway in Lusail.

Our ability to deliver complex projects is well exemplified by the Doha West Sewage Treatment works project for Ashghal, where we built a new plant, refurbished the existing plant and constructed two storage lagoons. The project was completed three months early and on budget. In Dubai we refurbished the existing 'Gold Souk', in the Dubai Mall, for Chalhoub Group into a bespoke 9,000m^2 shoe district, comprising 40 designer outlets.

Market conditions in Oman have been broadly stable with good levels of activity in industrial development and defence. Notable contracts included building a 132KV grid substation for Arabian Industries and a substantial package of works for the new Military Training College in Seeb. Our fit-out and joinery businesses have also performed well, with the completion of the flagship Sohar Court complex, which we also built, a particular highlight.

Outlook

We expect that in the short term demand will remain subdued; however, growth rates in the region are still attractive in the medium term as countries need to improve their infrastructure, we move closer to the 2022 World Cup and economic growth in the region shows signs of improvement.

EQUIPMENT SERVICES

Equipment Services designs bespoke engineering solutions and provides temporary structural equipment (formwork and falsework) for complex infrastructure and building projects. We have a strong position as one of the leading global suppliers in these specialist markets, operating across a wide range of geographies and sectors, with a fleet of equipment which we redeploy to meet the changing demands in our various markets.

Results summary:

	2012	2011	Change
Revenue	**£167.5m**	£154.3m	+8.6%
Contribution to Total Operating Profit	**£16.0m**	£13.6m	+17.6%
Margin	**9.6%**	8.8%	+0.8% pts

We have continued to see a gradual recovery in activity levels in a number of our key markets in 2012.

Regionally:

Middle East and Africa

Saudi Arabia remains our largest market in this region, and we have continued to expand our footprint in the area between Jeddah and Riyadh. Our largest project in the region is the provision of equipment to the Roots Group Arabia contract at the Mecca Grand Mosque, to which we have delivered approximately 15,000 tonnes of equipment over the last three years. In Jeddah our equipment is being used to build the six-lane raised approach roads to the new airport and several major infrastructure projects in Riyadh are continuing to support a good performance.

In Oman, the business is performing well and we are strongly positioned with a high market share, currently undertaking a number of important projects, including: the redevelopment of Muscat and Salahlah airports, where in each case the innovative climbing formwork system, Tru-lift, is being used in the construction of new control towers.

In the UAE there are early signs that more substantial infrastructure projects are coming to market after a lengthy period of stagnation. In November we won a prestigious contract for the Presidential Palace in Abu Dhabi, building momentum from earlier wins with customers such as Larson & Toubro and Seobon Construction.

In Qatar the market remains subdued although increased bidding activity on planned major infrastructure projects (such as the underground light rail system at Lusail) points to early indications of improvement.

Following a restructuring, our South African business saw much improved year-on-year performance and is well-placed to profit from growing signs of a pick-up in demand driven by civil infrastructure growth in areas such as roads and power stations. We are continuing to provide significant amounts of equipment to the Gruluk Bunker, in connection with a new power station near Lephalale in Limpopo province. We also won a number of important new contracts including Flicksburg reservoir with Ruwacon and the supply of shoring equipment to the Mhlatshane waste water treatment works for Cyclone Construction in Kwazulu Natal.

Australasia and Far East

Performance across the region was underpinned by infrastructure, major liquified natural gas and mining projects. In Australia this included Gorgon in Western Australia and three other liquified natural gas plants on Curtis Island, Queensland. Although the pace of investment in the natural resources sector may have slowed somewhat in recent months, and activity in commercial hubs remains low, Australia nevertheless represents an important and relatively resilient market in which we have a strong market-leading position. Following the substantial earthquake damage in Christchurch, we have experienced significant demand for both shoring and formwork, which has driven a very strong result from our operation in New Zealand.

Growth in Hong Kong has been driven by a strong programme of infrastructure investment, including the $1.5 billion cruise ship terminal development and the Kowloon 810a/b public transport project, which includes the development of an integrated interchange for underground and overground trains, a bus station and a taxi hub.

We also had a strong year in the Philippines, with demand being driven by projects such as the new Philippines Arena and Stadium complex. During the year we developed our international centre of excellence for design in Manila, drawing on the extensive labour pool of relevant skills in the Philippines and servicing our business across the Far East and in Europe.

Europe

Demand was generally subdued, reflecting the continued pressures on the construction sector, both in the UK and mainland Europe. We implemented a number of cost-reduction and restructuring measures to ensure that our operations were appropriately sized for lower volumes. We undertook a number of important projects such as the support of the stadium roof in the Stade Vélodrome in Marseille and also in Spain, where we are working with Horta Cosalda as plans to increase stadia capacity ahead of UEFA's Euro 2016 tournament begin to emerge.

Americas

In the US, the construction market has begun to show signs of recovery with both volumes and prices improving towards the end of the year. Prior to that, conditions were difficult, to which we responded with a number of organisational changes.

Elsewhere, market conditions were much more favourable, and we have increased our investment in Chile and Panama and are planning market entry into Colombia. Chile, in particular, is growing strongly, driven by mining demand, and we have opened our third branch in the country, in Copiapo, to service the natural resources extraction industries in that region.

Outlook

We expect Equipment Services' revenues to continue to improve with margins trending towards the medium-term target.

INVESTMENTS

Investments is responsible for two broad areas: directing the Group's PFI 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. The costs of these central functions are allocated to the Group Centre segment. The results summarised below reflect the performance of our equity investments in PFI projects.

Results summary:

	2012	2011	Change
Contribution to Total Operating Profit	**£6.6m**	£6.0m	+10.0%
Interest received on subordinated debt investments	**£5.4m**	£4.0m	+35.0%
	£12.0m	£10.0m	+20.0%
Exceptional profit from PFI disposals	**£110.9m**	-	

Our strategy for our PFI portfolio is to optimise the cash flows of projects by intelligent operational and financial management. When we can add no further value, we seek to realise the latent value that we have created and to reinvest in new strategic opportunities.

During 2012 we undertook a series of three transactions to unlock the significant value in our increasingly mature portfolio:

In June and July we announced the sale of half of our holding in the UCLH project to the CFIG Fund, the exercise of our pre-emption rights in relation to a co-investor's holding, and the onward sale of this holding to the CFIG Fund. In October we sold a minority stake in a portfolio of 19 PFI investments to Dalmore Investment Fund and in December we announced the transfer of £55 million of the remaining PFI assets into the Company's pension scheme (a transaction which completed in January 2013).

The combined effect of these transactions was to realise a total value of £174.3 million, £119.3 million of which was in cash. We intend to utilise these cash proceeds (and some of the capacity in our current debt facilities) on further strategic investments in growth markets or sectors, both in our existing businesses and by acquisitions.

Notwithstanding these disposals, the PFI/Private Finance 2 (PF2) market remains an important area for Interserve, both as a source of construction and facilities management contracts, and for the available returns on our equity and debt investments. In 2012 our PFI equity investments made a total contribution to pre-tax profit of £12.0 million.

We continue to seek out, and to win new contracts, such as the West Yorkshire Police PFI, won during 2012. This will involve the construction of two new divisional headquarters, custody suites and a specialist operational training facility (with firearm 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.

At 31 December 2012 we had a remaining portfolio of two PFI assets (31 December 2011: 21), comprising Addiewell Prison, which is operational and West Yorkshire Police, which is under construction. Additionally, preferred bidder negotiations are ongoing at a third project, Alder Hey Children's Hospital in Merseyside.

Outlook

The recently announced private finance initiative, PF2, and the announcement of a resumption in the schools' capital programme, together with a further £5 billion of other infrastructure investment are positive developments. Given our strong track record in delivering, operating and financing PPP initiatives, we expect to enlarge our project portfolio over the next few years.

COMPLEX FORMWORK SOLUTION FOR MAKKAH MOSQUE IN MECCA

EQUIPMENT SERVICES

In a mammoth undertaking, our global formwork and shoring experts, RMD Kwikform, completed the design and delivery of over 15,000 tonnes of formwork and shoring solutions to main contractor Roots Group Arabia, for the expansion of the landmark Makkah Mosque in the Kingdom of Saudi Arabia.

Situated next to the Islamic holy shrine of the Prophet Mohammed, the project win provides facilities for 2.5 million people during their pilgrimage. With 250,000m^2 of stunningly ornate prayer halls, ceremonial halls and courtyards, this was one of the largest projects delivered by RMD Kwikform Saudi Arabia to date.

RMD Kwikform supplied an impressive engineering solution, with formwork supporting some 1,600 tonnes of concrete structural frame, consisting of heavy-duty Megashor shoring, R700 trusses, Superslim Soldiers, Albeam and Maxima wall panel systems.

INGENUITY AT WORK

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	MITIGATION AND MONITORING
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.	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 £245 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. We have also set ourselves the goals of delivering sustainability solutions to our clients, ensuring that we and our suppliers uphold the highest standards in equality, diversity, human rights and ethics, playing an active role in the communities in which we operate and placing sustainability at the heart of our business.
MAJOR CONTRACTS	
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 mis-pricing, 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.	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.

POTENTIAL IMPACT	MITIGATION AND MONITORING
OPERATING SYSTEM	
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.	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	
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.	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. We have also set ourselves the goals of inspiring the next generation of professionals, measuring and recognising the value of people, society and the environment.
HEALTH AND SAFETY REGIME	
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.	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	
We are subject to certain financial risks which are discussed in the Financial Review on pages 29 and 30. 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 29 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.	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	
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.	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. We have also set ourselves the goals of creating a culture of innovation in sustainability and offering transparency to clients on public sector projects.
CLIMATE CHANGE	
Adverse weather events, travel disruption, long-term climate shifts, water stress and sea-level rises leading to a failure to be able to provide services and financial penalties.	We have set ourselves the goals of being responsible for zero net loss in biodiversity, procuring products and services beyond best practice in environmental and social standards, becoming a water positive business, halving our absolute carbon emissions and those from our supply chain, helping our clients to increase their energy security, caring for the natural resources we use (including treating waste as a resource) and building resilience to environmental change in everything we do.

The Group continues to have no material exposure to currency risks or volatility in commodity prices. The Group's principal businesses operate in countries which we regard as politically stable.

FINANCIAL REVIEW

SUMMARY

Financial highlights of 2012 included:

- Increase in underlying headline earnings per share of 8 per cent.
- A robust trading performance in line with expectations, based on:
  - Continued improvement in margins at Support Services
  - Stable activity levels in UK Construction with margins in line with expectations
  - Return to growth at Equipment Services with enhanced operating margins.
- Continued strong cash generation with a three-year rolling profit conversion of 117 per cent.
- Realisation of value from a maturing PFI investment portfolio to provide £119 million of cash for strategic growth and development opportunities plus a contribution of £55 million worth of assets to our Pension Scheme.
- Investment of £67 million in acquisitions increasing our presence in the provision of frontline public services in welfare (Interserve Working Futures) and healthcare (Advantage Healthcare) and in expanding our geographic footprint for oil and gas maintenance service provision in the Middle East (TOCO) (completed in January 2013).
- Actuarial Pension Scheme deficit agreed at £150 million as at 31 December 2011 (before contribution of PFI assets, completed in January 2013), and future annual deficit contributions reduced from £23 million to £12 million.
- Successful refinancing of bank facilities completed, providing committed financing of circa £245 million.

FINANCIAL PERFORMANCE

REVENUE AND OPERATING PROFIT

Consolidated revenues increased by 6 per cent compared with 2011, and total gross revenues (including our share of joint ventures and associates) by 2 per cent.

Strong work winning and account development delivered an 11 per cent increase in revenues at UK Support Services. International Support Services grew its volumes by 21 per cent as these services become an increasingly important part of our activities. Despite challenging market conditions, UK Construction maintained revenues at £737.2 million but our International Construction activities, in line with our expectations, reported a small decline in revenues. Equipment Services delivered a 9 per cent increase in revenues, following a 10 per cent increase last year, as it continues on its path to recovery.

A full-year operating margin on gross revenues of 3.4 per cent (2011: 3.2 per cent) again reflects a stronger second half than first half with an operating margin of 3.7 per cent (H1 2012: 3.1 per cent). Within this, the operating margin at UK Support Services strengthened from 3.4 per cent in the first half to 4.5 per cent in the second half, reflecting the benefits of ongoing operational efficiency improvements and the emerging scale benefits of increased revenue.

The full-year operating margin at 4.0 per cent (2011: 3.6 per cent) provides further evidence of the significant progress made in our Support Services operations in the UK as we track towards the medium-term target of 5 per cent operating margins. Our International Support Services business delivered a healthy, but reduced, margin of 12.8 per cent (2011: 15.1 per cent) on significantly increased volumes. In line with expectations, UK Construction margins at 2.0 per cent (2011: 2.5 per cent) have reverted to near long-term norms whilst margins in our International Construction operations have declined from 8.4 per cent to 6.5 per cent on volumes down 10 per cent in increasingly competitive global markets. Equipment Services delivered increased full-year margins, on increased activity levels, of 9.6 per cent (2011: 8.8 per cent) resulting in the anticipated return to full-year growth. Second-half margins in this division returned to double-digits at 10.7 per cent (H2 2011: 9.6 per cent) with a further recovery towards medium-term margin expectations of 15 per cent expected over the coming years.

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

	Average rates		Closing rates	
	2012	2011	**2012**	2011
US dollar	**1.59**	1.60	**1.62**	1.55
Qatar Rial	**5.79**	5.84	**5.89**	5.63
UAE Dirham	**5.83**	5.88	**5.94**	5.68

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

INVESTMENT REVENUE AND FINANCE COSTS

The net interest charge for the year of £2.0 million can be analysed as follows:

£million	2012	2011
Net interest on Group debt	(6.6)	(6.3)
Interest receivable from PFI sub-debt	5.4	4.0
Pensions related items:		
Expected return on Scheme assets	32.0	35.3
Interest cost on pension obligations	(32.8)	(34.0)
Group net interest charge	(2.0)	(1.0)

The interest cost on Group debt appears high, relative to the amounts of drawn debt. This is due to the high proportion of fixed costs relating to the amortisation of upfront arrangement fees and the accelerated amortisation of arrangement fees relating to the previous debt facility, together with a commitment fee payable as a percentage of undrawn committed facilities.

Interest receivable on sub-debt increased to £5.4 million (2011: £4.0 million) reflecting the increasing operational maturity of the PFI investment portfolio and increasing associated returns. Transactions disposing of the majority of the assets that generated these returns were completed before the year end or shortly thereafter and as a consequence returns of this nature are expected to be materially reduced in the coming year. It is anticipated that this reduction in income will be more than offset by the benefits of reinvesting the cash proceeds.

A lower assumed rate of return on Scheme assets of 4.9 per cent (2011: 6.0 per cent), reflecting generally depressed equity and bond markets, resulted in a reduced interest credit to the income statement of £32.0 million (2011: £35.3 million) despite actual returns on assets exceeding this expectation by £17.7 million in the year. This was partially offset by the reduced interest cost on liabilities resulting from a lower assumed discount rate of 4.4 per cent (2011: 4.8 per cent). The net impact of these two pension-related items was a (non-cash) net interest cost of £0.8 million in 2012 (2011: £1.3 million credit).

TAXATION

The tax charge for the year of £11.2 million represents an effective rate of 6.1 per cent on total Group profit before taxation. The factors underlying this effective rate are shown in the table below:

	2012			2011		
£million	Profit	Tax	Rate	Profit	Tax	Rate
Group companies	43.0	13.5	31.4%	39.7	13.9	35.0%
Joint ventures and associates*	25.0	-	0.0%	27.4	-	0.0%
Underlying tax charge and rate	68.0	13.5	19.8%	67.1	13.9	20.7%
PFI disposals	114.9	-		-	-	
Prior period adjustments		(2.3)			(0.4)	
Middle East remittances		-			(7.0)	
Total per Income Statement	182.9	11.2	6.1%	67.1	6.5	9.7%

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

As anticipated last year, the underlying tax charge and rate is slightly lower than in the previous year due to management action to stem losses in overseas tax jurisdictions that are not available for relief against other Group profits.

Last year's tax charge benefited from actions taken that improved the tax efficiency of earnings remitted from a subsidiary in the Middle East.

The profit on disposal of PFI assets of £114.9 million recognised in the year is not subject to corporation tax.

DIVIDEND

The directors recommend a final dividend for the year of 14.1 pence, to bring the total for the year to 20.5 pence, an increase of 8 per cent over last year. This dividend is covered 2.3 times by headline earnings per share and is comfortably covered by free cash flow.

NET DEBT AND CASH FLOW

Average net debt for the year was £27 million (2011: £3 million). At the year end, we had net cash of £25.8 million (net debt 2011: £44.2 million), due to our strong operating cash flow, and disposal proceeds from PFI investments of £119.3 million net of cash reinvested in acquisitions of £44.7 million.

£million	2012	2011
Operating profit before exceptional items and amortisation of intangible assets	55.0	45.9
Other exceptional items	(4.0)	-
Depreciation and amortisation	29.3	29.9
Net capital expenditure	(14.9)	(5.5)
Gain on disposal of property, plant and equipment	(14.3)	(15.5)
Share-based payments	4.3	2.3
Working capital movement	0.2	9.5
Operating cash flow	55.6	66.6
Pension contributions in excess of the income statement charge	(30.8)	(27.0)
Dividends received from associates and joint ventures	19.8	20.6
Tax paid	(10.7)	(3.2)
Other	(1.4)	(2.6)
Free cash flow	32.5	54.4
Dividends paid	(27.0)	(25.5)
Investments (net)	(11.6)	(19.3)
Disposals	119.3	-
Acquisitions	(44.7)	-
Other non-recurring	1.5	-
Increase in cash/decrease in net debt	70.0	9.6

The operating cash flow of £55.6 million (2011: £66.6 million) was driven by continued close control of capital expenditure and efficient management of working capital. The resulting 101 per cent conversion of operating profit before amortisation of intangible assets and exceptional items (2011: 145 per cent), brings our rolling three-year conversion rate to 116.8 per cent, compared with our KPI target of 100 per cent.

Despite a £5.3 million net outflow of advances received from customers (2011: £5.8 million) working capital movements represented a small net inflow of £0.2 million.

Net capital expenditure increased from £5.5 million to £14.9 million as we continue to invest in the growing activity levels in Support Services and Equipment Services. Even at this increased level, this remains significantly below the annual depreciation charge as we continue to generate cash returns on hire fleet investments made in earlier years within Equipment Services.

The strong cash generation of our operations in the Middle East and of our Investment special purpose vehicles has enabled us broadly to maintain the levels of dividends remitted at £19.8 million (2011: £20.6 million) despite a decline in the overall contribution from joint ventures and associates.

Tax paid of £10.7 million (2011: £3.2 million) remains lower than the Consolidated Income Statement charge incurred by the Group, due principally to timing differences and the tax deductions for pension deficit payments.

Investments outflow of £11.6 million (2011: £19.3 million) reflects additional equity and sub-debt invested in PFI joint-venture companies.

Disposals of PFI and other investments generated a net inflow of £119.3 million.

Acquisitions outflow of £44.7 million in 2012 represents the cash purchase consideration for the acquisitions of Business Employment Services Training (BEST) (£18 million) and Advantage Healthcare (£26.5 million), along with aggregate acquired net debt of £0.2 million.

REFINANCING

As noted in last year's Annual Report, in February 2012 we were successful in securing a long-term refinancing for the Group. This saw our previous £250 million syndicated revolving credit facility, which was due to expire in October 2013, replaced with a series of committed facilities totalling circa £245 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 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.

DISPOSALS/PFI

In accordance with our long-term strategy of recycling capital from our investments portfolio, we completed two separate disposals of PFI investments during the year. Subsequently, in January 2013, we contributed the majority of the remaining PFI investment portfolio into the Interserve Pension Scheme. Following these transactions our PFI portfolio now consists solely of our investments in the Addiewell Prison and West Yorkshire Police projects, and our interest in the Alder Hey Children's Hospital project on which we are preferred bidder, but which has not yet reached financial close.

On 21 June 2012, we announced a sequence of transactions (including the exercise of pre-emption rights over the holding of a fellow investor) that gave rise to the disposal of half of our 33⅓ per cent holding in the UCLH project in exchange for a net £33 million of cash.

On 12 October 2012, we sold for cash consideration of £85.5 million interests representing 49.9 per cent of the equity and 62 per cent of the debt instruments in two subsidiaries that between them owned 19 of our PFI investments.

In aggregate, these transactions contributed an exceptional profit on disposal of £110.9 million after associated costs.

On 28 November 2012 we announced that we had entered into a conditional agreement with the trustee of the Pension Scheme to transfer our remaining interest in a portfolio of 19 PFI assets to the Trustee at a valuation of £55 million. Subsequent to the year-end, the transfer was approved by shareholders at a General Meeting and completed on 7 January 2013.

ACQUISITIONS

During the year we began the process of reinvesting the proceeds raised from these asset disposals in new growth areas, by completing two acquisitions for aggregate consideration of £44.7 million, with another completed shortly after the year end.

On 3 May 2012, consistent with our strategy to increase our capability to provide front-line public services, we acquired BEST, one of the UK's leading providers of training and development for job seekers and employers, now renamed Interserve Working Futures. Total consideration was £18.0 million. The preliminary review of fair values identified acquired net assets of £3.8 million including £7.7 million of acquired intangible assets representing customer relationships. These intangible assets will be amortised over six years. The balance of £14.2 million has been recognised as goodwill.

On 17 December 2012 we acquired Advantage Healthcare, a leading UK provider of community healthcare, for a total consideration of £26.5 million. The acquisition widens our access to a £10 billion market through offering a range of healthcare services at home. The preliminary review of fair values identified acquired net assets of £13.4 million including £16.5 million of acquired intangible assets representing customer relationships. These intangible assets will be amortised over 10 years, representing the estimated useful economic life of these relationships. The balance of £13.1 million has been recognised as goodwill.

Shortly after the year end, on 7 January 2013, jointly with our partner in Oman, we acquired the oil and gas maintenance business of Willbros Middle East (known as TOCO). The acquisition expands our operational footprint in the oil and gas services business into Oman, a key growth market. Total cash consideration was US$41.3 million (circa £26 million), of which we contributed 85 per cent.

We maintain a disciplined approach to reviewing potential acquisition opportunities, rejecting those which do not meet our strict valuation and other selection criteria, but with a strong balance sheet and significant available debt capacity and facilities, we remain well placed to take advantage of further appropriate acquisition opportunities as they are identified.

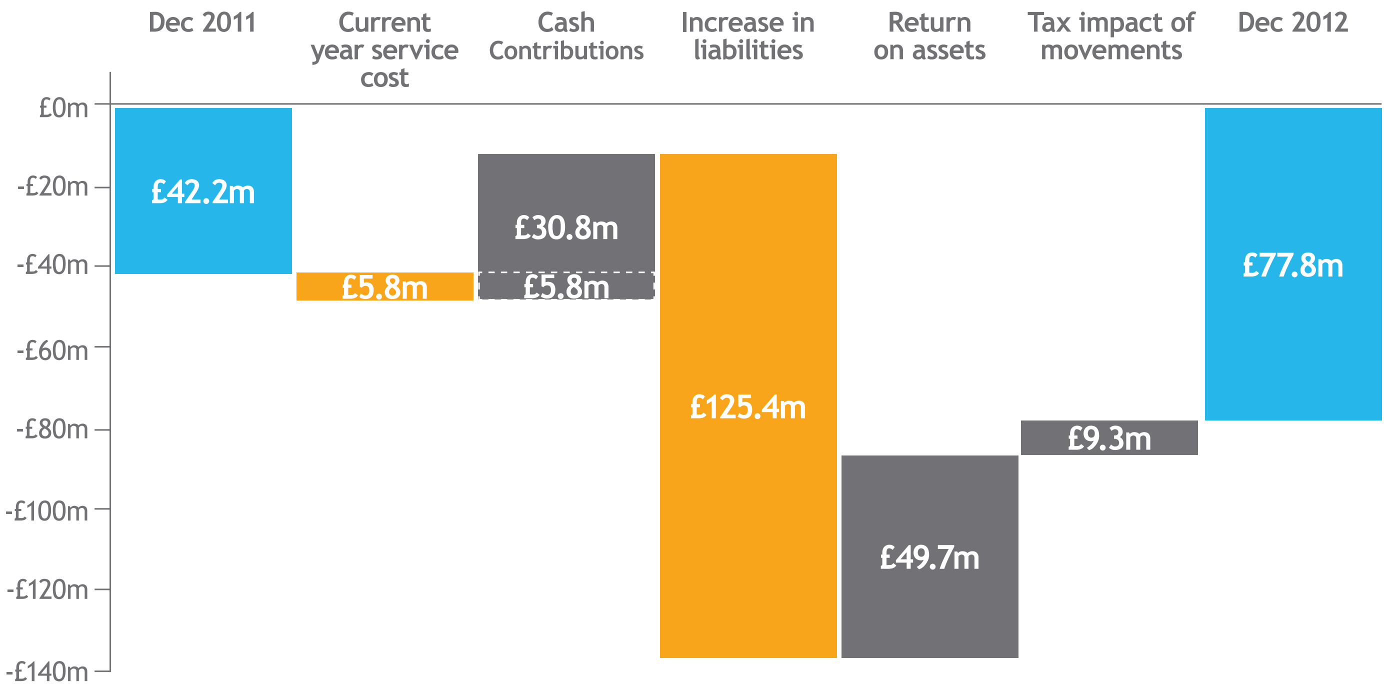
PENSIONS

At 31 December 2012 the Group pension deficit under IAS 19, net of deferred tax, has increased to £77.8 million (2011: £42.2 million):

£million	2012	2011
Defined benefit obligation	799.3	695.0
Scheme assets	(698.2)	(638.8)
Deferred tax thereon	(23.3)	(14.0)
Net deficit	77.8	42.2

With the benefit of additional employer cash contributions significantly in excess of the Income Statement charge and an investment portfolio that out-performed expectations in the period, the value of Scheme assets increased by £59.4 million during the year after allowing for benefits paid. However, corporate bond yields, which are used to discount Scheme liabilities, have again fallen significantly during the year. As a result, the value of benefit obligations has increased by 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 was completed during the year with an assessed actuarial deficit of £150 million. A new programme of deficit recovery payments was also agreed with the Trustee, comprising a £55 million contribution of PFI assets (which completed in January 2013) and annual recovery payments of £12 million per annum, indexed each year until 2019. These new cash contribution levels, reduced from the current £23 million per annum, make available an additional £11 million of cash flow per annum to reinvest in operational activities.

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 2012, 45 per cent of the Scheme assets were invested in performance-seeking assets (2011: 44 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 2012	Assumption adopted 2011	Sensitivity	Indicative change in liabilities	
Key financial assumptions					
Discount rate	4.4%	4.8%	+/- 0.5%	-/+ 8%	-/+ £64m
RPI / CPI	3.0% / 2.3%	3.1% / 2.1%	+/- 0.5%	+/- 6%	+/- £47m
Real salary increases	0.0%-0.5%	0.75%-1.5%	+/- 0.5%	+/- 0.2%	+/- £1m
Life expectancy (years)					
Current pensioners[1]					
Men	87.3	86.0			
Women	89.3	87.9			
Future pensioners[2]			+ 1 year	+3%	+24m
Men	89.1	87.8			
Women	90.9	89.1			

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

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

The Group will apply the new accounting standard, IAS 19R *Employee benefits* from 1 January 2013. As a result, when we publish results for 2013, comparative numbers for 2012 and earlier years will be restated to be on a consistent basis. Going forward, scheme administration expenses will be expensed within operating profit (they are currently included in the return on scheme assets disclosed within interest) and the expected return on scheme assets will be accounted for at the lower liability discount rate (equivalent to an AA corporate bond yield). The combined impact of this restatement on 2012 is currently expected to be a reduction in the published Headline EPS of 1.9 pence. There will be no impact on the disclosed obligation, asset, balance sheet or cash flow.

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	2012	2011
Share of operating profit	8.8	1.9
Net finance credit	0.9	7.5
Taxation	(3.1)	(3.4)
Share of profit included in Group Total Operating Profit	6.6	6.0

With the majority of the investment portfolio having been disposed of by, or shortly after, the balance sheet date, we anticipate significantly lower levels of investment return in 2013 onwards. However, this reduction in investment return should be at least partially offset by bank interest on the £119 million of cash raised from the disposals, a return on the additional £55 million of pension scheme assets and/or returns from businesses acquired using these proceeds.

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.

Under our new bank facilities signed in February 2012, we have access to committed syndicated revolving credit facilities totalling £150 million until February 2017 and circa £95 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 2011 consolidated financial statements, has led to an decrease in consolidated net assets of £8.4 million (2011: £8.0 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 circa £245 million until a range of dates that extend beyond at least 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.

TURNING WASTE INTO RENEWED WATER

WASTE WATER TREATMENT

Gulf Contracting Company (GCC), an Interserve associate company, helped tackle one of Qatar's major environmental challenges by turning sewage from its accommodation camps into renewed water.

Increasing population and rapid development have placed strains on a country with one of the world's lowest levels of rainfall. Using technology developed by Canadian company Bionest, GCC is revolutionising the supply of water for itself and its clients.

Bionest has been developing waste water purification technology over the last 14 years and has installed more than 18,000 units across the world. This biological system requires minimal sludge removal – i.e. once a year, rather than several times per day. The system produces no odour and can be installed either above or below ground.

Application of the technology has been so successful in Qatar that we have now supplied it to Oman, the UAE, Bahrain and India through our associate companies in these countries.

This sustainable solution to waste water treatment is being transferred to other markets where promotion of good governance and socially responsible practice showcase Interserve's commitment to sustainability.

INGENUITY AT WORK

SUSTAINABILITY REVIEW

OUR HEAD OF SUSTAINABILITY IS TIM HAYWOOD, GROUP FINANCE DIRECTOR, REFLECTING SUSTAINABILITY'S POSITION AT THE HEART OF OUR BUSINESS, INTRINSIC TO THE FINANCIAL MANAGEMENT, REPORTING AND FUTURE OF THE COMPANY. TIM LEADS THE SUSTAINABILITY BOARD, WHICH OVERSEES THE STRATEGY AND PROGRESS OF OUR SUSTAINABILITY PLAN.

Sustainability is an integral part of what we do as a company and how we fulfil our commitments to our shareholders, customers, employees and the communities in which we live and work. To manage risk and increase our opportunities for profitable growth, we recognise the need to put sustainability at the forefront of our decision-making as a business.

During 2012 we have been working to accelerate our activities in this area, bringing renewed impetus to ensure we deliver a far-reaching and effective sustainability strategy. In order to build and grow our company there is an implicit need to support a sustainable environment, whether natural or social, wherever we operate.

In March 2013 we will launch our new sustainability plan called Sustain*Abilities* which builds on our progress to date, but also accelerates our ability to show increasing leadership in this area. Visit www.interserve.com/sustainabilities for more information.

Sustain*Abilities* is based around the management of four capitals: Natural, Social, Knowledge and Financial.

Natural Capital – the stock of natural resources that enable the earth and everyone on it to exist - from drinking water to breathable air, to sources of energy and raw materials. We have a significant impact, and indeed rely on these resources, and we are committed to take action to protect them.

Social Capital – this is the stock of social connections, benefits, roles and networks that enable societies to function and thrive. This is clearly important to us and employment opportunities, trust, belonging, a sense of place, wellbeing, health and education are major areas of focus.

Knowledge Capital – this is the stock of skills, know-how and experience possessed by society. Here we will develop apprenticeships and graduate training schemes, support our employees and encourage all our stakeholders to contribute to a more sustainable world.

Financial Capital – by taking steps to protect and enhance natural, social and knowledge capital, we will improve our ability to manage financial capital to create financial growth.

WORKING TO SUPPORT BUSINESS INNOVATION

Allia is a charitable organisation that creates opportunities for people to invest their money for social benefit. We are helping Allia deliver its vision to provide an important business innovation centre in Cambridge, while sharing their desire to grow businesses that benefit the community and the environment.

We have worked closely with the charity over two years, funding a planning application and enabling the charity to develop and deliver the project. The unique design, to match the expectations of changing occupiers and the requirements of funders, now has full planning consent, and building has started. Through this scheme Allia will create employment and business opportunities for the local community and the centre will provide 35,000 sq ft of affordable mixed-office and workshop units and open-plan space for those wanting to start up or expand a social or environmental business.

INGENUITY AT WORK

Sustain*Abilities* sets out our ambitious targets in the following five areas:

1. Create places that benefit people
2. Deliver public service in the public interest
3. Build more skills and more opportunities
4. Generate a positive environmental impact
5. Deliver sustainable growth

Our new plan includes 15 distinct goals, with clear deliverables against each one, all aimed at supporting these outcomes.

While 2012 has been a year of development as we define our ongoing sustainability strategy, we also made good progress against our existing plans. In 2013 we will embed our strategy throughout the organisation, benchmarking through measurement and collating data to ensure we manage and track progress against our ambitious plans.

What follows is an outline of how we performed in 2012, set against each of the four capitals that will define our area of focus going forward.

NATURAL CAPITAL

We aim to provide a positive environmental impact by moving beyond compliance towards a positive and restorative contribution to the environment through each of our projects.

In addition to our corporate responsibility 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. It also enables us to reduce our customers' costs and their impact on the environment. During the year we completed two award-winning schools built to the Passivhaus standard – the highest in thermal efficiency. Interserve was the first company to build a school in the UK to this standard, reflecting our emphasis on innovation in design.

We have used a spread of indicators relevant to each of our operating companies to monitor environmental performance. The following core impacts are identified for the Group as a whole:

- Greenhouse (CO_2) 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, based around our fixed office locations and the operations we support. This 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.

During the year we achieved CEMARS (Certified Emissions Measurement and Reduction Scheme) accreditation for our carbon emissions reporting. This provides certification against the standard ISO14064 Part 1&3:2006 and covers our UK emissions for 2011. 2011 data has been restated using the certified figures.

For 2012 our total greenhouse gas emissions were 37,702 tonnes CO_2e, marginally increased from 37,555 tonnes recorded for 2011. The emissions can be broken down as 76 per cent Scope 1* (28,608 tonnes), 15 per cent Scope 2* (5,770 tonnes) and 9 per cent Scope 3* (3,324 tonnes). The increase in emissions arises from increased energy use in our fixed site locations influenced by an increase in the number of properties and the effect of cold weather at the end of the year.

Measure	2012 target	2012 outcome	✓/✗	2013 target
Reduce carbon emissions from energy used at UK fixed site locations (tonnes CO_2e per £million UK revenue) by 2.5% per annum	3.25 tonnes/£m	3.32 tonnes/£m	✗	3.24 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	12.45 tonnes/£m	12.18 tonnes/£m	✓	11.88 tonnes/£m
Reduce water consumption at UK fixed site locations (m^3 water used per £million UK revenue) by 2% per annum	22.71m^3/£m	20.38m^3/£m	✓	19.97m^3/£m
Reduce waste generated at UK fixed site locations (kg of waste generated per UK employee) by 2% per annum	41.02kg/employee	40.74kg/employee	✓	39.93kg/employee

*Scope 1: All direct greenhouse gas emissions.

*Scope 2: Indirect greenhouse gas emissions from consumption of purchased electricity, heat or steam.

*Scope 3: Other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by Interserve, electricity-related activities not covered in Scope 2.

GOLD STANDARD FOR SUSTAINABLE PROCUREMENT

Interserve has been successfully assessed against BS 8903:2010, the world's first standard for sustainable procurement. Critical areas such as supporting local supply chains, carbon measurement and energy conservation programmes are set challenging targets within the accreditation, and our Support Services procurement team was awarded the Gold Standard with an overall classification described as "approaching cutting edge".

INGENUITY AT WORK

SOCIAL CAPITAL

Our business gives us the opportunity to provide places that benefit people and to deliver public service in the public interest. This includes making places and delivering services that enhance people's lives, that they value, that contribute to their wellbeing and that are designed and built for the future. We also provide our employees with the opportunity to experience a safe and healthy workplace.

The services we provide have a wider social impact – whether they are helping schools and hospitals to operate more efficiently, improving the built environment or working to get the long-term unemployed back into work.

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 consultation

We are committed to involving our people in issues affecting them as employees and keep them informed of all relevant factors concerning the Group's performance, strategy, brand, charitable activities and other issues. We achieve this through formal and informal briefings, our Group publications and our widely-used 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 opinion survey to help us understand how our employees view working in Interserve and what improvements we are able to make at a local or central level.

Charitable giving

In early 2012 a group of senior managers 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 operate, enlisting the skills, capabilities, resources and enthusiasm of our employees. Ambassadors from across the business promote the aims of the Foundation and help publicise local projects, in particular through the Give a Day of Your Time initiative. The Foundation was launched with the completion of an ambitious project to construct a learning centre in Chennai, India.

Interserve's Big Book Drop initiative resulted in the donation of 50,000 books in support of Literacy for Life, a programme aimed at improving the life chances of disadvantaged children in the territories where we work.

During the year grants were awarded to a range of projects that offer support to local communities, such as the Rally Homeless Project, Nottingham; Swansea Community Boat Project; Abergavenny Food Bank, Monmouthshire and the Coolaroo Literacy Program in Victoria, Australia.

We continued to support Help for Heroes, who provide practical support to those wounded in UK military service. Our three-year partnership with Help for Heroes has currently raised a total of over £289,000. The total raised in 2012 was over £149,000, with staff taking part in a wide range of fundraising activities. A team took part in the Yukon River Quest 2012, contributing over £28,500 to the charity and a further £88,000 was raised at a charity ball.

Beyond our chosen charity, Help for Heroes, we involve ourselves in other local and national charities with many of our employees supporting causes that are close to them personally or to our clients. Charitable activities initiated by employees have raised some £100,000 during the year for Together for Short Lives, a UK charity for children with life-threatening conditions, with a further £54,366 donated to smaller charities across the business, including our annual corporate donation to Help for Heroes.

Employee share schemes

We operate two all-employee HMRC-approved share schemes in order to support our Employer of Choice goal and to encourage our employees to share in the future of the Group. In our Sharesave Scheme employees save small amounts each month which can be then used to purchase company shares at a discount to the market price. In our Share Incentive Plan (SIP) employees can purchase company shares through lump-sum or monthly payments which are deducted from their salaries before income tax and national insurance liabilities are assessed.

Diversity

Diversity in all its forms is fundamental to our business and we have adopted a Company-wide Diversity Policy to promote the principles of inclusion. 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.

Our policy supports the fundamental belief that all our employees, including potential recruits, are equal regardless of gender, race, disability, sexual orientation, age, religion, religious belief or any other reason that might be assumed to limit their contribution or potential. Once someone is part of the Group they have the chance to contribute and develop their career in whatever way their abilities and the opportunities we can offer them allow.

KNOWLEDGE CAPITAL

We understand that by providing more skills and opportunities for employees and stakeholders they will have opportunities for self-improvement, become more productive and more able to make a positive contribution.

This is reflected in our focus on training and development, contributing to the education and career development of our workforce, as well as through our emphasis on local supply chains and training offered to customers. Interserve is now also a major provider in the Welfare to Work Services market, helping to train and place into jobs.

Career development

As a broad service provider, a principal differentiator for us is the quality of our people with the skills, knowledge and attitudes that they demonstrate every day, making a real difference to our customers' needs.

This industry-leading approach to learning and development was recognised when winning the British Institute of Facilities Management (BIFM) award for Learning and Career Development.

Interserve has career development programmes throughout all levels of the Group. We pioneered the Facilities Management NVQ and have well-established apprenticeship programmes, literacy, numeracy and English language courses, nationally recognised certificates, awards and diplomas and a number of other professionally accredited programmes through organisations such as the Royal Institute of Chartered Surveyors (RICS) and the BIFM.

Over the course of the year our people received more than 10,200 days' worth of training - in addition to external courses and self-directed learning.

FINANCIAL CAPITAL

We are focussed on delivering sustainable growth, building a profitable business that integrates the true costs into the business and delivers sustained value for all.

By taking substantial steps towards the protection of natural, social and knowledge capital, we will enhance our ability to manage financial capital in ways that will generate a more profitable business through growth.

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 nurturing the local supply chain and creating sustainable employment and training opportunities for local people.

Details of the Company's financial performance are well documented elsewhere in this report, but as part of our new sustainability plans we are looking at how best to integrate our financial and sustainability reporting in the future.

EQUAL OPPORTUNITIES

Interserve is committed to eliminating discrimination among our workforce in order that we may offer employees an environment where there is no unlawful discrimination and all decisions are based on merit.

Our policy is to promote equality and fairness for all in our employment. The Group aims to ensure that no job applicant or employee receives less favourable treatment or is disadvantaged by imposed conditions or requirements that cannot be shown to be justifiable, on the grounds of gender (including sex, marital or civil partner status, gender reassignment); race (including ethnic origin, colour, nationality and national origin); disability; sexual orientation; religion or belief; age; and pregnancy and maternity.

We take every step to ensure working environments are free from harassment and bullying, where all individuals are treated equally and fairly and that selection for employment, promotion, training or any other benefit will be taken solely on merit and ability against job-based criteria. We avoid discrimination in working conditions and terms of employment and are committed to making reasonable adjustments for disabled employees. We oppose all forms of unlawful and unfair discrimination.

WASTE RECYCLING FACILITY

Our new £2 million state-of-the-art waste recycling facility in the UK at Aldridge plays a key role in assisting the region's councils, commercial and construction sectors in meeting their landfill reduction targets.

The facility was built by Interserve and processes approximately 250,000 tonnes of waste material per year - returning a range of recycled products to the market. In addition, enhanced mechanisation over the three-acre site will enable the new plant to recycle a highly impressive 95 per cent of all the material it will process.

INGENUITY AT WORK

HEALTH AND SAFETY

Our 'Aim to be Accident Free' campaign is adopted by all Group companies and provides a focus on the individual behaviour that is critical to the effective implementation of our well-established safety management systems.

During 2012 we again recorded no fatalities to our employees, contractors or members of the public

We have restated our targets to include data from associates and to reflect changes in the reporting criteria under Reporting of Injuries, Diseases and Dangerous Occurrences (RIDDOR). Against the revised target of 240, we recorded a reportable Accident Incident Rate (AIR) of 239.

For the first time we also recorded an AIR for all Lost Time Accidents and have set targets to reduce this at a similar rate.

	2012	2011	2010	2009	2008
All labour AIR (subsidiaries only)	298	310	377	344	429
AIR (including associates)	239	260	326	Not applicable	Not applicable
Target	240	341	310	386	373
Lost Time Accidents (LTA) Incident Rate	524				

	2012 target	2012 outcome	2013 target
Injuries to employees, contractors or members of the public	Zero	Zero	Zero fatal injuries to employees, contractors or members of the public
Halve our all-labour AIR by 2020 from a 2010 base	240	239 LTA AIR 524	224 All-labour LTA AIR target: 489
Major injury rate	<70	65	Maintain fatal and major injury rate below 70
Executive Board directors' site visits per annum	12	Total: 74 Average: 12.3	12 per Executive Board member
All employees with high occupational risk to their health to be engaged with the health surveillance programme	90%	80%	90%
All site managers and supervisors to receive appropriate health and safety training	90%	90%	90%
All employees to work within safety management systems registered to Occupational Health and Safety Assessment Services (OHSAS) 18001	>95%	>97%	95%

The Accident Incidence Rate (AIR) is based on the number of injuries meeting the RIDDOR reporting requirements per 100,000 workforce.

APPRENTICESHIPS

Within our Support Services division alone, over the last year 28 young people were given an opportunity to join our business as apprentices in several programmes including business administration, grounds maintenance, electrical and mechanical maintenance and customer service.

Abi Pullin (pictured) was a bar manager before joining Interserve on an Advanced Electro-Technical Maintenance apprenticeship at the Royal Victoria Infirmary in Newcastle. Abi had also completed a plumbing course at college. "I attend college one day a week and the other four days are spent working in the hospital.

My role is based around maintaining the buildings and completing jobs as requested by the NHS. I have a very supportive team around me. Interserve is a good company to work for and I would definitely tell anyone interested in starting an Apprenticeship with Interserve to 'Go for it!'"

INGENUITY AT WORK

RECOGNITION

OUR CONTRIBUTORS TO THE SOCIAL, ECONOMIC AND ENVIRONMENTAL WELLBEING OF THE COMMUNITIES AND SECTORS IN WHICH WE OPERATE ARE REGULARLY RECOGNISED THROUGH AWARDS AND ACCREDITATIONS.

OUR MARKETS

CERTIFICATION / ACCREDITATION

- Safe Contractor
- ISO 22000: 2005 Food Safety Management System
- ISO 14001: 2004 Environmental Management System
- ISO 9001: 2008 Quality Management System
- PAS99: 2006 Integrated Management System
- OHSAS 18001: 2007 Occupational Health and Safety Management System
- CEMARS (Certified Emissions Measurement and Reduction Scheme) ISO 14064-1:2006 Greenhouse gas emissions
- Investors in People
- Investors in Diversity
- Contractors Health and Safety (CHAS) Assessment Scheme
- Achilles UVDB Verify
- Constructionline
- EFQM Recognised for Excellence 5 star

AWARDS

In 2012 our awards included:

SOCIAL

CONSIDERATE CONSTRUCTORS SCHEME
Silver Award:
Ripon Flood Alleviation Scheme, North Yorkshire

CONSIDERATE CONSTRUCTORS SCHEME
Silver Award:
Shaldon and Ringmore Tidal Defence Scheme, Devon

CONSIDERATE CONSTRUCTORS SCHEME
Silver Award:
John Hunt Primary School, Newark

CONSIDERATE CONSTRUCTORS SCHEME
Bronze Award:
Leeds West Academy, West Yorkshire

CONSIDERATE CONSTRUCTORS SCHEME
Bronze Award:
Bradgate Mental Health Unit, Leicester

RoSPA AWARDS
President's Award:
Interserve Construction

BUILT IN QUALITY AWARDS
Winner:
Healthcare Category, Good Hope Hospital, Sutton Coldfield

LOCAL AUTHORITY BUILDING CONTROL (LABC) NORTH EAST AND YORKSHIRE AWARDS
Best Community Building:
East Riding Community Hospital

LOCAL AUTHORITY BUILDING CONTROL (LABC) NORTH EAST AND YORKSHIRE AWARDS
Best Project:
East Riding Community Hospital

BIFM
Highly Commended - Service Provider:
MOD single-living accommodation, Devonport

NATURAL

CHARTERED INSTITUTE OF BUILDING (CIOB)
Project of the Year:
Leicester Passivhaus office

SANCTUARY HERITAGE AWARD
Runner-up:
Horse Guards restoration, London

ROYAL INSTITUTE OF CHARTERED SURVEYORS (RICS) AWARDS
Highly Commended in Design and Innovation category:
Leicester Passivhaus office

EAST MIDLANDS PROPERTY AWARDS
Sustainability Project of the Year:
Leicester Passivhaus office

GREEN APPLE ENVIRONMENTAL AWARDS
Building and Construction (Green Practices category):
Leicester Passivhaus office

ICE EAST OF ENGLAND MERIT AWARDS
Merit - Sustainability:
Minsmere Flood Risk Management, Suffolk

ICE EAST OF ENGLAND MERIT AWARDS
Merit - Physical Achievement:
Minsmere Flood Risk Management, Suffolk

ICE EAST OF ENGLAND MERIT AWARDS
Merit - Team Achievement:
Minsmere Flood Risk Management, Suffolk

ICE EAST OF ENGLAND MERIT AWARDS
Merit - Technical Excellence and Innovation:
Minsmere Flood Risk Management, Suffolk

KNOWLEDGE

BRITISH QUALITY FOUNDATION
2012 UK Excellence Award:
Interserve Construction

BRITISH QUALITY FOUNDATION
2012 Achievement Award - Leadership:
Interserve Construction

WEST MIDLANDS CONSTRUCTING EXCELLENCE AWARDS
Finalist - Project of the Year:
Sandwell College, West Bromwich

LABC NORTH EAST AND YORKSHIRE AWARDS
Best Educational Building:
Vocational Centre, Driffield School and Sixth Form College, East Yorkshire

BRITISH INSTITUTE OF FACILITIES MANAGEMENT (BIFM)
Award for Learning and Career Development

YORKSHIRE AND HUMBER CONSTRUCTION
Best Practice award:
Richmond Hill Primary School (Passivhaus), Leeds

CONSTRUCTION NEWS AWARDS
Finalist - £10-£50 million projects category:
Rowley Regis Campus, West Bromwich

Interserve is a member of the FTSE4Good and Kempen Social Responsibility indices.

DIRECTORS

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 a non-executive director of Lloyds Banking Group and was appointed Chairman of its insurance subsidiary (Scottish Widows Group) in September 2012. He is also a non-executive director of Halma and a non-executive board member OFCOM and of the Centre for Policy Studies. A former partner of McKinsey & Company, Norman was Head of the Prime Minister's Policy Unit from 1995 to 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 Standard Life, SEGRO and Dixons Group, Non-Executive Board Member of the Office of Fair Trading and Commissioner of Postcomm. Norman also chairs the Nomination Committee.

2. ADRIAN RINGROSE [1]

CHIEF EXECUTIVE

Adrian is Chief Executive of Interserve. He is responsible for developing and implementing the Group's business strategy and for ensuring that the right people are in place at the head of Interserve's operational divisions with the necessary support to achieve their targets. Adrian joined Interserve in December 2000 with the acquisition of the Building & Property Group. He was appointed Business Development Director of Interserve*fm* and a year later was promoted to Managing Director. In January 2002 he joined the Board of Interserve, becoming Deputy Chief Executive in January 2003 before assuming the role fully the following July. Adrian began his career as a market researcher and then business analyst with London Electricity. Over the following nine years with the company he progressed rapidly through a variety of roles including the commercial management of subsidiaries in power distribution, mechanical and electrical contracting and fleet management. In 1997 he joined Building & Property Group as Head of Business Development. Adrian holds a BA (Hons) in Political Theory and Institutions from Liverpool University and 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 and was previously Finance Director of St Modwen Properties. Earlier roles include 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 is Managing Director of RMD Kwikform, the Group's Equipment Services division. He was appointed to the Board of Interserve in January 2008. Steven began his career with Schlumberger in the Middle East in the oilfield sector, after which he completed his MBA and moved into manufacturing. He then served 12 years with Coats Viyella where he held a variety of general management positions and was based in Germany, Portugal, South America and the UK. He subsequently worked for four years with ScottishPower, executing a number of M&A transactions including the disposal of utility subsidiaries in Australia and the UK, and the flotation of Thus. Most recently he spent three years with ERICO heading divisions supplying the international construction market with couplers, fixing and fastening systems, before joining Interserve in 2004. Steven is a Chartered Director and a member of the Board of Examiners at the Institute of Directors. He holds an MA in Natural Sciences from Oxford University and an MBA from London Business School.

5. BRUCE MELIZAN

EXECUTIVE DIRECTOR

Bruce is Managing Director of Interserve's Support Services division. He was appointed to the Board of Interserve in January 2008. Bruce joined Interserve in 2003 and was Managing Director of Interserve Investments before being appointed to head Interserve Facilities Management in 2006. He has been in the outsourcing industry for nearly 20 years and has held a wide variety of roles ranging from direct delivery through to sales, marketing and general management. Previous organisations include Amey, Mowlem, Schlumberger and TYE Manufacturing both in the UK and globally. Bruce holds an MBA from Cranfield School of Management and a BSc in Electrical Engineering from Queen's University, Canada. He is a member of the Business Services Association Council and a Trustee of the Safer London Foundation.

6. DAVID PATERSON

EXECUTIVE DIRECTOR

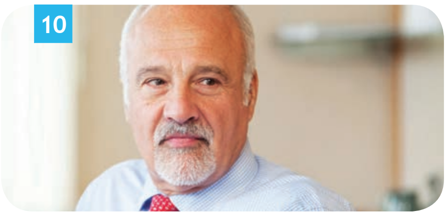
David is Managing Director of Interserve's Construction division and was appointed to the Board of Interserve in January 2011. David joined Interserve in 1994 and became Managing Director of the Infrastructure business unit in 1997. In 2005 he was appointed Managing Director of Construction's UK operations and then, in 2009, of the international division. He was involved in the early design-build-finance-operate road schemes, forerunners of the PFI approach, and also led the development of strategy for Construction's UK business. David is a Chartered Civil Engineer and worked in senior management positions for Costain and Birse prior to joining Interserve (then Tilbury Douglas). His early career included working on the construction of the M25 and the Conwy Crossing. David will retire from the Board on 30 April 2013.

7. DOUGIE SUTHERLAND

EXECUTIVE DIRECTOR

Dougie is Managing Director of Interserve Developments. He was appointed to the Board of Interserve in January 2011.

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



Dougie joined Interserve in September 2006 from 3i, where he was a partner in its infrastructure team. He 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. From 1999 to 2004 Dougie was Managing Director of Amey Ventures where he was responsible for a wide portfolio of bids and investments in the education, defence, rail and roads sectors. He then moved to Lend Lease where he was Managing Director of its PFI hospitals and schools business before joining 3i. Dougie has a BSc (Hons) from Edinburgh and an MBA from Cranfield School of Management. Following the retirement of David Paterson on 30 April 2013, Dougie will also assume responsibility for Construction's UK operations.

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 non-executive director of Interserve in July 2003 and became Senior Independent Director in May 2011. Previous roles include a non-executive directorship at Newman Tonks and Chairman of the Audit Committee at The Royal Mint, Group Chief Executive of Marley and Vice President of the Construction Products Association. David will retire from the Board at the conclusion of the AGM.

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. Les will hand over chairmanship of the Audit Committee to Anne Fahy and become Senior Independent Director at the conclusion of the AGM.

10. KEITH LUDEMAN [1,2,3]

NON-EXECUTIVE DIRECTOR

Keith was appointed as non-executive director of Interserve in January 2011. He is also non-executive Chairman of Bristol Water, and a non-executive director of Network Rail, Network Rail Infrastructure and Network Rail Consulting. Keith has many years' experience in consulting 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 The Innovation 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 Arena Leisure, VT Group, Anite and Tunstall Holdings. David is a County Councillor and the Cabinet Champion for Change for Gloucestershire County Council and a Liveryman of the Worshipful Company of Information Technologists. David chairs the Remuneration Committee.

12. ANNE FAHY [1,2,3]

NON-EXECUTIVE DIRECTOR

Anne was appointed as non-executive director of Interserve and as a member of the Audit, Nomination and Remuneration Committees on 1 January 2013. She is also Chief Financial Officer of BP's Global Fuels marketing business which trades in 50 countries. During her time at BP Anne has gained experience of global business and knowledge of the developing markets including China, UAE and Brazil, as well as a deep understanding of internal control, risk management and compliance. Anne is a Fellow of the Institute of Chartered Accountants in Ireland having worked at KPMG in Ireland and Australia prior to joining BP in 1988. Anne will become chair of the Audit Committee at the conclusion of the AGM.

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 4 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 10 to 39 and the Corporate Governance report on pages 48 to 55 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 69 and 70, respectively, of this Annual Report.

GROUP RESULTS AND DIVIDENDS

Financial reporting

The Group's Consolidated Income Statement set out on page 72 shows an increase in Group profit before taxation to £182.9 million (2011: £67.1 million). The detailed results of the Group are given in the financial statements on pages 72 to 117 and further comments on divisional results are given in the Operational Review on pages 15 to 20.

Since the balance sheet date, the Company has entered into an agreement to acquire Willbros Middle East Limited and its subsidiaries. In addition, at a general meeting of the Company held on 7 January 2013, shareholders approved the disposal of all of the Group's interests in a portfolio of 19 PFI investments to the Interserve Pension Scheme. Further details are included in note 34 to the financial statements on page 117. There have been no further post balance sheet events that require disclosure or adjustment in the financial statements.

Dividends

An interim dividend of 6.4p per 10p ordinary share (2011: 6.0p) was paid on 24 October 2012. The directors recommend a final dividend of 14.1p per 10p ordinary share, making a total distribution for the year ended 31 December 2012 of 20.5p per 10p ordinary share (2011: 19.0p). Subject to approval of shareholders at the Annual General Meeting ("AGM") on 13 May 2013, the final dividend will be paid on 20 May 2013 to shareholders appearing on the register at the close of business on 5 April 2013. The shares will be quoted ex-dividend on 3 April 2013.

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 139.

EES Trustees International Limited, the trustee of the Interserve Employee Benefit Trust during the period under review (the "Trust"), waived its right to receive a dividend over 1,072,720 shares held by the Trust in the name of Computershare Nominees (Channel Islands) Limited (formerly held in the name of Greenwood Nominees Limited) in respect of the dividend paid in May 2012 (June 2011: 1,089,702 shares) and 1,057,217 shares in respect of the dividend paid in October 2012 (October 2011: 1,083,263 shares).

SHARE CAPITAL

General

The Company's issued share capital as at 31 December 2012 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.

During the year 929,883 shares were issued fully paid to participants of the Performance Share Plan on the vesting of awards granted in March 2009. A further 112,710 shares were issued fully paid to a participant of the 2002 Executive Share Option Scheme. As a result of the foregoing allotments, the Company's issued share capital at the end of the year stood at 126,846,939 (2011: 125,804,346) ordinary shares of 10p each (£12,684,693.90) (2011: £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 2012 are set out in notes 27 and 29 to the financial statements on pages 108 and 109 respectively.

Issue of shares

Section 551 of the Companies Act 2006 (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 16 May 2012. The AGM authorities were used in 2012 only in relation to the issue of shares pursuant to the Performance Share Plan and the 2002 Executive Share Option Scheme as described above.

In accordance with the guidelines issued by the Association of British Insurers (the "ABI"), the directors propose Resolution 17 set out in the Notice of AGM to renew the authority granted to them at the 2012 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 18 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 percentages of shares issued by the Company on a non-pre-emptive basis in 2012 and in the period 2010 to 2012 pursuant to employee share schemes (calculated by reference to the Company's closing issued share capital at 31 December 2012), were 0.82 per cent and 1.17 per cent respectively.

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 17 and 18 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 2012 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 13 May 2013. No shares have been repurchased by the Company under the authority granted at the 2012 AGM.

Resolution 19 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 2013 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 51 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, DIRECTORS' INTERESTS AND INDEMNITIES

The following have been directors throughout the year:

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

*Non-executive director.

Since the year end, Anne Fahy was appointed on 1 January 2013 as a non-executive director. David Paterson will retire from the Board on 30 April 2013. David Trapnell will also retire from the Board following the conclusion of the AGM and will be succeeded as Senior Independent Director by Les Cullen, who will in turn be succeeded as Chair of the Audit Committee by Anne Fahy.

Under the Company's Articles of Association, any director appointed by the Board since the last AGM may only hold office until the date of the next AGM, at which time that director must stand for election by shareholders. Anne Fahy will therefore be standing for election at the AGM on 13 May 2013.

The directors acknowledge the Corporate Governance Code provision which encourages board members to stand for annual re-election at the AGM and, as last year, each director (save for David Paterson and David Trapnell) will submit himself for re-election at this year's AGM.

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 66 to 68 of this Annual Report and Financial Statements.

Between the year end and the date of this report, Steven Dance, Adrian Ringrose and Dougie Sutherland have purchased an additional 57 shares each and David Paterson has purchased 56 shares pursuant to the Interserve Share Incentive Plan 2009. Further details are disclosed on page 68 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 but the indemnity remains in force.

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 2012 the Company had been notified of the following interests in the voting rights over shares, as shown in the table below:

Name of holder	Number of ordinary shares	% of total voting rights	Nature of holding
Henderson Global Investors Ltd	9,454,140	7.45	Indirect
Mondrian Investment Partners Ltd	7,587,521	5.98	Indirect
JPMorgan Asset Management Holdings Inc	6,354,368	5.01	Indirect
Standard Life Investments Ltd	6,159,114	4.86	Direct & indirect
Sageview Capital MGP, LLC	5,653,026	4.46	Indirect
Prudential plc group of companies	4,634,407	3.65	Direct

Between the year end and the date of this report, the Company has been notified of the following:

- the interest of JPMorgan Asset Management Holdings Inc in the voting rights has increased to 6,492,194 shares (5.12 per cent of total voting rights); and
- the interest of Sageview Capital MGP, LLC in the voting rights has decreased to 4,774,780 shares (3.76 per cent of total voting rights).

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 detailed 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 £54,366 (2011: £40,610). Details of the beneficiaries of donations are given on page 34 in the charitable giving section of the Sustainability Review.

No political donations were made during the period (2011: £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 16) 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 2012 were 63 days (2011: 82 days). The Company's trade creditor days at 31 December 2012 (calculated in accordance with the 2006 Act) were 23 days (2011: 19 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.

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/she is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) he/she has made such enquiries of his/her fellow directors and of the Company's auditors and has taken such other steps as were required by his/her duty as a director of the Company to exercise due care, skill and diligence in order to make himself/herself 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 13 May 2013, 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

T Bradbury
Company Secretary
27 February 2013

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 has a critical role in providing both governance and leadership for Interserve. We take those responsibilities very seriously.

Interserve's success depends on following a clear and robust strategy to deliver continued growth and shareholder value. The Board is confident in the strategy we have developed, and we are continually testing our current and proposed activities against this framework. We aim to set stretching financial objectives while maintaining our prudent risk appetite. In addition the Board has an important role in providing leadership on the values and ethics of the business, and in encouraging innovation and enterprise that provides better solutions for our customers.

To perform these roles effectively we believe we need a strong and diverse Board, with an open culture of debate and challenge. All directors are appointed on merit, based on the experience and insights they can bring to the Board as well as their commitment to our values. Our mix of executive and non-executive directors works well for our business, ensuring we have knowledge and accountability around the Board table as well as a range of external experiences. Although there was not a majority of non-executive directors during the period under review, I continue to be satisfied through my own observations and our Board review that the strength and independence of our non-executives and our open style of debate ensures an effective governance check within the Board while maintaining the overall Board size at an optimum level.

The Board continues to seek to widen its diversity in all its forms. In making new appointments to the Board an important criterion is assessing the additional range of insights and perspectives that new candidates can contribute to an effective, cohesive and challenging mix of individuals around the Board table. I am delighted that in January we appointed Anne Fahy as a new non-executive director – who brings a wide range of international experience in a major industrial company. Anne will take over the role of Chairman of the Audit Committee from Les Cullen, who will succeed David Trapnell as Senior Independent Director upon his retirement.

We will continue to monitor our success in developing the diversity of the Board as part of the annual evaluation of Board effectiveness.

The forthcoming AGM will see the retirement of David Trapnell, our Senior Independent Director. David has served on the Board for almost 10 years, providing great wisdom and support throughout. On 30 April David Paterson will also retire from the Board. He has been a huge source of strength in the management of our successful construction business over many years, but fortunately his legacy includes having developed a strong cadre of senior managers who we are confident can carry the business forward. As last year, all other directors who wish to remain in office will seek re-election.

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 UK Corporate Governance Code (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). Procedures have also been put in place to address the new edition of the Code which was published in September 2012 and which applies to reporting periods beginning on or after 1 October 2012.

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 2012 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 four non-executive directors plus the Chairman during the period under review. The appointment of Anne Fahy as a non-executive director on 1 January 2013 brings the number of non-executive directors to five until the conclusion of the AGM, whereupon the composition of the Board will revert to four non-executive directors, the Chairman and five executive directors. 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 51.

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;
- approving the sale of the Group's PFI assets and, subject to shareholder approval, the transfer of assets into the pension scheme;
- approving the acquisition of BEST, Advantage Healthcare and TOCO;
- 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 contract (including joint ventures) and capital expenditure; and
- approving the Group's sustainability plan.

Board composition

The role of the Group Chairman and Chief Executive are split and clearly defined in written terms of reference.

The role of the Chairman

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 Group Chairman, assisted by the Company Secretary, sets the agenda for Board meetings and 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 role of the Chief Executive

The Chief Executive bears primary responsibility for the management of the Group and in leading the formulation of and, once set by the Board, implementing strategy. 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 role of the Company Secretary

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.

Non-executive director independence and appointments

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 2013 Anne Fahy was appointed as a non-executive director. At the conclusion of the AGM on 13 May 2013 David Trapnell will retire from the Board, Les Cullen will succeed him as Senior Independent Director and Anne Fahy will replace Les Cullen as chair of the Audit Committee.

The Senior Independent Director 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 2012 the Board comprised 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 below.

	Board	Audit	Remuneration	Nomination
Number of Meetings	15	5	6	5
Lord Blackwell	15		6	5
L G Cullen	15	5	6	5
S L Dance	15			
T P Haywood	15			
K L Ludeman	15	4	6	5
D J Paterson	15			
B A Melizan	15			
A M Ringrose	15			5
D I Sutherland	15			
D A Thorpe	13	5	6	4
D A Trapnell	15	5	6	5

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 induction, time commitment and development

On appointment, new directors take part in an induction programme arranged by the Company Secretary, which includes training on the duties of a listed company director by the Group's corporate lawyers, meetings with management and other corporate advisers, and operational site visits.

An ongoing programme of site visits, staff meetings and business presentations provides additional opportunities for the Chairman and non-executive directors to visit various operations of the Group and to receive insight and feedback from employees.

During the year under review each of the non-executive directors attended at least two seminars and/or other non-executive forums relevant to their role.

Development below Board level has been through the Trusted Partner Programme, a Group-wide leadership development programme established to support the ambitious vision of the business. The programme includes topics associated with the new corporate vision, values and Sustain*Abilities* plan. To help achieve the vision, the programme aims to enhance leadership capability as well as strategic relationships across the different businesses within the Group.

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 15 days in addition to the time taken to read Board papers and attendance at four meetings held by the Group Chairman.

The Board evaluation was undertaken this year by the Senior Independent Director by means of a structured interview with each director, the Company Secretary, the Group Financial Controller, the Director of Communications and the external audit partner.

The results of the review were that the Board remains effective, having generated long-term shareholder value. Corporate governance was considered to be strong, with a high degree of trust and honesty existing between Board members. The non-executive directors were considered to possess the relevant experience required by the Board and provide an appropriate level of constructive challenge.

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

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.

Election and re-election

Anne Fahy will submit herself for election by shareholders at the AGM on 13 May 2013. All remaining directors (save for David Paterson and David Trapnell) will submit themselves for re-election at the AGM.

Biographical details for each of the directors standing for election or re-election are set out on pages 40 and 41.

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

The Executive Board, which, during the year, comprised the executive directors and the Company Secretary, is chaired by the Chief Executive. On 1 January 2013 Ian Renhard and George Franks joined the Executive Board.

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 the Group's consolidated report and accounts and the half-year report and any formal announcements relating to the Group's financial performance based on the statutory audit or half-yearly review, as the case may be, and other enquiries;
- provide an independent overview of the Group's systems of internal control, risk management and financial reporting processes through the co-ordination and supervision of the scope, quality, independence and effectiveness of the internal and external audit, and other enquiries; and
- 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
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)

Anne Fahy was appointed to the committee on 1 January 2013.

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, Anne Fahy and David Thorpe are all 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.

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 two of the meetings. 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 2011 annual report and financial statements and the 2012 half-year report. As part of each review the committee received a report from the external auditors on their audit of the 2011 annual report and their review of the 2012 half-year report respectively;
- reviewed, prior to their consideration by the Board, the representation letters to be given to the external auditors in respect of the 2011 annual report and the 2012 half-year report;
- reviewed audit effectiveness following the audit of the 2011 annual report;
- reviewed and approved the external auditors' terms of engagement for the 2012 half-yearly review and for the audit of the 2012 annual report;
- made a recommendation to the Board that the external auditors should continue in office for the 2013 financial year;
- received a briefing from the Group Finance Director on the principal judgements made by the Board in determining the half-year report and an update prior to the full year end;
- considered and agreed the scope and fees to be paid to the external auditors;
- considered putting the external audit out to tender: this matter will be kept under review, bearing in mind the duration of audit provision by the incumbent auditors and audit partner rotation;
- received an update on the Group's monitoring of fraud risk assessment;
- monitored non-audit fees in comparison to the audit fees in accordance with the Company's policy on the provision of non-audit services (as detailed in External Auditor Objectivity and Independence below);
- received regular reports on the progress of whistle-blowing matters;
- reviewed the Company's liability as a shareholder in its overseas associates and the effectiveness of the Group's control over joint ventures and associated companies; and
- conducted an evaluation exercise to review its own effectiveness.

The committee chairman reported to the Board on the work carried out, including any improvement actions required, and copies of the minutes of committee 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

The committee assessed the external auditors' objectivity and independence and the effectiveness of the external audit process at the end of the 2011 audit cycle and again at the year end and concluded that Deloitte LLP remains independent.

The Company 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, acting in the role of advocate for the Company or being appointed as recruitment consultants 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 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 18 per cent and 7 per cent of the overall audit fees, respectively (excluding accountancy and transactional advice given with regard to the Class 1 transaction that resulted in the disposal by the Group of certain of its PFI assets – which amounted to 5 per cent of the overall audit fee), did not compromise auditor independence.

In the case of the work on the above-mentioned Class 1 transaction, 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 88.

A change in audit partner is made every five years in accordance with latest guidance and best practice. There are no contractual obligations that restrict the committee's choice of external auditors.

Internal audit

The function of internal audit is to provide an independent and 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 committee monitors and assesses the role and effectiveness of internal audit in the overall context of the Group's risk management system and review.

The internal audit programme of work is risk based, with all business activities and financial reporting processes considered for internal audit review each year. The work is carried out by PwC under an outsource contract, renewable annually.

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 Internal Audit partner has direct access to the Chairman of the Audit Committee.

The committee received a summary of each internal audit review covering the findings, proposed corrective actions and management's responsiveness to those findings and recommendations.

Reports produced during the year covered matters such as:

- a review of certain business units in the Middle East;
- business continuity and information security across the Group;
- back-to-basics reviews of certain of the Group's operations;
- a review of the commercial management of various contracts;
- a review of certain procure-to-pay cycles;
- a review of a division's central HR and payroll functions;
- a review of a division's IT controls; and
- financial control health checks for certain of the Group's operations.

The committee also agreed an internal audit work plan for 2013, designed to provide core assurance against areas identified as high risk together with further assurance on some of the medium-risk areas identified for rotational testing.

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.

NOMINATION COMMITTEE

The Nomination Committee is chaired by the Group Chairman and the majority of the members are independent non-executive directors. External consultants are used for new appointments. 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.

Business conducted during the year included the selection and appointment of Anne Fahy as non-executive director, recommendations to the Board for the re-election of retiring directors at the AGM, reviews of Board structure and composition and senior management succession and development up to and including those at Board level, and Board succession planning. The effectiveness of the committee and its terms of reference were also reviewed.

The Zygos Partnership, which has no connection with the Company, was engaged to assist in the appointment of Anne Fahy.

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 56 to 68.

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.

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.

The Group's Diversity Policy states that diversity in all its forms is fundamental to the Group's business. It is available on the website at www.interserve.com/sustainability/policies. The goal is to recruit, motivate, develop and retain outstanding people that reflect the Group's diversity of skills, cultural backgrounds and gender.

The Board monitors the extent to which the Group is meeting this objective and is committed to taking action where necessary or helpful to promote equal opportunity.

Good evidence of our achievements in this area was the *Investors in Diversity* accreditation by the National Centre for Diversity given to our Construction business, the first construction company to be so recognised.

We have already increased the diversity of the Board and would expect the policy to lead to greater diversity on the 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.

REMUNERATION COMMITTEE

The Remuneration Committee, composed entirely of independent non-executive directors, is chaired by David Thorpe. The names of the committee members are set out in the table on page 50. 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 56 to 68.

OTHER BOARD COMMITTEES

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

The PFI Committee comprises any two or more directors.

Each committee has written terms of reference and reports on the business conducted to the following Board meeting.

Committee meetings held during the year are as follows:

Committee	Number of meetings
Conflicts	5
General Purposes	41
Inside Information	0
PFI	1

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 51, 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, Group Health, Safety and Environmental Manager, Group Insurance Manager, the Group Company Secretary (who is its secretary), the Group General Counsel and a representative from each of the Group's operating divisions. The internal audit partner has a standing invitation to attend. The committee has written terms of reference and provides copies of its meeting minutes to the Board.

The business covered during the year included: reviews of the Group's prime risk areas and of contract risk allocation and control; business continuity planning and IT disaster recovery; information security risk assessment; regular reviews of the risks presented by forthcoming legislation; and updates on current insurance, internal audit, health and safety and IT developments.

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 69, an Independent Auditors' Report about their reporting responsibilities on page 70 and a going concern statement on page 30. 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 42 to 47, 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 Group's 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 implements 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, forecasts of prospective financial performance are prepared 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 risk management systems and documented accounting policies and procedures to be applied by all entities in the Group in submitting their financial statements for consolidation to ensure that adequate accounting records are maintained and transactions are recorded accurately and fairly to permit the preparation of consolidated financial statements in accordance with International Financial Reporting Standards.

Each month, every entity within the Group submits management accounts in local currency to the Group Finance team. The consolidated management accounts include the financial results, financial position, cash flows and projections and are submitted, along with analytical commentary, to the Executive Board and subsequently the Board for review.

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 applicable reporting standards. 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 30 a description of how the Group manages those risks is set out on pages 22 and 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.
- Documented delegated authority limits 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.
- The Group has certain key areas which are subject to central management or control, which include health, safety and environmental policies, legal, insurance, tax & treasury, real estate, internal and external communication, investor relations, information technology network services and operating systems and company secretarial. These functions report to members of the Executive Board.
- 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 to discuss and monitor the performance of those businesses.
- The Group has in place a whistle-blowing policy which sets 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 55 meetings with analysts and institutional investors during the year ended 31 December 2012. In addition, the Chief Executive, the Group Finance Director and the Group Chairman, attended a further two, 23 and three meetings each, respectively.

The Company's brokers 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, presentations given to analysts and all announcements made through the RIS are published on the Company's website at www.interserve.com.

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 Directors' Remuneration Report has been prepared in accordance with the requirements of current legislation, but in response to the UK Government's new legislation regarding the reporting of directors' remuneration and changes to the voting rights, we have incorporated a number of the revised reporting requirements into this year's report.

The Group's management has delivered good results in 2012 against the background of mixed market conditions. In particular, underlying headline earnings per share has increased by 8 per cent and good progress was made on a number of strategic fronts. From our PFI interests we realised £119 million in cash and effected a £55 million asset transfer to our pension scheme, completed in January 2013. This represents an excellent performance in delivering enhanced value from these investments through sustained management of the underlying projects. We also increased our involvement in the delivery of front-line services to the public in the UK through our acquisition of Interserve Working Futures and Advantage Healthcare and expanded our presence in the oil and gas services sector in the Middle East through the acquisition of TOCO in January 2013. Our share price increased by 21.2[1] per cent over the year, slightly outperforming our sector.

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, with the exception of one incremental increase, increased by 2.5 per cent from 1 July 2012 which was broadly in line with the average increase in salaries across the entire business.

The performance conditions for the annual variable pay arrangements were set such that the budgeted normalised earnings per share ("EPS") had to be achieved before any benefit could be derived from the additional normalised EPS arising from the sale of the Group's PFI assets. Performance was strong, leading to a bonus payment of 100 per cent.

The increase in award levels under the Company's Performance Share Plan from 100 per cent to 150 per cent of basic salary for the Executive Board was accompanied by significantly more demanding EPS performance conditions which require EPS in 2014 to be marginally ahead of the rate of increase in EPS that would result in a doubling of earnings per share over the five-year period from a 2010 base in order for the awards to pay out in full.

However, the Committee remains conscious of the need 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.

Total remuneration therefore remains close to (but not in excess of) mid-market levels for similar sized FTSE 250 businesses.

The Committee is mindful that executive pay remains a highly topical issue and 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 seeking an advisory vote on both the Policy Report and Implementation 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

[1] Share price at 1 January 2012 was 320.7p and at 31 December 2012 was 388.8p

REMUNERATION POLICY REPORT

This part of the Directors' Remuneration Report sets out the remuneration policy for the Company with effect from 1 January 2013.

In setting and reviewing the remuneration policy for the executive directors, the Committee takes into account a range of different reference points. Key issues which it considers are:

- the economic climate in the sectors and geographies in which the Company operates;
- remuneration policies and practices across the Group as a whole; and
- the culture and strategy of the business.

REMUNERATION POLICY ACROSS THE GROUP

The remuneration policy for the executive directors is designed with regard to the policy for employees across the Group as a whole. There are some differences in the structure of the remuneration policy for executive directors and other senior employees, which the Committee believes are necessary to reflect the different levels of responsibility of employees across the Group. In particular, as remuneration levels overall are higher, performance-linked variable pay comprises a much higher proportion of remuneration at more senior levels and there is more of a focus on Group results, rather than business unit or individual performance. This provides a stronger alignment of interest between senior executives and investors.

For less senior staff, variable pay comprises annual bonus only (participation in the PSP is limited to the top 130 or so senior employees) coupled with the opportunity to participate in the SIP and Sharesave Scheme.

DIRECTORS' REMUNERATION REPORT – POLICY TABLE

The following table sets out a summary of each element of the executive directors' remuneration packages, the policy for how these are operated and their link to the Company's strategy.

ELEMENT OF PAY	PURPOSE AND LINK TO COMPANY'S STRATEGY	HOW OPERATED IN PRACTICE
Base salary	To recruit and maintain executives of a suitable calibre for the role and duties required.	Reviewed annually with increases from July. Normally paid monthly in cash. The Committee may consider exceptional increases with reference to market conditions and performance.
Benefits	To provide benefits commensurate to the market in which the Company operates and in line with policies applicable to all other senior salaried employees. These benefits are aligned with those provided to senior managers across the Group.	Car (cash allowance and/or company car) and fuel (or fuel allowance). Private medical insurance. Permanent health insurance. Life assurance.
Annual Variable Pay	To incentivise the achievement of annual targets rewarding strong operational performance in excess of budgeted performance.	Targets are set in relation to stretching budgets which are set annually. Marginally, below budget performance would generate a small payment, rising to around 50 per cent for on budget performance and 100 per cent for performance exceeding budget. Annual Variable Pay is deliverable by a mix of cash and deferred shares. 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 in accordance with the arrangements stated below: 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. Clawback applies to any overpayment of Annual Variable Pay in the event of misstatement, error or misconduct.
Performance Share Plan (PSP)	To provide a longer term incentive to reward executive directors for achieving the Group's ambition of doubling earnings per share over the five-year period from 2010. To provide alignment with shareholders and provide a retention tool.	PSP awards are granted every year to senior executives. 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. Awards will be made in the form of nil-cost options, exercisable between April 2016 and April 2018. 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.
Pension	To provide benefits commensurate to the market in which the company operates.	A Company contribution calculated at 15 per cent of base salary for executive directors and other senior employees. Employees whose pension provision exceeds HMRC limits are permitted to opt out of making pension contributions and instead receive the Company contribution as a salary supplement. Employees who elect to take the cash allowance still benefit from the life cover of four times salary provided to members of the pension scheme and death-in-service cover. Adrian Ringrose and Bruce Melizan made such an election and have, since 1 January 2012 and 1 April 2012 respectively, been receiving a salary supplement of 15 per cent of base salary in lieu of any employer pension contribution. All the executive directors (with the exception of Adrian Ringrose and Bruce Melizan since 1 January 2012 and 1 April 2012, respectively) 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.
Recruitment	Were any new executive director appointments to be made, the Committee may adopt an approach involving a lower base salary with incremental increases in excess of the cost of living as the new appointee becomes established within the role.	
Shareholding guidelines	Under the Shareholding Guidelines executive directors are expected to retain no fewer than 100 per cent of shares net of taxes following an option exercise or award vesting, until such time as a shareholding equivalent to 100 per cent of their base salary has been achieved. Shares purchased under the Annual Variable Pay arrangements (see above), Sharesave Scheme and SIP count toward this limit.	

[1]Normalised EPS is Headline earnings per share adjusted to (a) remove the effects of IAS 36 *Impairment of assets* and IAS 39 *Financial Instruments*; (b) remove the effect of IAS 19R *Pensions*; (c) take into account any return generated from the sale of any of the Group's remaining PFI investments in excess of the internal rate of return set by the Board at the approval stage for that investment (excluding the transfer approved by shareholders on 7 January 2013) and any other items determined by the Committee.

MAXIMUM OPPORTUNITY	DESCRIPTION OF PERFORMANCE METRICS	CHANGES IN 2013
N/A	N/A	Broadly, cost of living increases in line with salaried workforce.
N/A	N/A	None
100 per cent of basic salary.	Performance conditions for Variable Pay in 2013 are based on the achievement of normalised EPS set by reference to the agreed annual budget[1]. Variable Pay of between 50 per cent and 100 per cent of basic salary will become payable upon achievement of between 100 per cent and 131 per cent of budgeted normalised EPS[1]. A performance below budgeted normalised EPS[1] will result in no Variable Pay.	None
150 per cent of basic salary (at the date of grant) for the executive directors. Lower award levels with an EPS-only performance condition will be granted to less senior executives.	Performance conditions for two-thirds of the award will be dependent upon EPS targets, with the balance on total shareholder return (TSR): (see tables below)	EPS performance range adjusted for 2013 awards compared to 2012 awards.
N/A	N/A	N/A

Normalised EPS[2] growth of the Company over the performance period	Vesting percentage of two-thirds of shares subject to the award
Less than 49%	0%
49% to 58%	25% to 50%
58% to 75%	50% to 100%
Over 75%	100%

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

[2]Normalised EPS is Headline earnings per share adjusted to reflect growth in underlying value created by (a) removing the impact of IAS 19 & IAS 19R *Pensions*, IAS 36 *Impairment of assets* and IAS 39 *Financial Instruments*; and (b) recognising or removing "one off" events at the discretion of the committee. For the 2013 awards vesting in 2016, the committee intends that the award will reflect the underlying earnings growth, in line with our strategic ambitions.

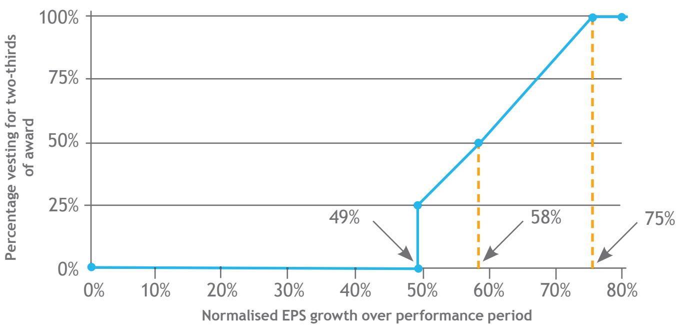
LONG-TERM REWARDS

The performance conditions for the 2013 PSP awards to the Executive Board will be structured as follows:

Earnings per share growth

Continuing with the strategic focus of doubling EPS over the five-year period from a 2010 base, vesting of two-thirds of an award will be dependent upon growth in normalised EPS[1] (over a three-year performance period, commencing on the first day of the 2013 financial year) to meet this trajectory.

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

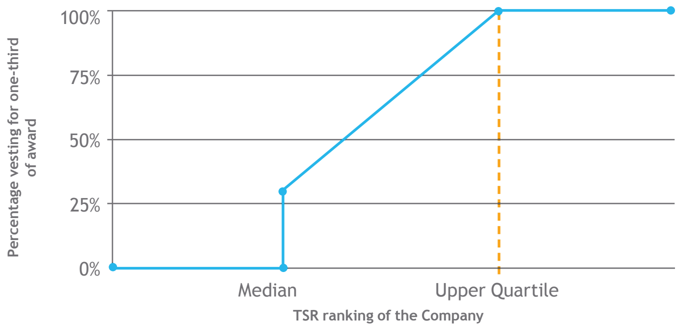
Vesting of the other third of an award will be dependent upon the Company's performance in terms of TSR, as measured against the TSR of each company in the comparator group listed below (the "Comparator Group") over a three-year performance period, commencing on the first day of the 2013 financial year. TSR is calculated as the percentage change in the net return index from the start to the end of the performance period[2]. This 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)	May Gurney Integrated Services
Babcock International	MITIE Group
Balfour Beatty	Morgan Sindall
Capita Group	Rentokil Initial
Carillion	RPS Group
Costain Group	Serco
Kier Group	

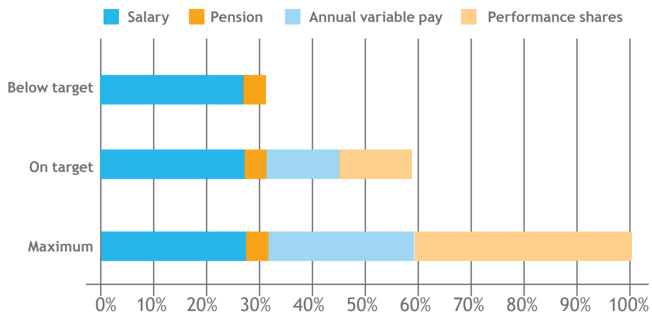
[1] Normalised EPS is Headline earnings per share adjusted to reflect growth in underlying value created by (a) removing the impact of IAS 19 & IAS 19R *Pensions*, IAS 36 *Impairment of assets* and IAS 39 *Financial Instruments*; and (b) recognising or removing "one off" events at the discretion of the committee. For the 2013 awards vesting in 2016, the committee intends that the award will reflect the underlying earnings growth, in line with our strategic ambitions.

[2] 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.

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



The chart below shows how the executive directors' remuneration packages vary at below threshold, threshold, target and maximum performance, by looking at the level of below target and target remuneration as a proportion of the maximum remuneration. This shows that almost 70 per cent of the remuneration is delivered via Annual Variable Pay and performance share awards at maximum payout levels under both plans.



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, the Interserve Sharesave Scheme 2009 (the "Sharesave Scheme") and the Interserve Share Incentive Plan 2009 (the "SIP"). The executive directors are entitled to participate in both the Sharesave Scheme and the SIP.

It is proposed to make a further grant under the Sharesave Scheme to eligible employees in April 2013. 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.

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 (12,684,939 shares) under all its share schemes. At 31 December 2012 there remained headroom equivalent to 2,362,040 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 Executive Share Option Schemes and the Performance Share Plan will be satisfied by newly issued shares.

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 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

The Company's policy on service contracts with executive directors is that they may be terminated with twelve months' notice from either party.

There are no provisions in executive directors' service agreements entitling them to terminate their 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.

Policy on executive directors taking external directorships

While the Board is comfortable with the principle of executive directors sitting on another company board as a non-executive, none of the executive directors (save for Bruce Melizan who is an un-remunerated director of the Safer London Foundation) currently holds directorships of other companies in which the Company does not have a direct or indirect interest.

PERCENTAGE CHANGE IN SPEND ON PAY COMPARED TO PROFIT AND DIVIDEND EXPENDITURE

The following chart sets out the percentage change in profit, dividends and overall spend on pay in 2012 compared to 2011:

	2012 £million	2011 £million	Percentage change
Headline pre-tax profit	78.4	72.8	7.7%
Dividends	24.4	23.0	6.1%
Employee remuneration costs[1]	624.7	602.1	3.8%

[1]Further information is contained in note 6 to the financial statements on page 89.

TERMS OF APPOINTMENT AND FEES FOR 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. Non-executive directors do not have service contracts, they are engaged by letters of appointment which 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.

The Group Chairman's fee is reviewed annually by the Committee (without the Chairman present).

The remuneration policy for the non-executive directors, other than the Group Chairman, is determined by a sub-committee of the Board comprising the Group Chairman and the executive directors. Non-executive directors receive a fee for carrying out their duties, together with additional fees for those non-executive directors who chair the primary Board committees (i.e. Audit and Remuneration Committees) and the Senior Independent Director.

In December 2012 a full review of the annual basic fees of the Group Chairman and the non-executive directors was carried out which resulted in the Group Chairman's fees being increased by £13,000 to £143,000 and the non-executive directors' base fee being increased by £4,000 to £44,000, from January 2013. This is the first increase since January 2011.

The current fee levels are set out in the table below:

	Annual fee £
Base fee paid to all non-executive directors	44,000
Supplementary fees:	
Senior Independent Director	7,000
Audit Committee Chairman	6,000
Remuneration Committee Chairman	5,000
Nomination Committee Chairman	Group Chairman[1]

[1] The Group Chairman receives no supplementary fee for chairing this committee.

Details of non-executive appointments held during the financial year ended 31 December 2012 are as follows:

Name	Date first appointed	Date last re-elected
Lord Blackwell	1 September 2005	16 May 2012
L G Cullen	1 October 2005	16 May 2012
K L Ludeman	1 January 2011	16 May 2012
D A Thorpe	1 January 2009	16 May 2012
D A Trapnell	11 July 2003	16 May 2012

Anne Fahy was appointed to the Board on 1 January 2013 and will be proposed for election by shareholders at the forthcoming AGM on 13 May 2013.

IMPLEMENTATION REPORT

HOW THE REMUNERATION COMMITTEE OPERATES TO SET THE REMUNERATION POLICY

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 New Bridge Street ("NBS"), a trading name of Aon plc (who also provide insurance broking services to the Company) and Trevor Bradbury, the Company Secretary, which materially assisted the Committee in relation to the 2012 financial year. Executives are not present when matters affecting their own remuneration arrangements are decided.

Role and membership

The Committee is responsible for determining, on behalf of the Board, 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 when determining their own remuneration), 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 table below lists the members of the Committee who served during the year and are regarded as independent by the Board. Their attendance at the meetings of the Committee was as follows:

Name	Number of meetings attended out of potential maximum
D A Thorpe	6 out of 6
Lord Blackwell	6 out of 6
L G Cullen	6 out of 6
K L Ludeman	6 out of 6
D A Trapnell	6 out of 6

The Committee meets as often as is necessary to discharge its duties and met six times during the year ended 31 December 2012. The Chief Executive and Group Finance Director may be invited to attend meetings as appropriate.

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. No individual is present when matters relating directly to their own remuneration are discussed.

EXTERNAL ADVISERS

The Committee is advised by NBS. The terms of NBS's appointment and their performance is reviewed regularly by the Committee.

NBS assists the Company annually by preparing an IFRS 2 option valuation relating to awards made under the Interserve Performance Share Plan 2006. The fee for this work was £2,000.

NBS meets either on a one-to-one basis with the Committee Chairman, or with the Company Secretary present, as necessary, to discuss matters such as topical issues in remuneration which are of particular relevance to the Company or if there are specific pieces of work which the Committee requires to be undertaken.

The total fees paid to NBS in respect of its services to the Committee during the year amounted to £17,500. These fees related to sundry ongoing advice, in line with NBS's role of providing ongoing support and advice to the Committee over the entire remuneration year. This included:

- advice upon the increase in award levels under the Company's Performance Share Plan from 100 per cent to 150 per cent of basic salary for the Executive Board and the accompanying significant increase in the EPS performance conditions;
- performance monitoring of the TSR element of the Performance Share Plan;
- review of vesting documentation for the Performance Share Plan;
- assistance with the drafting of the Directors' Remuneration Report; and
- updates on developments in remuneration practices.

Any fees for major projects would normally be negotiated in advance of such a project being undertaken.

NBS is a signatory to the Remuneration Consultants' Code of Conduct.

The total fees paid to Aon plc (the parent company of NBS) by the Group in the year, excluding collections of insurance premiums, were £72,500. These related to the provision of insurance-related services. The Committee is satisfied that these additional services in no way compromised the independence of advice provided by NBS.

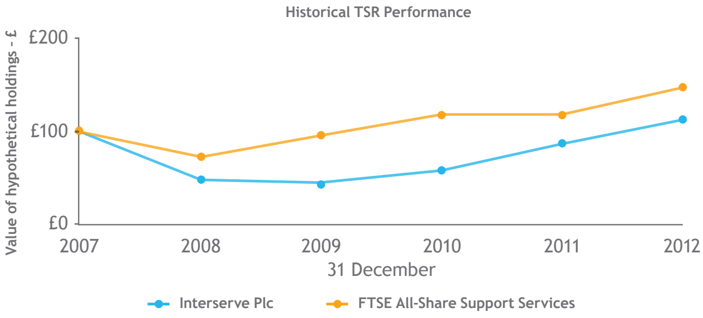
STATEMENT OF SHAREHOLDER VOTING AT AGM

At last year's AGM, the Directors' Remuneration Report received the following votes from shareholders:

	Total number of votes	Percentage of votes cast
For	79,640,666	97.66
Against	398,078	0.49
Abstentions	1,506,870	1.85
TOTAL	81,545,614	100.00

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 2012 of £100 invested in Interserve Plc on 31 December 2007 compared with the value of £100 invested in the Support Services sector of the FTSE All-Share Index.

The information set out in Tables 1 to 4 in the following pages has been audited. These tables have been prepared in accordance with the requirements of the existing legislation (Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008), which remains the basis for statutory reporting until October 2013.

As part of our commitment to be as transparent as possible in our reporting under the forthcoming legislation, we have also prepared remuneration tables in accordance with the new requirements. For this year, these are shown as tables to the Implementation Report.

DIRECTORS' EMOLUMENTS AND COMPENSATION

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

	2012 £	2011 £
Emoluments	4,203,158	3,991,308
Compensation for loss of office	Nil	Nil
Gains made on the exercise of share options	Nil	Nil
Amounts received under long-term incentive schemes	971,843	Nil
Money purchase pension contributions (excluding SMART Bonus and AVC contributions)	218,362	313,681

The Committee determined with one exception that, for the third consecutive year, executive directors' salary levels should be increased by 2.5 per cent with effect from 1 July 2012, which was broadly in line with the overall increase for salaried employees of the Company and its subsidiaries.

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 2012:

TABLE 1 – DIRECTORS' EMOLUMENTS

Name	Basic salary/fee £	Other cash emoluments[3] £	Benefits in kind £	Annual variable pay[1] £	Pension contributions[2] £	Sub-total £	Value of PSP[4] £	Total remuneration 2012 £	Total remuneration 2011[5] £
Lord Blackwell	130,000	-	-	-	-	130,000	-	130,000	130,000
L G Cullen	46,000	-	-	-	-	46,000	-	46,000	46,000
S L Dance	265,939	-	20,014	269,223	52,022	607,198	446,923	1,054,121	592,788
T P Haywood	321,722	-	14,965	325,694	50,058	712,439	0	712,439	695,803
K L Ludeman	40,000	-	-	-	-	40,000	-	40,000	40,000
B A Melizan	265,939	40,825[3]	20,939	269,223	13,250	610,176	446,923	1,057,099	596,492
D J Paterson	265,939	-	19,704	269,223	67,328	622,194	375,417	997,611	594,330
A M Ringrose	446,778	86,209[3]	3,354	452,294	0	988,635	750,834	1,739,469	969,371
D I Sutherland	252,486	13,896	1,569	269,223	73,499	610,673	328,795	939,468	529,858
D A Thorpe	45,000	-	-	-	-	45,000	-	45,000	42,692
D A Trapnell	47,000	-	-	-	-	47,000	-	47,000	46,244
Former director	-	-	-	-	-	-	-	-	21,411
Total 2012	2,126,803	140,930	80,545	1,854,880	256,157	4,459,315	2,348,892	6,808,207	
Total 2011	2,087,337	58,645	62,596	1,782,730	313,681	4,304,989			

[1] Annual Variable Pay for 2012 was based on the achievement of a range of targets based on normalised EPS (i.e. basic earnings per share adjusted to remove the effect 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 Annual Variable Pay of between 20 per cent and 100 per cent of basic salary would become payable upon achievement of between 96.5 per cent and 111 per cent of budgeted normalised EPS. A performance below 96.5 per cent of budgeted normalised EPS would result in no Annual Variable Pay becoming payable. The operation of the Annual Variable Pay scheme for the 2012 financial year resulted in a payment of 100 per cent of basic salary as at 31 December 2012 for each executive director, the details of which are shown in the table above.

[2] Reduced by SMART Pensions arrangement (see Table 2 on page 65).

[3] Inclusive of a 15 per cent salary supplement in lieu of pension contributions for Adrian Ringrose and Bruce Melizan with effect from 1 January 2012 (£67,017) and 1 April 2012 (£30,041) respectively.

[4] The share price used to calculate the value of shares vesting for the total single figure of remuneration was 370.61p being the three-month average to 31 December 2012. This relates to the PSP awards that vest on 19 April 2013 based on the 2012 results. This value also includes a dividend equivalent of 55.4 pence per vested share.

[5] The remuneration for 2011 does not include the PSP awards that vested in March 2012, which explains the increase in year-on-year remuneration.

TABLE 2 - DIRECTORS' PENSION ENTITLEMENTS

Defined Contribution Scheme

All the executive directors, with the exception of Adrian Ringrose and Bruce Melizan with effect from 1 January 2012 and 1 April 2012 respectively, are members of the Defined Contribution section of the Scheme and participated in the Company's SMART Pensions arrangement (as detailed on page 58). Their base salaries shown in the above table were, as a result, reduced by the following amounts which were paid by the Company into their pension schemes:

Name	2012 £	2011 £
S L Dance	12,038	19,474
T P Haywood	1,800	13,635
B A Melizan	3,400	17,051
D J Paterson	15,867	19,996
A M Ringrose	0	17,220
D I Sutherland	9,495	18,630

Details of the total contributions paid by the Company (including SMART contributions but excluding SMART Bonus and AVC arrangements) during the year ended 31 December 2012 are as follows:

Name	2012 £	2011 £
S L Dance	51,929	49,422
T P Haywood	50,058	49,867
B A Melizan	13,250	47,000
D J Paterson	55,758	52,508
A M Ringrose	0	69,373
D I Sutherland	47,367	45,511

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

Dougie Sutherland and David Paterson also participated in the Company's SMART Bonus arrangement (available to all employees receiving an annual bonus). The contribution paid by the Company in respect of SMART Bonus for Dougie Sutherland and David Paterson was £23,542 and £7,700 respectively.

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 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.

TABLE 3 - OUTSTANDING OPTIONS AND LTIP AWARDS

Share options

The number of options over shares in the Company (pursuant to the 2002 Executive Share Option Scheme) 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	31.12.12	Lapsed during year	31.12.11	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	566.50	19.03.05 - 18.03.12
	32,561	-	32,561	359.33	14.03.08 - 13.03.15
A M Ringrose	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	-	-	-	n/a	n/a

No share options were granted under the 2002 Executive Option Scheme to, or exercised by, any of the directors during the year ended 31 December 2012. The aggregate gain made on the exercise of options was £nil (2011: £nil). The market price of the shares as at 31 December 2012 was 388.80p. The highest and lowest market prices of the shares during the financial year were 392.80p and 270.10p 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	31.12.12	Granted during year	31.12.11	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
	378	378	-	238.00	01.07.15 - 31.12.15
T P Haywood	390	-	390	231.00	01.07.14 - 31.12.14
	378	378	-	238.00	01.07.15 - 31.12.15
B A Melizan	390	-	390	231.00	01.07.14 - 31.12.14
	378	378	-	238.00	01.07.15 - 31.12.15
D J Paterson	-	-	-	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
	378	378	-	238.00	01.07.15 - 31.12.15
D I Sutherland	595	-	595	152.50	01.10.12 - 31.03.13
	423	-	423	214.50	01.07.13 - 31.12.13
	378	378	-	238.00	01.07.15 - 31.12.15

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* 31.12.12	Awarded during year	Vested during year	Lapsed during year	Awards over ordinary shares of 10p each* 31.12.11	Performance period
S L Dance	23.03.09	197.00	-	-	61,576	61,576	123,152	01.01.09 - 31.12.11[1]
	19.04.10	236.50	104,909	-	-	-	104,909	01.01.10 - 31.12.12[2]
	20.04.11	261.00	99,746	-	-	-	99,746	01.01.11 - 31.12.13[3]
	11.04.12	275.80	143,648	143,648	-	-	-	01.01.12 - 31.12.14[4]
T P Haywood	20.04.11	261.00	120,669	-	-	-	120,669	01.01.11 - 31.12.13[3]
	11.04.12	275.80	173,779	173,779	-	-	-	01.01.12 - 31.12.14[4]
B A Melizan	23.03.09	197.00	-	-	61,576	61,576	123,152	01.01.09 - 31.12.11[1]
	19.04.10	236.50	104,909	-	-	-	104,909	01.01.10 - 31.12.12[2]
	20.04.11	261.00	99,746	-	-	-	99,746	01.01.11 - 31.12.13[3]
	11.04.12	275.80	143,648	143,648	-	-	-	01.01.12 - 31.12.14[4]
D J Paterson	23.03.09	197.00	-	-	51,724	51,724	103,448	01.01.09 - 31.12.11[1]
	19.04.10	236.50	88,124	-	-	-	88,124	01.01.10 - 31.12.12[2]
	20.04.11	261.00	99,746	-	-	-	99,746	01.01.11 - 31.12.13[3]
	11.04.12	275.80	143,648	143,648	-	-	-	01.01.12 - 31.12.14[4]
A M Ringrose	23.03.09	197.00	-	-	103,448	103,448	206,896	01.01.09 - 31.12.11[1]
	19.04.10	236.50	176,248	-	-	-	176,248	01.01.10 - 31.12.12[2]
	20.04.11	261.00	167,574	-	-	-	167,574	01.01.11 - 31.12.13[3]
	11.04.12	275.80	241,329	241,329	-	-	-	01.01.12 - 31.12.14[4]
D I Sutherland	23.03.09	197.00	-	-	45,300	45,300	90,600	01.01.09 - 31.12.11[1]
	19.04.10	236.50	77,180	-	-	-	77,180	01.01.10 - 31.12.12[2]
	20.04.11	261.00	89,528	-	-	-	89,528	01.01.11 - 31.12.13[3]
	11.04.12	275.80	128,933	128,933	-	-	-	01.01.12 - 31.12.14[4]

*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 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%

[2] **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%

[3] **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%

The 2011 PSP awards were granted in the form of nil-cost options, exercisable between 20 April 2014 and 19 April 2016.

[4] **The EPS Performance Condition for the 2012 Awards**

Normalised EPS growth of the Company over the performance period	Vesting percentage of two-thirds of shares subject to the 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%

The 2012 PSP awards were granted in the form of nil-cost options, exercisable between 11 April 2015 and 10 April 2017.

[1,2,3,4] 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 after 2011), RPS Group, Serco, Spice (not after 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%

*Vesting percentage of 50% is replaced by one-third for the 2012 PSP awards.

For awards made in 2009 (measuring performance over the three years to 31 December 2011) the TSR element (representing 50 per cent of the awards) vested in full on 23 March 2012 as the Company's TSR performance was above the upper quartile TSR performance against the peer group. However, none of the EPS element of those awards (representing the other 50 per cent) vested as the stretching EPS performance conditions were not met. The mid-market price of a share on the vesting date was 300.30p.

The awards made in 2010 (measuring performance over the three years to 31 December 2012) will vest in full on 19 April 2013 as the Company's TSR performance was above the upper quartile (top 25 per cent) TSR performance against the peer group and EPS growth has been greater than 30 per cent over the performance period (actual growth 149.7 per cent, including credit for the realised value from PFI investments).

The EPS and TSR performance conditions for the 2013 awards are set out on page 59 of this report.

TABLE 4 – 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:

	Shareholding as a percentage of base salary	Ordinary shares of 10p each	
Name	31.12.12	31.12.12	31.12.11
Lord Blackwell	n/a	10,000	10,000
L G Cullen	n/a	10,000	6,000
S L Dance	144%	99,988	64,839
T P Haywood	21%	17,960	451
K L Ludeman	n/a	3,000	3,000
B A Melizan	146%	101,112	65,950
D J Paterson	68%	47,391	17,811
A M Ringrose	227%	263,514	204,856
D I Sutherland	75%	51,862	12,449
D A Thorpe	n/a	12,793	12,793
D A Trapnell	n/a	4,500	4,500

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

Share ownership guidelines for executive directors require a holding of 100 per cent of salary to be built up over time. The value of their shareholdings as a percentage of base salary (as at 31 December 2012) is set out in the table above.

Between the year end and the date of this report Steven Dance, Adrian Ringrose and Dougie Sutherland purchased an additional 57 shares each and David Paterson purchased 56 shares pursuant to the Interserve Share Incentive Plan 2009. The shares were purchased on 8 January 2013 (30 shares each at 412.00p per share) and 11 February 2013 (27 shares each and 26 shares in respect of David Paterson, at 471.00p per share).

The directors' interests information set out in the foregoing tables were as at 31 December 2012. There have been no changes between the year end and the date of this report other than those described above. 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 27 February 2013 and signed on its behalf by:

D A Thorpe
Chairman of the Remuneration Committee
27 February 2013

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

T P Haywood
Group Finance Director

27 February 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTERSERVE PLC

INTRODUCTION

We have audited the Group financial statements of Interserve Plc for the year ended 31 December 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, and the related notes 1 to 34. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

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 inconsistencies 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 2012 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 MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group 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:

- 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 MATTER

We have reported separately on the parent company financial statements of Interserve Plc for the year ended 31 December 2012 and on the information in the Directors’ Remuneration Report that is described as having been audited.

Stephen Griggs (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
27 February 2013

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2012

	Notes	Year ended 31 December 2012 Before exceptional items and amortisation of acquired intangible assets £million	Year ended 31 December 2012 Exceptional items and amortisation of acquired intangible assets £million	Year ended 31 December 2012 Total £million	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
Continuing operations							
Revenue including share of associates and joint ventures		2,369.6	-	2,369.6	2,319.6	-	2,319.6
Less: Share of associates and joint ventures	16	(411.2)	-	(411.2)	(472.1)	-	(472.1)
Consolidated revenue	2	1,958.4	-	1,958.4	1,847.5	-	1,847.5
Cost of sales		(1,738.4)	-	(1,738.4)	(1,643.7)	-	(1,643.7)
Gross profit		220.0	-	220.0	203.8	-	203.8
Administration expenses		(165.0)	-	(165.0)	(157.9)	-	(157.9)
Amortisation of acquired intangible assets	4	-	(6.0)	(6.0)	-	(5.2)	(5.2)
Other exceptional items	5	-	(4.0)	(4.0)	-	-	-
Total administration expenses		(165.0)	(10.0)	(175.0)	(157.9)	(5.2)	(163.1)
Profit on disposal of property and investments	5	-	114.9	114.9	-	-	-
Operating profit		55.0	104.9	159.9	45.9	(5.2)	40.7
Share of result	16	25.4	-	25.4	27.9	-	27.9
Amortisation of acquired intangible assets	4	-	(0.4)	(0.4)	-	(0.5)	(0.5)
Share of result of associates and joint ventures		25.4	(0.4)	25.0	27.9	(0.5)	27.4
Total operating profit		80.4	104.5	184.9	73.8	(5.7)	68.1
Investment revenue	7	40.4	-	40.4	39.7	-	39.7
Finance costs	8	(42.4)	-	(42.4)	(40.7)	-	(40.7)
Profit before tax		78.4	104.5	182.9	72.8	(5.7)	67.1
Tax (charge)/credit	9	(13.9)	2.7	(11.2)	(7.9)	1.4	(6.5)
Profit for the year		64.5	107.2	171.7	64.9	(4.3)	60.6
Attributable to:							
Equity holders of the parent		59.8	107.2	167.0	62.0	(4.3)	57.7
Minority interest		4.7	-	4.7	2.9	-	2.9
		64.5	107.2	171.7	64.9	(4.3)	60.6
Earnings per share	11						
Basic				131.9p			45.9p
Diluted				129.3p			44.7p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	Notes	Year ended 31 December 2012 £million	Year ended 31 December 2011 £million
Profit for the period		171.7	60.6
Other comprehensive income			
Exchange differences on translation of foreign operations		(8.4)	8.0
Gains/(losses) on cash flow hedges of financial assets (excluding joint ventures)		(0.1)	1.1
Actuarial gains/(losses) on defined benefit pension schemes	30	(74.9)	(32.9)
Deferred tax on items taken directly to equity	9	16.7	7.5
Net impact of items relating to joint-venture entities		(12.9)	23.1
Other comprehensive income net of tax		(79.6)	6.8
Total comprehensive income		92.1	67.4
Attributable to:			
Equity holders of the parent		87.4	64.5
Minority interest		4.7	2.9
		92.1	67.4

CONSOLIDATED BALANCE SHEET

at 31 December 2012

	Notes	31 December 2012 £million	31 December 2011 £million	31 December 2010 £million
Non-current assets				
Goodwill	13	226.3	199.0	199.6
Other intangible assets	14	39.5	22.2	28.7
Property, plant and equipment	15	137.8	139.7	149.0
Interests in joint-venture entities	16/32	7.6	103.3	60.1
Interests in associated undertakings	16	76.6	77.2	61.7
Deferred tax asset	17	33.5	23.4	16.5
		521.3	564.8	515.6
Current assets				
Assets classified as held for sale	16/32	51.2	-	-
Inventories	18	24.6	22.2	19.6
Trade and other receivables	20	432.0	380.1	386.1
Cash and deposits	21	76.8	46.1	67.6
		584.6	448.4	473.3
Total assets		1,105.9	1,013.2	988.9
Current liabilities				
Bank overdrafts	21	(19.8)	(19.3)	(35.2)
Trade and other payables	23	(555.5)	(492.7)	(492.8)
Current tax liabilities		(4.2)	(5.9)	(3.9)
Short-term provisions	26	(24.2)	(28.7)	(20.2)
		(603.7)	(546.6)	(552.1)
Net current liabilities		(19.1)	(98.2)	(78.8)
Non-current liabilities				
Bank loans	21	(30.0)	(70.0)	(85.0)
Trade and other payables	24	(4.0)	(4.1)	(6.7)
Non-current tax liabilities		(9.2)	(9.2)	(9.1)
Long-term provisions	26	(27.1)	(26.3)	(26.9)
Retirement benefit obligation	30	(101.1)	(56.2)	(51.5)
		(171.4)	(165.8)	(179.2)
Total liabilities		(775.1)	(712.4)	(731.3)
Net assets		330.8	300.8	257.6
Equity				
Share capital	27	12.7	12.6	12.6
Share premium account		113.1	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		34.5	96.3	64.2
Investment in own shares		(1.4)	(2.8)	(2.8)
Retained earnings		116.5	28.7	18.0
Equity attributable to equity holders of the parent		324.5	296.6	253.8
Minority interest		6.3	4.2	3.8
Total equity		330.8	300.8	257.6

These financial statements were approved by the Board of Directors on 27 February 2013.
Signed on behalf of the Board of Directors

A M Ringrose

T P Haywood

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

	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 2011	12.6	112.7	0.1	49.0	64.2	(2.8)	18.0	253.8	3.8	257.6
Net impact of items relating to joint-venture entities	-	-	-	-	23.0	-	0.1	23.1	-	23.1
Exchange differences on translation of foreign operations	-	-	-	-	8.0	-	-	8.0	-	8.0
Gain/(loss) on available-for-sale financial assets	-	-	-	-	1.1	-	-	1.1	-	1.1
Actuarial gain/(loss) on defined benefit pension schemes	-	-	-	-	-	-	(32.9)	(32.9)	-	(32.9)
Profit for the year	-	-	-	-	-	-	57.7	57.7	2.9	60.6
Deferred tax on non-joint-venture items taken directly to equity	-	-	-	-	-	-	7.5	7.5	-	7.5
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
Net impact of items relating to joint-venture entities	-	-	-	-	(12.9)	-	-	(12.9)	-	(12.9)
Exchange differences on translation of foreign operations	-	-	-	-	(8.4)	-	-	(8.4)	-	(8.4)
Gain/(loss) on available-for-sale financial assets	-	-	-	-	(0.1)	-	-	(0.1)	-	(0.1)
Actuarial gain/(loss) on defined benefit pension schemes	-	-	-	-	-	-	(74.9)	(74.9)	-	(74.9)
Profit for the year	-	-	-	-	-	-	167.0	167.0	4.7	171.7
Deferred tax on non-joint-venture items taken directly to equity	-	-	-	-	-	-	16.7	16.7	-	16.7
Total comprehensive income	-	-	-	-	(21.4)	-	108.8	87.4	4.7	92.1
Disposal of available-for-sale financial assets (joint ventures) and related cash flow hedges recycled through the income statement	-	-	-	-	(40.4)	-	-	(40.4)	-	(40.4)
Dividends paid	-	-	-	-	-	-	(24.4)	(24.4)	(2.6)	(27.0)
Shares issued	0.1	0.4	-	-	-	-	-	0.5	-	0.5
Company shares used to settle share-based payment obligations	-	-	-	-	-	1.4	(0.4)	1.0	-	1.0
Share-based payments	-	-	-	-	-	-	3.8	3.8	-	3.8
Balance at 31 December 2012	12.7	113.1	0.1	49.0	34.5	(1.4)	116.5	324.5	6.3	330.8

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 2012 was £2.5 million (2011: £4.2 million).

The accumulated balance of translation differences, incorporated within the hedging and translation reserve above, amounts to £35.2 million (2011: £43.6 million).

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2012

	Notes	Year ended 31 December 2012 £million	Year ended 31 December 2011 £million
Operating activities			
Total operating profit		184.9	68.1
Adjustments for:			
Amortisation of acquired intangible assets	14	6.0	5.2
Amortisation of capitalised software development	14	1.6	1.6
Depreciation of property, plant and equipment	15	27.7	28.3
Profit on disposal of property and investments	5	(114.9)	-
Pension contributions in excess of the income statement charge		(30.8)	(27.0)
Share of results of associates and joint ventures		(25.0)	(27.4)
Charge relating to share-based payments	29	4.3	2.3
Gain on disposal of plant and equipment - hire fleet		(14.1)	(15.4)
Gain on disposal of plant and equipment - other		(0.2)	(0.1)
Operating cash flows before movements in working capital		39.5	35.6
Increase in inventories		(3.2)	(2.7)
(Increase)/decrease in receivables		(47.1)	5.6
Increase in payables		50.5	6.6
Cash generated by operations before changes in hire fleet		39.7	45.1
Capital expenditure - hire fleet	15	(24.4)	(21.6)
Proceeds on disposal of plant and equipment - hire fleet		18.4	24.6
Cash generated by operations		33.7	48.1
Taxes paid		(10.7)	(3.2)
Net cash from operating activities		23.0	44.9
Investing activities			
Interest received		8.4	4.4
Dividends received from associates and joint ventures	16a	19.8	20.6
Proceeds on disposal of plant and equipment - non-hire fleet		1.8	0.5
Capital expenditure - non-hire fleet	14/15	(10.7)	(9.0)
Purchase of businesses	12	(44.7)	-
Investment in joint-venture entities	16b	(15.7)	(19.5)
Investment in associated undertakings	16c	(0.6)	-
Proceeds on disposal of investments	5	119.3	-
Receipt of loan repayment - Investments	16b	4.7	0.2
Net cash used in investing activities		82.3	(2.8)
Financing activities			
Interest paid		(9.6)	(6.7)
Dividends paid to equity shareholders	10	(24.4)	(23.0)
Dividends paid to minority shareholders		(2.6)	(2.5)
Proceeds from issue of shares and exercise of share options		1.5	-
Repayment of bank loans		(40.0)	(15.0)
Movement in obligations under finance leases		0.2	(0.2)
Net cash used in financing activities		(74.9)	(47.4)
Net increase/(decrease) in cash and cash equivalents		30.4	(5.3)
Cash and cash equivalents at beginning of period		26.8	32.4
Effect of foreign exchange rate changes		(0.2)	(0.3)
Cash and cash equivalents at end of period		57.0	26.8

	Year ended 31 December 2012 £million	Year ended 31 December 2011 £million
Cash and cash equivalents comprise		
Cash and deposits	76.8	46.1
Bank overdrafts	(19.8)	(19.3)
	57.0	26.8

Reconciliation of net cash flow to movement in net debt		
Net increase/(decrease) in cash and cash equivalents	30.4	(5.3)
Repayment of bank loans	40.0	15.0
Movement in obligations under finance leases	(0.2)	0.2
Change in net debt resulting from cash flows	70.2	9.9
Effect of foreign exchange rate changes	(0.2)	(0.3)
Movement in net debt during the period	70.0	9.6
Net cash/(debt) - opening	(44.2)	(53.8)
Net cash/(debt) - closing	25.8	(44.2)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2012

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

There have been no significant standards and interpretations introduced in the period.

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

IFRS 9 *Financial instruments*
IFRS 10 (amended) *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 (revised) *Separate financial statements*
IAS 28 (revised) *Investments in associates and joint ventures*
IFRS 7 (amended) *Financial instruments: disclosures*
IAS 12 (amended) *Deferred tax: recovery of underlying assets*
IAS 32 (amended) *Offsetting financial assets and financial liabilities*
IFRS 10, IFRS 12 and **IAS 27 (amended)** *Investment entities*
IFRS 1 (amended) *Government loans*

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. The impact on net assets is not expected to be material. The impact on the 2012 income statement, if it had been presented under the new IAS 19 (revised), would have been a reduction in profit before taxation of £3.1 million.

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.

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 30 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 £102.1 million (2011: £102.7 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 30 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(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.

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) Contract accounting

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.

(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 13). 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 and early start-up 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

(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. Exceptional items includes profit on disposals of PFI investments and related costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(u) Assets classified as held for sale

Assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than continuing for use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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	
	2012 £million	2011 £million	2012 £million	2011 £million
Continuing operations				
Provision of services	**1,292.2**	1,124.1	**1,109.1**	971.7
Revenue from construction contracts	**895.7**	1,026.5	**667.6**	706.8
Equipment sales and leasing income	**181.7**	169.0	**181.7**	169.0
	2,369.6	2,319.6	**1,958.4**	1,847.5

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

The Group is organised into four operating divisions, as set out below. Information reported to the Executive Board for the purposes of resource allocation and assessment of segment performance is based on the products and services provided.

- 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 relating to managing our PFI investments and central bidding activities, are shown in "Group Services".

	Revenue including share of associates and joint ventures		Consolidated revenue		Result	
	2012 £million	2011 £million	2012 £million	2011 £million	2012 £million	2011 £million
Support Services - UK	1,215.4	1,069.6	1,118.1	1,007.3	44.3	36.4
Support Services - International	31.3	25.9	-	-	3.7	3.6
Support Services	1,246.7	1,095.5	1,118.1	1,007.3	48.0	40.0
Construction - UK	737.2	731.1	737.2	731.1	14.6	18.0
Construction - International	201.6	223.7	-	-	14.3	16.6
Construction	938.8	954.8	737.2	731.1	28.9	34.6
Equipment Services	167.5	154.3	167.5	154.3	16.0	13.6
Investments	81.0	160.2	-	-	6.6	6.0
Group Services	-	-	-	-	(19.1)	(20.4)
Inter-segment elimination	(64.4)	(45.2)	(64.4)	(45.2)	-	-
	2,369.6	2,319.6	1,958.4	1,847.5	80.4	73.8
Amortisation of acquired intangible assets					(6.4)	(5.7)
Exceptional items (note 5)					110.9	-
Total operating profit					184.9	68.1
Investment revenue					40.4	39.7
Finance costs					(42.4)	(40.7)
Profit before tax					182.9	67.1
Tax					(11.2)	(6.5)
Profit for the year					171.7	60.6

	Segment assets		Segment liabilities		Net assets/ (liabilities)	
	2012 £million	2011 £million	2012 £million	2011 £million	2012 £million	2011 £million
Support Services - UK	255.8	217.1	(304.3)	(228.5)	(48.5)	(11.4)
Support Services - International	25.0	21.5	-	-	25.0	21.5
Support Services	280.8	238.6	(304.3)	(228.5)	(23.5)	10.1
Construction - UK	165.9	162.0	(313.8)	(291.7)	(147.9)	(129.7)
Construction - International	51.1	45.6	-	-	51.1	45.6
Construction	217.0	207.6	(313.8)	(291.7)	(96.8)	(84.1)
Equipment Services	194.2	184.9	(38.7)	(32.5)	155.5	152.4
Investments	58.8	103.3	-	-	58.8	103.3
	750.8	734.4	(656.8)	(552.7)	94.0	181.7
Group Services, goodwill and acquired intangible assets	278.8	232.7	(74.1)	(73.6)	204.7	159.1
	1,029.6	967.1	(730.9)	(626.3)	298.7	340.8
Net cash/(debt)					25.8	(44.2)
Net assets (excluding minority interest)					324.5	296.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

(a) Business segments (continued)

	Depreciation and amortisation		Additions to property, plant and equipment and intangible assets	
	2012 £million	2011 £million	2012 £million	2011 £million
Support Services - UK	7.7	7.9	7.5	6.3
Support Services - International	0.3	0.4	-	-
Support Services	8.0	8.3	7.5	6.3
Construction - UK	2.4	2.4	2.7	2.9
Construction - International	0.1	0.1	-	-
Construction	2.5	2.5	2.7	2.9
Equipment Services	18.8	19.1	24.6	20.8
Investments	-	-	-	-
	29.3	29.9	34.8	30.0
Group Services	6.4	5.7	0.3	0.6
	35.7	35.6	35.1	30.6

(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	
	2012 £million	2011 £million	2012 £million	2011 £million	2012 £million	2011 £million
United Kingdom	2,048.7	1,976.1	1,870.4	1,753.6	66.1	60.8
Rest of Europe	7.8	10.8	7.8	10.8	(3.3)	(4.0)
Middle East & Africa	296.1	301.0	63.2	51.4	22.3	22.8
Australasia	45.9	48.5	45.9	48.5	12.9	14.0
Far East	14.6	9.5	14.6	9.5	3.4	1.2
Americas	20.9	18.9	20.9	18.9	(1.9)	(0.6)
Group Services	-	-	-	-	(19.1)	(20.4)
Inter-segment elimination	(64.4)	(45.2)	(64.4)	(45.2)	-	-
	2,369.6	2,319.6	1,958.4	1,847.5	80.4	73.8
Amortisation of acquired intangible assets					(6.4)	(5.7)
Exceptional items (note 5)					110.9	-
					184.9	68.1

	Non-current assets	
	2012 £million	2011 £million
United Kingdom	34.9	140.5
Rest of Europe	6.5	9.5
Middle East & Africa	132.8	118.9
Australasia	17.0	19.7
Far East	9.9	10.6
Americas	21.2	21.8
Group Services, goodwill and acquired intangible assets	265.5	220.4
	487.8	541.4
Deferred tax asset	33.5	23.4
	521.3	564.8

Included in consolidated revenue above are revenues of approximately £145 million (2011: £97 million) which arose from sales to the Group's largest contract customer. 59% of revenue (2011: 60%) was derived from contracts with the public sector.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. PROFIT FOR THE YEAR

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

	Notes	2012 £million	2011 £million
Depreciation of property, plant and equipment:			
On owned assets	15	27.2	27.8
On assets held under finance leases	15	0.5	0.5
Amortisation of capitalised software development	14	1.6	1.6
Gain on disposal of plant and equipment - hire fleet		(14.1)	(15.4)
Gain on disposal of plant and equipment - other		(0.2)	(0.1)
Amortisation of acquired intangible assets (subsidiary undertakings)	14	6.0	5.2
Amortisation of acquired intangible assets (associated undertakings)	16	0.4	0.5
Rentals under operating leases:			
Hire of plant and machinery		26.8	22.0
Other lease rentals		21.0	19.2
Cost of inventories recognised in cost of sales		32.8	25.6
Staff costs	6	624.7	602.1
Auditors' remuneration for audit services (see below)		0.9	0.8
Profit on disposal of property and investments	5	(114.9)	-
Other exceptional items	5	4.0	-

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

	2012 £million	2011 £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	0.7	0.6
Total audit fees	0.9	0.8
Audit-related assurance services	0.1	0.1
Other taxation advisory services	0.1	0.1
Corporate finance services	-	0.4
Total non-audit fees	0.2	0.6
Total fees paid to the Company's auditors	1.1	1.4

Corporate finance services in 2011 include working capital and reporting accountant work in connection with the aborted acquisition of Mouchel Group plc. During 2012, £40,000 was incurred in relation to the Class 1 Circular on the disposal of PFI assets to the Interserve Pension Scheme.

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 52.

5. EXCEPTIONAL ITEMS

	2012 £million	2011 £million
Profit on disposal of property and investments	114.9	-
Other exceptional items	(4.0)	-
	110.9	-
Proceeds on disposal of property and investments	119.3	-
Disposals (note 16)	(44.8)	-
Available-for-sale financial assets (joint ventures) and related cash flow hedges recycled from equity	40.4	-
	114.9	-

The £114.9 million exceptional gain on disposal of property and investments includes: the profits on disposal of part of a holding in the University College London Hospitals PFI project for £33.0 million in July 2012; the profits on disposal of a portfolio of 19 PFI investments for £85.5 million in October 2012; and the disposal of an investment for £0.8 million in November 2012.

Other exceptional items comprises £4.0 million of bonus and share-based payment costs triggered by the exceptional profits on the disposal of PFI investments above.

6. STAFF COSTS

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

	2012 Number	2011 Number
Support Services	18,244	16,372
Construction	2,528	2,632
Equipment Services	1,165	1,176
Group Services	171	128
	22,108	20,308

Their aggregate remuneration comprised:

	2012 £million	2011 £million
Wages and salaries	554.4	537.2
Social security costs	44.4	43.4
Share-based payments	5.7	2.6
Other pension costs (see below)	20.2	18.9
	624.7	602.1
Defined benefit scheme current service costs (note 30)	5.8	5.6
Other UK - defined contribution	13.3	12.3
Other overseas - defined contribution	1.1	1.0
Pension costs	20.2	18.9

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 64 to 68 and should be regarded as an integral part of this note.

During the year the Group centralised certain bidding and IT support activities from the divisions.

7. INVESTMENT REVENUE

	2012 £million	2011 £million
Bank interest	2.4	0.2
Interest income from joint-venture Investments	5.4	4.0
Return on defined benefit pension assets (note 30)	32.0	35.3
Other interest	0.6	0.2
	40.4	39.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCE COSTS

	2012 £million	2011 £million
Bank loans and overdrafts and other loans repayable	(9.6)	(6.7)
Interest cost on pension obligations (note 30)	(32.8)	(34.0)
	(42.4)	(40.7)

9. TAX

		2012 £million	2011 £million
Current tax - UK		5.7	0.3
Current tax - overseas		4.0	5.4
Deferred tax (note 17)		1.5	0.8
Tax charge for the year		11.2	6.5
Tax charge before prior period adjustments	A	13.5	13.9
Prior period adjustments - (credits)/charges		(2.3)	(7.4)
		11.2	6.5
Profit before tax			
Subsidiary undertakings' profit before tax	B	43.0	39.7
Profit on disposal of property and investments		114.9	-
Group share of profit after tax of associates and joint ventures		25.0	27.4
		182.9	67.1
Effective tax, excluding one-offs, on subsidiary profits before tax	A/B	31.4%	35.0%

Prior period adjustments in 2011 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 24.5% (2011: 26.5%) 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:

	2012		2011	
	£million	%	£million	%
Profit before tax	182.9		67.1	
Tax at the UK income tax rate of 24.5% (2011: 26.5%)	44.8	24.5%	17.8	26.5%
Tax effect of expenses not deductible in determining taxable profit	1.7	0.9%	1.9	2.8%
Non-taxable exceptional items	(28.2)	(15.4%)	-	0.0%
Tax effect of share of results of associates	(6.2)	(3.4%)	(7.8)	(11.6%)
Effect of overseas losses unrelieved	1.4	0.8%	2.0	3.0%
Prior period adjustments	(2.3)	(1.3%)	(7.4)	(11.0%)
Tax charge and effective tax rate for the year	11.2	6.1%	6.5	9.7%

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:

	2012 £million	2011 £million
Tax on actuarial losses on pension liability	(17.2)	(8.2)
Impact of change in corporation tax rate on pension liability	1.1	1.0
Tax on fair value adjustment on available-for-sale financial assets	0.1	0.2
Tax on the intrinsic value of share-based payments	(0.7)	(0.5)
Total	(16.7)	(7.5)

10. DIVIDENDS

	Dividend per share pence	2012 £million	2011 £million
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
Final dividend for the year ended 31 December 2011	13.0	16.3	-
Interim dividend for the year ended 31 December 2012	6.4	8.1	-
Amount recognised as distribution to equity holders in the period		24.4	23.0
Proposed final dividend for the year ended 31 December 2012	14.1	17.9	

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.

11. EARNINGS PER SHARE

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

Earnings

	2012 £million	2011 £million
Net profit attributable to equity holders of the parent (for basic and diluted basic earnings per share)	167.0	57.7
Adjustments:		
Exceptional items	(110.9)	-
Amortisation of acquired intangible assets	6.4	5.7
Tax effect of above adjustments	(2.7)	(1.4)
Headline earnings (for headline and diluted headline earnings per share)	59.8	62.0
Adjustment:		
Remove one-off impact of Middle East tax credit in 2011	-	(7.0)
Underlying headline earnings (for underlying headline and diluted underlying headline earnings per share)	59.8	55.0

Number of shares

	2012 Number	2011 Number
Weighted average number of ordinary shares for the purposes of basic, headline and underlying headline earnings per share	126,563,696	125,804,346
Effect of dilutive potential ordinary shares:		
Share options and awards	2,607,511	3,399,166
Weighted average number of ordinary shares for the purposes of diluted basic, diluted headline and diluted underlying headline earnings per share	129,171,207	129,203,512

Earnings per share

	2012 pence	2011 pence
Basic earnings per share	131.9	45.9
Diluted basic earnings per share	129.3	44.7
Headline earnings per share	47.2	49.3
Diluted headline earnings per share	46.3	48.0
Underlying headline earnings per share	47.2	43.7
Diluted underlying headline earnings per share	46.3	42.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. ACQUISITIONS

The Group made the following acquisitions in the year, to expand our frontline services capabilities:

On 3 May 2012, the Group acquired 100% of the share capital of Business Employment Services Training Limited ("BEST"), a welfare-to-work business, now renamed Interserve Working Futures Limited. The total consideration was £18.0 million.

On 17 December 2012, the Group acquired 100% of the share capital of Advantage Healthcare Holdings Limited and its various subsidiaries (together "Advantage"), a healthcare business. The total consideration was £26.5 million.

Preliminary fair value exercises have been performed, as set out below:

Assets acquired	BEST £million	Advantage £million	Total £million
Property, plant and equipment	0.2	0.5	0.7
Intangible assets	7.7	16.5	24.2
Cash balances	0.2	(0.4)	(0.2)
Trade and other receivables	1.6	5.0	6.6
Trade and other payables	(4.5)	(4.4)	(8.9)
Other liabilities	(1.4)	(3.8)	(5.2)
Net assets	3.8	13.4	17.2
Goodwill	14.2	13.1	27.3
Consideration paid	18.0	26.5	44.5
Net cash outflow on acquisitions	17.8	26.9	44.7

The fair value adjustments relate to certain intangible assets and their associated deferred tax charge. These have been separately identified and recognised using appropriate valuation techniques based on the fair value of forecast future cash flows. The resultant goodwill from the acquisition represents the future economic benefits arising from assets that are not capable of being individually identified and separately recognised. None of the goodwill is expected to be deductible for income tax purposes.

Acquisition-related costs, included in administration expenses, amounted to £0.4 million.

Since acquisition BEST has contributed to the Group £10.0 million in revenue and £1.4 million in operating profit, before amortisation of acquired intangible assets. In the 12 months to 31 December 2012, the company's revenues were £13.7 million and its operating profit was £1.6 million.

Since acquisition Advantage has contributed to the Group £1.6 million in revenue and £0.1 million in operating profit, before amortisation of acquired intangible assets. In the 12 months to 31 December 2012, the company's revenues were £41.3 million and its operating profit was £2.6 million.

Acquisition after the balance sheet date - Willbros Middle East Limited
On 7 January 2013, the Group acquired 100% of the share capital of Willbros Middle East Limited, which owns 85% of two oil and gas services businesses. The total consideration was £26.0 million. The fair value exercise is in progress and provisional numbers are shown below. See note 34 "Events after the balance sheet date".

	Assets acquired £million
Property, plant and equipment	0.5
Cash balances	2.7
Trade and other receivables	10.9
Trade and other payables	(6.0)
Other liabilities	(1.1)
Net assets	7.0
Goodwill and intangible assets	19.0
Less minority interest	(3.9)
Consideration paid	22.1

We are currently awaiting receipt of certain information necessary for a full calculation of the valuation of intangible assets.

13. GOODWILL

	2012 £million	2011 £million
Cost		
At 1 January	259.0	259.6
Additions (note 12)	27.3	-
Change in deferred contingent consideration for subsidiaries acquired in prior years	-	(0.6)
At 31 December	286.3	259.0
Accumulated impairment		
At 1 January and 31 December	60.0	60.0
Carrying amount		
At 31 December	226.3	199.0

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 (2011 comparatives have been restated in line with the reorganisation outlined in the 2011 Annual Report):

	Construction £million	Support Services £million	Equipment Services £million	Total £million
At 1 January 2011	11.5	187.2	0.9	199.6
Change in deferred contingent consideration for subsidiaries acquired in prior years	-	(0.6)	-	(0.6)
At 31 December 2011	11.5	186.6	0.9	199.0
Additions	-	27.3	-	27.3
At 31 December 2012	11.5	213.9	0.9	226.3

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. GOODWILL (CONTINUED)

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 11.3% (2011: 13.0%) 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 Support Services, Equipment Services or Construction would occur as a result of adopting these sensitivities.

14. OTHER INTANGIBLE ASSETS

		Acquired		
	Computer software £million	Customer relationships £million	Other £million	Total £million
Cost				
At 1 January 2011	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
Acquisitions (note 12)	-	24.2	-	24.2
Additions	0.7	-	-	0.7
At 31 December 2012	8.4	67.2	1.4	77.0
Accumulated amortisation				
At 1 January 2011	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
Charge for the year	1.6	6.0	-	7.6
At 31 December 2012	4.4	31.8	1.3	37.5
Carrying amount				
At 31 December 2012	4.0	35.4	0.1	39.5
At 31 December 2011	4.9	17.2	0.1	22.2
At 1 January 2011	6.2	22.2	0.3	28.7
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.

15. PROPERTY, PLANT AND EQUIPMENT

(a) Movements

	Land and buildings £million	Hire fleet £million	Other plant and equipment £million	Total £million
Cost				
At 1 January 2011	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
Additions	0.7	24.4	9.3	34.4
Acquisition of subsidiaries	-	-	0.7	0.7
Disposals	(1.5)	(11.0)	(0.8)	(13.3)
Exchange differences	(0.2)	(4.5)	(0.2)	(4.9)
At 31 December 2012	18.3	224.8	75.0	318.1
Accumulated depreciation				
At 1 January 2011	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
Charge for the year	1.2	17.9	8.6	27.7
Eliminated on disposals	(0.8)	(6.5)	-	(7.3)
Exchange differences	(0.1)	(1.3)	(0.2)	(1.6)
At 31 December 2012	9.8	116.1	54.4	180.3
Carrying amount				
At 31 December 2012	8.5	108.7	20.6	137.8
At 31 December 2011	9.8	109.9	20.0	139.7
At 1 January 2011	11.2	117.1	20.7	149.0

The carrying amount of the Group's plant and equipment includes an amount of £1.4 million (2011: £1.2 million) in respect of assets held under finance leases. Details of property, plant and equipment held under finance leases are shown in note 25.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) Carrying amount of land and buildings

	2012 £million	2011 £million
Freehold:		
Land at cost	2.3	2.3
Buildings at cost less depreciation	2.7	3.5
	5.0	5.8
Leaseholds under 50 years at cost less depreciation	3.5	4.0
	8.5	9.8

(c) Future capital expenditure not provided for in the financial statements

	2012 £million	2011 £million
Committed	0.7	1.3

16. 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 2012				Year ended 31 December 2011			
	Construction £million	Support Services £million	Investments £million	Total £million	Construction £million	Support Services £million	Investments £million	Total £million
Revenues	201.6	128.6	81.0	411.2	223.7	88.2	160.2	472.1
Operating profit	13.1	5.1	8.8	27.0	18.8	4.7	1.9	25.4
Net interest receivable	0.5	0.1	0.9	1.5	0.5	0.1	7.5	8.1
Taxation	0.7	(0.7)	(3.1)	(3.1)	(1.6)	(0.6)	(3.4)	(5.6)
Group share of profit	14.3	4.5	6.6	25.4	17.7	4.2	6.0	27.9
Amortisation of acquired intangibles	(0.1)	(0.3)	-	(0.4)	(0.1)	(0.4)	-	(0.5)
Total operating profit	14.2	4.2	6.6	25.0	17.6	3.8	6.0	27.4
Dividends	(12.2)	(3.1)	(4.5)	(19.8)	(12.8)	(2.6)	(5.2)	(20.6)
Retained profits	2.0	1.1	2.1	5.2	4.8	1.2	0.8	6.8

Share of net assets of joint-venture entities and associated undertakings were as follows:

	Year ended 31 December 2012				Year ended 31 December 2011			
	Construction £million	Support Services £million	Investments £million	Total £million	Construction £million	Support Services £million	Investments £million	Total £million
Non-current assets	**25.1**	**13.2**	**40.1**	**78.4**	30.0	14.1	847.2	891.3
Current assets	**146.5**	**23.0**	**15.1**	**184.6**	168.9	22.1	61.6	252.6
Current liabilities	**(107.7)**	**(13.4)**	**(5.5)**	**(126.6)**	(132.7)	(13.7)	(54.5)	(200.9)
Non-current liabilities	**(17.6)**	**(1.1)**	**(42.1)**	**(60.8)**	(20.6)	(1.0)	(751.0)	(772.6)
	46.3	**21.7**	**7.6**	**75.6**	45.6	21.5	103.3	170.4
Goodwill	**4.3**	**3.5**	**-**	**7.8**	4.3	3.5	-	7.8
Acquired intangible assets	**0.6**	**0.2**	**-**	**0.8**	0.8	1.5	-	2.3
Carrying value of net assets and goodwill	**51.2**	**25.4**	**7.6**	**84.2**	50.7	26.5	103.3	180.5

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 Addiewell Prison (Holdings) Ltd. The Group's share of gross assets is £34.8 million, current liabilities £2.0 million and liabilities falling due after more than one year £32.9 million. The most substantial joint-venture entity at 31 December 2011 was Health Management (UCLH) Holdings Ltd. The Group's share of gross assets was £112.7 million, current liabilities £22.7 million and liabilities due after more than one year £84.1 million.

Further details of the Group's investment in PPP/PFI schemes are included in note 32.

At 31 December 2012 the Group had a commitment for additional investment in joint-venture entities of £nil (2011: £13.0 million).

(b) Joint ventures - PFI investments

	Shares £million	Loans £million	Share of reserves £million	Total £million
At 1 January 2011	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
Acquisitions and advances	**-**	**15.7**	**-**	**15.7**
Repayments to the Group	**-**	**(4.7)**	**-**	**(4.7)**
Disposals	**(1.7)**	**4.1**	**(47.2)**	**(44.8)**
Reclassification to assets held for sale	**-**	**(51.2)**	**-**	**(51.2)**
Fair value adjustment to financial instruments and derivatives	**-**	**-**	**(12.9)**	**(12.9)**
Share of retained profits	**-**	**-**	**2.2**	**2.2**
At 31 December 2012	**-**	**7.3**	**0.3**	**7.6**
Assets held for sale				
Investments in joint-venture entities	**-**	**51.2**	**-**	**51.2**
At 31 December 2012	**-**	**51.2**	**-**	**51.2**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. INTERESTS IN ASSOCIATES AND JOINT-VENTURE ENTITIES (CONTINUED)

(b) Joint ventures - PFI investments (continued)

On 11 July 2012, the Group disposed of a net 16.67% interest in the University College London Hospital PFI project ("UCLH") to CFIG Unicorn Holdings SPV LLC, realising a net cash inflow for the Group of £33.0 million.

On 12 October 2012, the Group disposed of minority stakes in two Group subsidiaries that together held interests in 19 PFI investments, including UCLH, to the Dalmore Capital Fund for a consideration of £85.5 million. The interests represented 49.9% of the equity and 62.0% of the debt instruments of the 19 PFI Investments. As a result of this transaction, the Group had to restate its remaining joint-controlling interest in the two subsidiaries at fair value, which are classified at 31 December 2012 as "Assets held for sale".

The £51.2 million of assets held for sale were transferred to the Interserve Pension Scheme after approval by shareholders at a general meeting of the Company held on 7 January 2013 at an agreed valuation of £55.0 million. See note 34 "Events after the balance sheet date".

(c) Associated undertakings

	Shares £million	Loans £million	Share of reserves £million	Total £million
At 1 January 2011	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
Additions	-	0.6	-	0.6
Share of retained profits net of amortisation	-	-	3.0	3.0
Exchange differences	-	-	(4.2)	(4.2)
At 31 December 2012	10.7	9.4	56.5	76.6

17. 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	Trading losses £million	Other timing differences £million	Total £million
At 1 January 2011	22.2	(5.9)	(5.4)	0.1	5.5	16.5
(Charge)/credit to income	(11.2)	1.8	7.8	0.3	0.5	(0.8)
(Charge)/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	0.4	6.5	23.4
(Charge)/credit to income	(10.7)	1.7	0.9	5.6	1.0	(1.5)
Acquisition of subsidiaries	-	(5.6)	(0.1)	-	0.6	(5.1)
(Charge)/credit to equity	16.1	-	-	-	0.6	16.7
Exchange differences	-	-	-	-	-	-
At 31 December 2012	23.6	(8.0)	3.2	6.0	8.7	33.5

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 £1.4 million charged to equity and £0.8 million credited to the income statement.

Certain deferred tax assets and liabilities, as shown below, have been offset on the consolidated balance sheet.

	31 December 2012 £million	31 December 2011 £million
Deferred tax liabilities	(8.0)	(4.1)
Deferred tax assets	41.5	27.5
	33.5	23.4

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 £8.1 million (2011: £6.3 million) on gross losses of £35.4 million (2011: £25.2 million).

18. INVENTORIES

	31 December 2012 £million	31 December 2011 £million	31 December 2010 £million
Goods held for resale	24.0	21.4	19.2
Materials	0.6	0.8	0.4
	24.6	22.2	19.6

19. CONSTRUCTION CONTRACTS

Balances related to contracts in progress at the balance sheet date were:

	31 December 2012 £million	31 December 2011 £million	31 December 2010 £million
Amounts due from contract customers included in trade and other receivables	50.9	32.0	39.0
Amounts due to contract customers included in trade and other payables	(20.6)	(25.9)	(31.7)
	30.3	6.1	7.3
Contract costs incurred plus recognised profits less recognised losses to date	4,698.0	4,456.8	4,090.6
Less: progress billings	(4,667.7)	(4,450.7)	(4,083.3)
	30.3	6.1	7.3

At 31 December 2012, retentions held by customers for contract work amounted to £26.0 million (2011: £23.3 million) of which £4.5 million (2011: £3.6 million) is receivable after one year. Advances received were £20.6 million (2011: £25.9 million) of which £nil is repayable after one year (2011: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. TRADE AND OTHER RECEIVABLES

	31 December 2012 £million	31 December 2011 £million	31 December 2010 £million
Amounts recoverable from the sale of goods and services	270.1	261.3	252.1
Allowances for doubtful debts	(30.5)	(33.8)	(33.1)
	239.6	227.5	219.0
Amounts due from construction contract customers	50.9	32.0	39.0
Retentions	26.0	23.3	23.0
Other receivables	12.4	8.2	7.8
Prepayments and accrued income	103.1	89.1	97.3
	432.0	380.1	386.1

Included in the above are the following amounts recoverable after more than one year:

	31 December 2012 £million	31 December 2011 £million	31 December 2010 £million
Retentions	4.5	3.6	9.8

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 37 days (2011: 41 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 2012 £million	31 December 2011 £million	31 December 2010 £million
Not more than one month past due	36.0	26.8	22.8
Between one and three months past due	14.3	14.7	17.5
Between three and six months past due	16.6	14.0	14.0
Greater than six months	10.4	9.7	7.5
Total past due but not impaired	77.3	65.2	61.8
Not past due	162.3	162.3	157.2
Total net receivables	239.6	227.5	219.0

The average age of the receivables past due but not impaired is 83 days (2011: 89 days).

Movement in allowance for doubtful debt is as follows:

	2012 £million	2011 £million
Balance at 1 January	33.8	33.1
Amounts written off as uncollectable	(13.7)	(11.1)
Impairment losses recognised in the year	19.3	18.0
Amounts recovered during the year	(8.2)	(5.8)
Exchange differences	(0.7)	(0.4)
Balance at 31 December	30.5	33.8

21. 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 2012 £million	31 December 2011 £million	31 December 2010 £million
Cash and deposits	**76.8**	46.1	67.6
Bank overdrafts	**(19.8)**	(19.3)	(35.2)
Bank loans	**(30.0)**	(70.0)	(85.0)
	(49.8)	(89.3)	(120.2)
Finance leases (note 25)	**(1.2)**	(1.0)	(1.2)
Total borrowings	**(51.0)**	(90.3)	(121.4)
Net cash/(debt)	**25.8**	(44.2)	(53.8)

Included within cash and deposits is £31.0 million (2011: £31.9 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 2012 £million	31 December 2011 £million	31 December 2010 £million
On demand or within one year	**20.3**	19.8	35.8
In the second year	**0.3**	70.3	0.4
In the third to fifth years inclusive	**30.4**	0.2	85.2
	51.0	90.3	121.4
Less: Amount due for settlement within 12 months	**(20.3)**	(19.8)	(35.8)
Amount due for settlement after 12 months	**30.7**	70.5	85.6

The analysis of utilisation of committed bank facilities is as follows:

	31 December 2012 £million	31 December 2011 £million	31 December 2010 £million
Drawn facilities	**30.0**	70.0	85.0
Undrawn facilities within one to two years	**-**	180.0	-
Undrawn facilities within more than two years but not more than five years remaining	**215.0**	-	165.0
Total facilities	**245.0**	250.0	250.0

During February 2012 the Group entered into a series of committed bank facilities of £225 million and €25 million (combined total of £245 million, at exchange rates on 31 December 2012). These facilities run in parallel with each other and provide a diverse maturity profile extending, at most, five years to February 2017. Fees paid as a result of entering into these new facilities are held as a prepayment and are being amortised over the expected life of the facility.

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 seeks to control its exposure to changes in interest rates by using interest rate swaps (see note 22(b)). The Group has access to committed borrowing facilities that expire in two to five 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 (2011: £0.4 million within one year).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. 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 2012 £million	31 December 2011 £million
Loans and receivables		
Cash and deposits	76.8	46.1
Trade and other receivables (excluding construction contracts, prepaid and accrued income)	252.0	235.7
Total financial assets	328.8	281.8

	31 December 2012			31 December 2011		
	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	51.0	-	51.0	90.3	-	90.3
Trade and other payables (excluding construction contracts, accruals, deferred income and other tax and social security)	253.4	-	253.4	222.6	-	222.6
Interest rate hedge (non-PFI investments)	-	1.2	1.2	-	1.8	1.8
Total financial liabilities	304.4	1.2	305.6	312.9	1.8	314.7

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 2012 £million	31 December 2011 £million
Level 2	(1.2)	(1.8)

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.

(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 2012				31 December 2011			
	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	59.7	-	196.7	256.4	31.3	-	186.9	218.2
US dollar	1.1	-	4.5	5.6	1.9	-	3.5	5.4
Euro	6.7	-	2.4	9.1	4.6	-	4.1	8.7
Australian dollar	2.1	-	8.8	10.9	2.5	-	8.3	10.8
Dirham	0.6	-	18.7	19.3	0.7	-	17.5	18.2
Other	6.6	-	20.9	27.5	5.1	-	15.4	20.5
	76.8	-	252.0	328.8	46.1	-	235.7	281.8

Analysis of financial liabilities, excluding derivatives used for hedging, by currency:

	31 December 2012				31 December 2011			
	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	16.3	31.2	238.4	285.9	40.8	49.0	210.8	300.6
US dollar	-	-	0.7	0.7	-	-	0.2	0.2
Euro	-	-	1.7	1.7	0.5	-	2.8	3.3
Australian dollar	-	-	1.1	1.1	-	-	1.6	1.6
Dirham	3.1	-	9.9	13.0	-	-	5.5	5.5
Other	0.4	-	1.6	2.0	-	-	1.7	1.7
	19.8	31.2	253.4	304.4	41.3	49.0	222.6	312.9
Weighted average interest rates excluding amortisation of arrangement fees and bank margin	0.8%	3.6%			0.9%	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 2012.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Currency exposures (continued)

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:

A 1% change in exchange rates results in:	31 December 2012 £million	31 December 2011 £million
Change in profit	0.2	0.2
Change in reserves / net assets	1.5	1.5

A 1% change in the Qatari rial exchange rate would result in a £0.1 million change in profit and a £0.5 million change in reserves/net assets, and a 1% change in the Australian dollar exchange rate in a £0.1 million change in profit and a £0.4 million change in reserves/net assets.

(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 2012				31 December 2011			
		Nominal value £million	Maturity	Strike price		Nominal value £million	Maturity	Strike price
Interest rate swaps	Current	30.0	2013	3.56%	Current	20.0	2012	3.62%
	Deferred	20.0	2015	1.50%	Current	30.0	2013	3.56%
	Deferred	10.0	2015	1.58%				

The fair value of interest rate hedges at 31 December 2012 is estimated at (£1.2) million (2011: (£1.8) 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 using computer valuation models operated by counterparty banks. No charges have gone through the income statement in the year (2011: £nil) in respect of changes in the fair value of the hedges. A loss of £0.1 million (2011: gain of £1.1 million) was charged 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 2012 £million	31 December 2011 £million
A 1% change in interest rate results in:		
Change in profit	0.2	–

(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 footnotes.

(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 21), 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.

23. TRADE AND OTHER PAYABLES - AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2012 £million	31 December 2011 £million	31 December 2010 £million
Obligations under finance leases (note 25)	0.5	0.5	0.6
Trade payables	214.0	191.5	194.7
Advances received	20.6	25.9	31.7
Other taxation and social security	33.8	30.4	29.4
Other payables	34.9	30.8	30.5
Accruals and deferred income	251.7	213.6	205.9
	555.5	492.7	492.8

24. TRADE AND OTHER PAYABLES - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 December 2012 £million	31 December 2011 £million	31 December 2010 £million
Obligations under finance leases (note 25)	0.7	0.5	0.6
Trade payables	0.6	0.3	0.5
Other payables	2.7	3.3	5.6
	4.0	4.1	6.7

The carrying amount of trade and other payables approximates to their fair value.

The average credit period taken for trade purchases is 63 days (2011: 82 days).

Ageing of amounts payable excluding advances, finance leases, accruals and deferred income is as follows:

	31 December 2012 £million	31 December 2011 £million	31 December 2010 £million
Less than one year	282.7	252.7	254.6
Between one and two years	3.3	3.6	6.1
	286.0	256.3	260.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. OBLIGATIONS UNDER FINANCE AND OPERATING LEASES

(a) Finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2012 £million	2011 £million	2012 £million	2011 £million
Amounts payable under finance leases:				
Within one year	**0.5**	0.5	**0.5**	0.5
In the second to fifth years inclusive	**0.8**	0.6	**0.7**	0.5
	1.3	1.1	**1.2**	1.0
Less: future finance charges	**(0.1)**	(0.1)	**n/a**	n/a
Present value of lease obligations	**1.2**	1.0	**1.2**	1.0

Certain of the Group's plant and equipment is held under finance leases. The average lease term is four to five years. For the year ended 31 December 2012, the average effective borrowing rate was 3.3% (2011: 4.0%). 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.

(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:

	2012			2011		
	Land and buildings £million	Other £million	Total £million	Land and buildings £million	Other £million	Total £million
Within one year	**12.5**	**9.4**	**21.9**	11.4	7.1	18.5
In the second to fifth years inclusive	**28.8**	**13.8**	**42.6**	28.0	10.0	38.0
After five years	**14.7**	**0.1**	**14.8**	17.5	0.1	17.6
	56.0	**23.3**	**79.3**	56.9	17.2	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.

26. PROVISIONS

	Deferred consideration £million	Contract provisions £million	Other £million	Total £million
At 1 January 2011	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
Additional provision in the year	-	15.3	2.8	18.1
Release	-	(5.8)	(0.5)	(6.3)
Utilisation of provision	-	(13.8)	(1.7)	(15.5)
Exchange differences	-	-	-	-
At 31 December 2012	-	40.5	10.8	51.3

	31 December 2012 £million	31 December 2011 £million	31 December 2010 £million
Included in current liabilities	24.2	28.7	20.2
Included in non-current liabilities	27.1	26.3	26.9
	51.3	55.0	47.1

The impact of discounting is not material.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. SHARE CAPITAL

	31 December 2012 £million	31 December 2011 £million	31 December 2010 £million
Issued and fully paid:			
126,846,939 ordinary shares of 10p each (2011: 125,804,346 ordinary shares of 10p each)	12.7	12.6	12.6

	Shares thousands	Share capital £million
At 1 January 2011 and 31 December 2011	125,804.4	12.6
Share awards issued in 2012	1,042.5	0.1
At 31 December 2012	126,846.9	12.7

Awards were granted during the year as indicated below. Exercise and vesting details are stated in the Directors' Remuneration Report on pages 66 to 68. Outstanding options and awards over shares in the Company at 31 December 2012 were as follows:

			31 December 2012		31 December 2011	
	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	19 March 2002	566.50p	-	-	4	21,180
	23 April 2003	205.83p	1	133,333	1	133,333
	26 May 2004	253.25p	8	240,000	9	255,000
	9 December 2004	324.00p	1	50,000	1	50,000
	14 March 2005	359.33p	21	681,394	23	808,723
				1,104,727		1,268,236
(b) Performance Share Plan	23 March 2009	Nil	-	-	61	1,937,812
	19 April 2010	Nil	57	1,576,702	58	1,593,319
	27 April 2010	Nil	1	10,386	1	10,386
	20 April 2011	Nil	61	1,982,454	62	2,001,138
	11 April 2012	Nil	102	2,570,881	-	-
				6,140,423		5,542,655
(c) Sharesave Scheme	7 August 2009	152.50p	145	81,396	1,346	780,138
	14 May 2010	214.50p	754	312,308	836	345,805
	15 April 2011	231.00p	816	310,284	912	345,774
	5 April 2012	238.00p	1,235	451,925	-	-
				1,155,913		1,471,717

28. 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	
	2012 £million	2011 £million	2012 £million	2011 £million
Associated undertakings' borrowings	16.1	7.3	0.2	0.2
Joint venture and associated undertakings' bonds and guarantees	185.2	206.4	101.9	127.4
	201.3	213.7	102.1	127.6

29. SHARE-BASED PAYMENTS

Under the Group's share-based incentive schemes the following expense was charged:

	2012 £million	2011 £million
Performance Share Plan	4.1	2.1
Sharesave Scheme	0.2	0.2
Total charge	4.3	2.3
Cash settled	1.1	1.0
Equity settled	3.2	1.3
Total charge	4.3	2.3

(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.

	2012		2011	
	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	21,180	5.67	42,877	5.60
Lapsed during the period	(21,180)	5.67	(21,697)	5.53
Outstanding and exercisable at the end of the period	-	-	21,180	5.67
Options granted since 7 November 2002:				
Outstanding at beginning of period	1,247,056	3.20	1,247,056	3.20
Exercised during the period	(112,710)	3.59	-	-
Lapsed during the period	(29,619)	3.06	-	-
Outstanding and exercisable at the end of the period	1,104,727	3.16	1,247,056	3.20

The average share price during the year was £3.27. The outstanding options at the end of the period had exercise prices ranging from £2.06 to £3.59 and had a remaining weighted average contractual life of 1.8 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. SHARE-BASED PAYMENTS (CONTINUED)

(b) Performance Share Plan

The Performance Share Plan is a “free” share award with an effective exercise price of £nil, part of which is subject to a Total Shareholder Return (TSR) performance condition with performance compared to a comparator group. The other part 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 67 and 68. Awards are normally forfeited if the employee leaves the Group before the awards vest.

	2012 Awards number	2011 Awards number
Outstanding at beginning of period	5,542,655	4,556,489
Granted during the period	2,578,537	2,015,501
Vested during the period	(929,883)	-
Lapsed during the period	(1,050,886)	(1,029,335)
Outstanding at the end of the period	6,140,423	5,542,655
Exercisable at the end of the period	-	-

The remaining weighted average contractual life is 1.5 years (2011: 1.3 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:

	2012 grants	2011 grants	2010 grants	2009 grants
Weighted average share price	275.8p	261.0p	236.5p	197.0p
Weighted average exercise price	0p	0p	0p	0p
Expected volatility	33.0%	49.0%	48.5%	47.0%
Expected life	3 years	3 years	3 years	3 years
Risk-free rate	0.5%	1.6%	1.8%	1.8%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Average fair value of award per share	220.0p	231.9p	195.7p	158.1p

(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 for the 2012 grant was set at a 20% discount of the average share price over five days' trading prior to the offer date of the scheme; the grants in 2009 to 2011 used a 10% discount.

	2012		2011	
	Options number	Weighted average exercise price £	Options number	Weighted average exercise price £
Outstanding at beginning of period	1,471,717	1.86	1,267,063	1.72
Granted during the period	466,815	2.38	360,828	2.31
Exercised during the period	(665,181)	1.53	(12,904)	1.63
Lapsed during the period	(117,438)	2.00	(143,270)	1.80
Outstanding at the end of the period	1,155,913	2.24	1,471,717	1.86
Exercisable at the end of the period	81,396	1.53	-	-

The outstanding options at the end of the period had a weighted average exercise price of £2.24 (2011: £1.86) and had a remaining weighted average contractual life of 1.5 years (2011: 1.3 years).

The inputs into the Black-Scholes model are as follows:

	2012 grants	2011 grants	2010 grants
Share price at date of grant	276.4p	260.5p	235.75p
Exercise price	238.0p	231.0p	214.5p
Expected volatility	32.4%	27.4%	41.5%
Expected life	3 years	3 years	3 years
Risk-free rate	1.3%	1.7%	3.3%
Expected dividend yield	7.6%	8.1%	7.4%
Fair value of award per share	45.5p	32.5p	38.3p

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. 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 2012.

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.

The following table sets out the key IAS 19 assumptions used to assess the present value of the defined benefit obligation:

	2012	2011	2010
Retail price inflation	3.00% pa	3.10% pa	3.40% pa
Consumer price index	2.30% pa	2.10% pa	2.80% pa
Discount rate	4.40% pa	4.80% pa	5.40% pa
Pension increases in payment:			
LPI/RPI	2.90%/3.00%	3.00%/3.10%	3.30%/3.40%
Fixed 5%	5.00%	5.00%	5.00%
3% or RPI if higher (capped at 5%)	3.50%	3.60%	3.70%
General salary increases	2.30-2.80% pa	3.85-4.60% pa	4.15-4.90% 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 2011 and making a deduction of 0.4% (2011: 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 2012 (net of expenses) was 4.9% pa (2011: 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 87.3 (2011: age 86.0) and female 89.3 (2011: age 87.9). A future pensioner who is currently aged 45 and retires at age 65 is expected to live until age: male 89.1 (2011: age 87.8) and female 90.9 (2011: age 89.1).

The amount included in the balance sheet arising from the Group's obligations in respect of the various pension schemes is as follows:

	2012 £million	2011 £million	2010 £million	2009 £million	2008 £million
Present value of defined benefit obligation	799.3	695.0	642.3	627.4	534.2
Fair value of schemes' assets	(698.2)	(638.8)	(590.8)	(532.1)	(381.1)
Liability recognised in the balance sheet	101.1	56.2	51.5	95.3	153.1

The amounts recognised in the income statement are as follows:

	2012 £million	2011 £million
Employer's part of current service cost	5.8	5.6
Interest cost	32.8	34.0
Expected return on schemes' assets	(32.0)	(35.3)
Gains on curtailments and settlements	-	(0.4)
Total expense recognised in the income statement	6.6	3.9

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 £49.7 million (2011: gain of £40.4 million).

The current allocation of the schemes' assets is as follows:

	2012			2011			2010		
	Current allocation	Fair value £million	Weighted average expected return at 31 December 2012 per annum	Current allocation	Fair value £million	Weighted average expected return at 31 December 2011 per annum	Current allocation	Fair value £million	Weighted average expected return at 31 December 2010 per annum
Performance-seeking	**45%**	**312.8**	**6.9%**	44%	278.6	7.0%	48%	285.7	8.0%
Defensive	**46%**	**320.9**	**3.6%**	47%	299.8	3.8%	41%	242.0	4.5%
Infrastructure	**9%**	**64.5**	**5.5%**	9%	60.4	5.5%	11%	63.1	6.5%
Expected return before scheme expenses	**100%**	**698.2**	**5.3%**	100%	638.8	5.3%	100%	590.8	6.4%

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 the Group 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:

	2012 £million	2011 £million
Opening defined benefit obligation	**695.0**	642.3
Employer's part of current service cost	**5.8**	5.6
Interest cost	**32.8**	34.0
Contributions by schemes' participants	**0.6**	1.2
Actuarial loss	**92.6**	38.0
Benefits paid	**(27.5)**	(25.0)
Curtailments and settlements	**-**	(0.4)
Bulk transfers	**-**	(0.7)
Closing defined benefit obligation	**799.3**	695.0

A reconciliation of the fair value of the schemes' assets is as follows:

	2012 £million	2011 £million
Opening fair value of the schemes' assets	**638.8**	590.8
Expected return on schemes' assets	**32.0**	35.3
Actuarial gain	**17.7**	5.1
Contributions by the employer	**36.6**	32.1
Contributions by schemes' participants	**0.6**	1.2
Benefits paid	**(27.5)**	(25.0)
Bulk transfers	**-**	(0.7)
Closing fair value of the schemes' assets	**698.2**	638.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. DEFINED BENEFIT RETIREMENT SCHEMES (CONTINUED)

	2012 £million	2011 £million	2010 £million	2009 £million	2008 £million
Experience adjustments on the schemes' assets					
Amount of gain/(loss)	**17.7**	5.1	18.1	60.0	(141.1)
Percentage of the schemes' assets	**3%**	1%	3%	11%	(37%)
Experience adjustments on the schemes' liabilities					
Amount of (loss)/gain	**(17.3)**	(5.9)	(2.8)	10.1	(3.8)
Percentage of the present value of the schemes' liabilities	**(2%)**	(1%)	-	2%	(1%)
Gain/(loss) due to changes in assumption					
Amount of (loss)/gain	**(75.3)**	(32.1)	4.0	(101.1)	64.2
Percentage of the present value of the schemes' liabilities	**(9%)**	(5%)	1%	(16%)	12%
Total actuarial gains and (losses) recognised directly in equity in the year	**(74.9)**	(32.9)	19.3	(31.0)	(80.7)
Cumulative amount of gains and (losses) recognised in other comprehensive income	**(183.3)**	(108.4)	(75.5)	(94.8)	(63.8)

At a general meeting of the Company held on 7 January 2013, shareholders approved the disposal of a portfolio of 19 PFI investments for an agreed valuation of £55 million to the Interserve Pension Scheme. As a result, the retirement benefit deficit has been reduced by £55 million. See note 34 “Events after the balance sheet date”.

Based on current contribution rates and payroll, the Group expects to contribute £79.4 million to the various defined benefit arrangements during 2013. This includes a deficit contribution of £67.1 million.

31. 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 from related parties		Amounts due from related parties		Amounts due to related parties	
	2012 £million	2011 £million	2012 £million	2011 £million	2012 £million	2011 £million	2012 £million	2011 £million
Joint-venture entities - PFI Investments	**229.7**	180.2	**-**	-	**21.2**	13.8	**-**	-
Associates	**145.5**	98.6	**0.9**	1.1	**21.4**	30.9	**-**	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. Dividends totalling £0.1 million (2011: £0.1 million) were paid in the year in respect of ordinary shares held by the Company's directors. Other amounts paid to key management personnel are given in the audited section of the Directors' Remuneration Report on pages 64 to 68.

32. PFI/PPP ARRANGEMENTS

PFI/PPP arrangements that have reached financial close as at 31 December 2012 include:

(a) Assets disposed of to the Interserve Pension Scheme in 2013 (note 34):

	Interserve services				Dates				
Contract	Design/build	Operate	Whole-life value £million	Status	Awarded	Fully operational	Contract end	Share of equity %	Total capital required £million
Health									
Cumberland Infirmary		yes	135	operational	late 1997	early 2000	2030	25	84.0
UCL Hospital		yes	403	operational	mid 2000	mid 2005	2040	8	292.0
Newcastle NHS Trust		yes	130	operational	early 2005	mid 2013	2043	10	337.0
Tunbridge Wells		yes	67	operational	early 2008	mid 2011	2042	13	279.5
Enniskillen		yes	60	operational	early 2009	mid 2012	2042	18	276.3
Education									
Holy Cross		yes	19	operational	late 2006	late 2008	2033	25	32.0
Plymouth Schools	yes	yes	59	operational	early 2007	late 2008	2033	25	45.0
Leeds BSF	yes	yes	279	operational	early 2007	mid 2009	2034	20	123.0
Leeds Phase 2	yes	yes	48	operational	early 2008	mid 2009	2034	20	35.0
Leeds Phase 3	yes	yes	49	operational	mid 2008	mid 2010	2035	23	31.2
Derry Schools		yes	23	operational	late 2008	early 2011	2036	25	45.3
Down & Connor		yes	17	operational	mid 2009	early 2011	2035	25	35.2
Downpatrick		yes	10	operational	mid 2009	early 2011	2036	25	18.0
Sandwell	yes	yes	114	operational	mid 2009	late 2011	2036	20	51.1
St Helens	yes	yes	63	construction	late 2010	early 2013	2038	25	33.0
Leeds Phase 4	yes	yes	25	construction	late 2011	late 2013	2038	25	18.0
Custodial									
Ashford Prison	yes		47	operational	late 2002	mid 2004	2029	17	65.0
Peterborough Prison	yes		60	operational	early 2003	early 2005	2030	17	90.0
Defence									
Corsham		yes	200	operational	mid 2008	late 2011	2033	25	90.0

The assets are classified as held for sale and have a carrying value of £51.2 million.

Interserve's share of the capital commitments of the joint ventures above amounts to £1.7 million (2011: £10.6 million).

(b) Assets that have been retained by the Group:

	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
Custodial										
Addiewell Prison	yes		73	operational	mid 2006	late 2008	2033	33	3.0	100.0
Central/local government										
West Yorkshire Police	yes	yes	170	construction	mid 2012	mid 2014	2039	50	4.3	112.5
									7.3	
Invested to date										
Shares									0.5	
Loans									6.8	
Remaining commitment									-	
									7.3	

Interserve's share of the capital commitments of the joint ventures above amounts to £42.1 million (2011: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. 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

	2012 £million	2011 £million	2010 £million
Profit before tax	182.9	67.1	64.1
Adjusted for:			
Amortisation of acquired intangible assets	6.0	5.2	5.0
Share of associates' amortisation of acquired intangible assets	0.4	0.5	0.5
Exceptional items	(110.9)	-	-
Headline pre-tax profit	78.4	72.8	69.6

(b) Operating cash flow

	2012 £million	2011 £million	2010 £million
Cash generated by operations	33.7	48.1	25.2
Adjusted for:			
Pension contributions in excess of income statement charge	30.8	27.0	26.7
Proceeds on disposal of plant and equipment – non-hire fleet	1.8	0.5	1.9
Capital expenditure - non-hire fleet	(10.7)	(9.0)	(7.5)
Operating cash flow	55.6	66.6	46.3

(c) Free cash flow

	2012 £million	2011 £million	2010 £million
Operating cash flow	55.6	66.6	46.3
Adjusted for:			
Pension contributions in excess of income statement charge	(30.8)	(27.0)	(26.7)
Taxes paid	(10.7)	(3.2)	(6.3)
Dividends received from associates and joint ventures	19.8	20.6	32.1
Interest received	8.4	4.4	3.8
Interest paid	(9.6)	(6.7)	(6.4)
Effect of foreign exchange rate change	(0.2)	(0.3)	0.3
Free cash flow	32.5	54.4	43.1

(d) Operating cash conversion

	2012 £million	2011 £million	2010 £million
Operating cash flow	55.6	66.6	46.3
Operating profit, before exceptional items and amortisation of acquired intangible assets	55.0	45.9	43.4
Full-year operating cash conversion	101.1%	145.1%	106.7%
Three-year rolling operating cash flow	168.5	226.6	194.7
Three-year rolling operating profit, before exceptional items and amortisation of acquired intangible assets	144.3	145.9	159.4
Operating cash conversion, three-year rolling average	116.8%	155.3%	122.1%

(e) Gross operating cash conversion

	2012 £million	2011 £million	2010 £million
Operating cash flow	55.6	66.6	46.3
Dividends received from associates and joint ventures	19.8	20.6	32.1
Gross operating cash flow	75.4	87.2	78.4
Operating profit, before exceptional items and amortisation of acquired intangible assets	55.0	45.9	43.4
Share of results of associates and joint ventures, before exceptional items and amortisation of acquired intangible assets	25.4	27.9	31.0
Total operating profit, before exceptional items and amortisation of acquired intangible assets	80.4	73.8	74.4
Full-year gross operating cash conversion	93.8%	118.2%	105.4%
Three-year rolling gross operating cashflow	241.0	296.9	257.9
Three-year rolling total operating profit before exceptional items and amortisation of acquired intangible assets	228.6	233.9	248.1
Gross operating cash conversion, three-year rolling average	105.4%	126.9%	104.0%

(f) Gross revenue

	2012 £million	2011 £million	2010 £million
Consolidated revenue	1,958.4	1,847.5	1,872.0
Share of revenues of associates and joint ventures	411.2	472.1	443.4
Gross revenue	2,369.6	2,319.6	2,315.4

(g) Operating margins

	2012 £million	2011 £million	2010 £million
Total operating profit before exceptional items and amortisation of acquired intangible assets	80.4	73.8	74.4
Gross revenue	2,369.6	2,319.6	2,315.4
Total operating margin	3.4%	3.2%	3.2%

34. EVENTS AFTER THE BALANCE SHEET DATE

Acquisition of Willbros Middle East Limited
The Company announced on 7 January 2013 that it had entered into an agreement to acquire Willbros Middle East Limited and its subsidiaries, which provide oil field maintenance, construction and logistic services. These subsidiaries, the foremost of which is The Oman Construction Company, will be owned 85% by the Group and 15% by an Omani partner. See note 12 “Acquisitions”.

Transfer of PFI Investments to the Interserve Pension Scheme
At a general meeting of the Company held on 7 January 2013, shareholders approved the disposal of all the Group’s interests in a portfolio of 19 PFI investments at an agreed valuation of £55 million to the Interserve Pension Scheme. The disposal of assets was treated as a special employer contribution. As a result the retirement benefit obligation was reduced by £55 million. These assets were classified as “held for sale” at 31 December 2012.

INDEPENDENT AUDITOR'S 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 2012 which comprise the Company balance sheet and the related notes A to Q. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

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 2012;
- 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 MATTER

We have reported separately on the Group financial statements of Interserve Plc for the year ended 31 December 2012.

Stephen Griggs (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
27 February 2013

COMPANY BALANCE SHEET

at 31 December 2012

	Notes	2012 £million	2011 £million
Fixed assets			
Tangible fixed assets	E	2.8	3.1
Interests in associated undertakings	F	2.7	2.7
Investments in subsidiary undertakings	G	463.9	464.6
		469.4	470.4
Current assets			
Debtors:			
Due within one year	H	107.2	62.2
Due after one year	H	4.3	2.6
Cash at bank and in hand		8.0	8.8
		119.5	73.6
Creditors: amounts falling due within one year			
Bank overdrafts and loans		(113.6)	(140.5)
Trade creditors		(0.4)	(0.7)
Other creditors	I	(73.6)	(25.6)
Short-term provisions	J	(0.1)	(0.1)
		(187.7)	(166.9)
Net current liabilities		(68.2)	(93.3)
Total assets less current liabilities		401.2	377.1
Creditors: amounts falling due after more than one year			
Other creditors	K	(6.5)	(6.4)
Long-term provisions	J	(0.1)	(0.2)
Net assets		394.6	370.5
Capital and reserves			
Called-up share capital	M	12.7	12.6
Share premium account	N	113.1	112.7
Capital redemption reserve	N	0.1	0.1
Acquisition reserve	N	108.5	108.5
Profit and loss account	N	160.2	136.6
Shareholders' funds	O	394.6	370.5

These financial statements were approved by the Board of Directors on 27 February 2013.

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 2012

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.

Going concern

The directors have made enquiries and have a reasonable expectation that the Company has adequate resources to continue in existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

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 30 to the Annual Report and Financial Statements of the Group sets out details of the IAS 19 net pension liability of £101.1 million (2011: £56.2 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

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

Debtors
Debtors 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.

Creditors
Creditors 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 29 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.

Exemptions

The Company's financial statements are included in the Interserve Plc consolidated financial statements for the year ended 31 December 2012. 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 wholly-owned members of the Interserve Group. The Interserve Plc consolidated financial statements for the year ended 31 December 2012 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 2012 of £42.7 million (2011: £39.3 million).

The auditors' remuneration for audit services to the Company was £0.2 million (2011: £0.2 million).

C) EMPLOYEES

The average number of persons employed, being full-time equivalents, by the Company during the year, including directors, was 91 (2011: 74).

The costs incurred in respect of these employees were:

	2012 £million	2011 £million
Wages and salaries	9.2	6.6
Social security costs	0.7	0.6
Share-based payments	1.8	1.2
Pension costs	0.7	0.7
	12.4	9.1

	2012 £million	2011 £million
Share-based payments to employees of the Company	1.8	1.2
Share-based payments to employees of subsidiaries	2.5	1.1
Group share-based payment charge	4.3	2.3
Cash settled	1.1	1.0
Equity settled	3.2	1.3
Group share-based payment charge	4.3	2.3

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 64 to 68 and should be regarded as an integral part of this note.

D) DIVIDENDS

	2012 £million	2011 £million
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2011 of 13.0p (2010: 12.4p) per share	16.3	15.5
Interim dividend for the year ended 31 December 2012 of 6.4p (2011: 6.0p) per share	8.1	7.5
	24.4	23.0
Proposed final dividend for the year ended 31 December 2012 of 14.1p per share	17.9	

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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

E) TANGIBLE FIXED ASSETS

(a) Movement during the year

	Land and buildings £million	Other £million	Total £million
Cost			
At 1 January 2012	4.3	3.0	7.3
Additions	0.1	0.2	0.3
At 31 December 2012	4.4	3.2	7.6
Depreciation			
At 1 January 2012	1.8	2.4	4.2
Provided in year	0.3	0.3	0.6
At 31 December 2012	2.1	2.7	4.8
Net book value			
At 31 December 2012	2.3	0.5	2.8
At 31 December 2011	2.5	0.6	3.1

(b) Land and buildings

	2012 £million	2011 £million
Net book value of land and buildings		
Freehold:		
Land at cost	1.0	1.0
Buildings at cost less depreciation	-	-
	1.0	1.0
Leaseholds over 50 years at cost less depreciation	1.3	1.5
	2.3	2.5

(c) Operating leases

The Company had annual commitments under non-cancellable operating leases that expire as follows:

	Land and buildings		Other	
	2012 £million	2011 £million	2012 £million	2011 £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

	2012 £million	2011 £million
Investment	2.7	2.7

G) INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	Shares at cost £million
Cost	
At 1 January 2012	486.5
Disposals	(2.0)
At 31 December 2012	484.5
Provisions	
At 1 January 2012	21.9
Disposals	(1.3)
At 31 December 2012	20.6
Net book value	
At 31 December 2012	463.9
At 31 December 2011	464.6

Details of principal group undertakings are given on pages 128 to 135, which form part of these financial statements.

H) DEBTORS

	2012 £million	2011 £million
Amounts falling due within one year:		
Trade debtors	0.1	-
Amounts owed by subsidiary undertakings	101.7	56.6
Corporation tax	3.8	2.9
Prepayments and accrued income	1.6	2.7
	107.2	62.2
Amounts falling due after more than one year:		
Deferred taxation (note L)	4.3	2.6
	4.3	2.6

I) OTHER CREDITORS

	2012 £million	2011 £million
Amounts owed to subsidiary undertakings	46.2	2.2
Other creditors	20.0	17.9
Accruals and deferred income	7.4	5.5
	73.6	25.6

J) PROVISIONS

	2012 £million	2011 £million
At 1 January	(0.3)	(0.3)
Provision utilisation	0.1	-
At 31 December	(0.2)	(0.3)
Included in current liabilities	(0.1)	(0.1)
Included in non-current liabilities	(0.1)	(0.2)

NOTES TO THE COMPANY FINANCIAL STATEMENTS

K) OTHER CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2012 £million	2011 £million
Corporation tax	6.5	6.4
Amounts payable:		
After five years	6.5	6.4

L) DEFERRED TAXATION ASSET

	2012 £million	2011 £million
Movement in year		
At 1 January	2.6	2.4
Provided in the year	1.7	0.2
At 31 December	4.3	2.6
The source of the balance on deferred tax account is as follows:		
Accelerated capital allowances	-	-
Other timing differences	4.3	2.6
At 31 December	4.3	2.6

M) SHARE CAPITAL

	2012 £million	2011 £million
Allotted and fully paid		
126,846,939 ordinary shares of 10p each (2011: 125,804,346 ordinary shares of 10p each)	12.7	12.6

N) RESERVES

	Share premium £million	Capital redemption reserve £million	Acquisition reserve £million	Profit and loss reserve £million	Total £million
At 1 January 2012	112.7	0.1	108.5	136.6	357.9
Profit for the financial year (note B)	-	-	-	42.7	42.7
Shares issued	0.4	-	-	-	0.4
Dividends paid (note D)	-	-	-	(24.4)	(24.4)
Fair value adjustment	-	-	-	(0.1)	(0.1)
Investment in own shares	-	-	-	1.0	1.0
Deferred tax on items taken directly to equity	-	-	-	0.6	0.6
Share-based payments	-	-	-	3.8	3.8
At 31 December 2012	113.1	0.1	108.5	160.2	381.9

Of the balance of £160.2 million in the profit and loss account at 31 December 2012, £43.1 million (2011: £56.6 million) is considered to be unrealised and is therefore not distributable. A loss of £0.1 million (2011: gain of £1.1 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	42.7
Dividends	(24.4)
	18.3
Shares issued	0.5
Share-based payments	3.8
Deferred tax on items taken directly to equity	0.6
Investment in own shares	1.0
Fair value adjustments on hedging	(0.1)
Net increase to shareholders' funds	24.1
Shareholders' funds at 31 December 2011	370.5
Shareholders' funds at 31 December 2012	394.6

P) CONTINGENT LIABILITIES

At 31 December 2012, 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 2012, these amounted to £3.1 million (2011: £0.2 million). The Company has provided a guarantee to the Interserve Pension Scheme for future contributions due from subsidiary undertakings amounting to £250.0 million (2011: £149.6 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 £13.7 million (2011: £9.3 million) in respect of borrowings and £144.9 million (2011: £171.5 million) in respect of guarantees. At 31 December 2012, £0.2 million (2011: £0.2 million) had been utilised in borrowings and £86.1 million (2011: £109.0 million) in guarantees.

Q) POST BALANCE SHEET EVENTS

At a general meeting of the Company held on 7 January 2013, shareholders approved the disposal of all the Group's interests in a portfolio of 19 PFI investments at an agreed valuation of £55 million to the Interserve Pension Scheme. The disposal of assets was treated as a special employer contribution.

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 2012. 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			
Advantage Healthcare Group Ltd	Provision of healthcare services at home, through the delivery of care packages, as well as the supply of nurses and care staff to establishments such as NHS hospital trusts and care homes	England & Wales	100%
First Security (Guards) Ltd[1]	Provision of a range of security manpower and associated support services	England & Wales	100%
Interserve (Defence) Ltd	Property and facilities management services to the Ministry of Defence and other clients in the defence sector	England & Wales	100%
Interserve Environmental Services Ltd	Provision of asbestos services relating to surveying, record management and removal of asbestos materials	England & Wales	100%
Interserve (Facilities Management) Ltd	Facilities management services to a range of clients in the public and private sectors	England & Wales	100%
Interserve (Facilities Services-Slough) Ltd[2 3]	Provision of comprehensive management and maintenance services to Slough Borough Council	England & Wales	100%
Interserve*fm* Ltd[4]	Holding company	England & Wales	100%
Interserve Industrial Services Ltd	Industrial support services, including thermal insulation, access scaffolding, engineering construction and project management	England & Wales	100%
Interserve Technical Services Ltd	Provision of mechanical and electrical engineering services	England & Wales	100%
Landmarc Support Services Ltd[2]	Provision of management services to the Ministry of Defence Army Training Estate	England & Wales	51%
MacLellan International Ltd	Facilities management services	England & Wales	100%
SSD UK Ltd	Provision of specialist window cleaning services	England & Wales	100%
TASS (Europe) Ltd	Installation and testing of safety access and fall arrest equipment	England & Wales	100%

	PRINCIPAL ACTIVITIES	COUNTRY OF INCORPORATION OR REGISTRATION	GROUP HOLDING
CONSTRUCTION			
Interserve Construction 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			
Rapid Metal Developments (Australia) Pty Ltd	Equipment hire and sales	Australia	100%
Rapid Metal Developments (NZ) Ltd[5]	Equipment hire and sales	New Zealand	100%
RMD Kwikform (Al Maha) Qatar WLL[6]	Equipment hire and sales	Qatar	49%
RMD Kwikform Almoayed Bahrain WLL[7]	Equipment hire and sales	Kingdom of Bahrain	49%
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[8]	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 India Private Ltd[2]	Equipment hire and sales	India	100%
RMD Kwikform Ireland Ltd	Equipment hire and sales	Republic of Ireland	100%
RMD Kwikform Ltd	Equipment hire and sales	England & Wales	100%
RMD Kwikform Middle East LLC[9]	Equipment hire and sales	Emirate of Sharjah	49%
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[8]	Equipment hire and sales	Philippines	100%
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%

PRINCIPAL SUBSIDIARIES, ASSOCIATED UNDERTAKINGS, JOINTLY-CONTROLLED ENTITIES AND JOINTLY-CONTROLLED OPERATIONS

	PRINCIPAL ACTIVITIES	COUNTRY OF INCORPORATION OR REGISTRATION	GROUP HOLDING
(A) PRINCIPAL SUBSIDIARIES (CONTINUED)			
DEVELOPMENTS			
Interserve Investments Ltd	Holding company	England & Wales	100%
Interserve Working Futures Ltd *(formerly Business Employment Services Training Ltd)*	Provision of placement, training and development for jobseekers and employers	England & Wales	100%
GROUP SERVICES			
Interserve Finance Ltd	Group funding entity	England & Wales	100%
Interserve Group Holdings Ltd[8]	Holding company	England & Wales	100%
Interserve Holdings Ltd	Holding company	England & Wales	100%
Interserve Insurance Company Ltd	Insurance	Guernsey	100%

	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%
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[2]	Civil engineering, building and maintenance services	India	1,000,000 shares of 1 Rupee	49%

PRINCIPAL SUBSIDIARIES, ASSOCIATED UNDERTAKINGS, JOINTLY-CONTROLLED ENTITIES AND JOINTLY-CONTROLLED OPERATIONS

	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.			
SUPPORT SERVICES			
PriDE (SERP) Ltd[2]	Estate management services under the Ministry of Defence South East Regional Prime Contract	Aldershot, Hampshire, England	50%
DEVELOPMENTS			
Addiewell Prison Ltd[2]	Design, build, finance and operation of Addiewell Prison	HMP Addiewell, West Lothian, Scotland	33%
Ashford Prison Services Ltd[2]	Design, build, finance and operation of Bronzefield Prison	HMP Bronzefield, Ashford, Middlesex, England	17%
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	25%
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	25%
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	25%
Belfast Educational Services (Strabane) Ltd[10]	Design, build, finance and operation of Holy Cross College	Holycross College, Strabane, Northern Ireland	25%
Environments for Learning Ltd[10]	Investment company for the Building Schools for the Future initiative	Twyford, Reading, England	25%
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	25%
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	20%

	PRINCIPAL ACTIVITIES	ADDRESS OF PRINCIPAL PLACE(S) OF BUSINESS	GROUP HOLDING
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	23%
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	20%
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	20%
Environments for Learning St Helens Partnership Ltd[10]	Building Schools for the Future local education partnership – design, build and operation of two schools for St Helens Council	Interserve House, Ruscombe Park, Twyford, Reading, England	23%
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	25%
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	10%
Health Management (Carlisle) Ltd	Design, build, finance and operation of hospitals for the North Cumbria University Hospitals NHS Trust	Cumberland Infirmary, Carlisle, England	25%
Health Management (UCLH) PLC	Design, build, finance and operation of the University College Hospital	University College Hospital, London, England	15%
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	25%
Kent and East Sussex Weald Hospital Ltd	Design, build, finance and operation of Tunbridge Wells Hospital	Tunbridge Wells Hospital, Tunbridge Wells, Kent, England	13%

PRINCIPAL SUBSIDIARIES, ASSOCIATED UNDERTAKINGS, JOINTLY-CONTROLLED ENTITIES AND JOINTLY-CONTROLLED OPERATIONS

	PRINCIPAL ACTIVITIES	ADDRESS OF PRINCIPAL PLACE(S) OF BUSINESS	GROUP HOLDING
(C) JOINTLY-CONTROLLED ENTITIES (CONTINUED)			
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	20%
Leeds LEP Ltd[10]	Development and management of the build and running of various schools for Leeds City Council	Merrion Street, Leeds, England	20%
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	18%
Peterborough Prison Management Ltd[2]	Design, build, finance and operation of Peterborough Prison	HMP Peterborough, Peterborough, England	17%
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	25%
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	25%
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	Broadwell Road, Oldbury, West Midlands, England	20%
West Yorkshire PFI Operational Training & Accommodation Ltd[2]	Design, build, finance and operation of two new divisional headquarters, custody suites and a specialist operational training facility for the West Yorkshire Police Authority	Elland Road, Leeds, England; Havertop Lane, Normanton, Wakefield, England; Carr Gate, Wakefield, England	50%

	PRINCIPAL ACTIVITIES	ADDRESS OF PRINCIPAL PLACE(S) OF BUSINESS	GROUP HOLDING
(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	31%
KMI Water Joint Venture	Water project framework for United Utilities	Wigan, Lancashire, England	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 Shareholding split between Interserve Plc (2 ordinary shares of NZ$1 each) and Interserve Holdings Ltd (249,998 ordinary shares of NZ$1 each)

6 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.

7 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.

8 Shareholding held directly by Interserve Plc.

9 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.

10 Accounting reference date is 30 September.

11 Accounting reference date is 31 August.

FIVE-YEAR ANALYSIS

(unaudited)

	2012 £million	2011 £million	2010 £million	2009 £million	2008 £million
Revenue including share of associates and joint ventures					
Support Services - UK	1,215.4	1,069.6	1,098.7	1,051.3	981.6
Support Services - International	31.3	25.9	23.7	19.0	12.3
Support Services	1,246.7	1,095.5	1,122.4	1,070.3	993.9
Construction - UK	737.2	731.1	754.3	822.7	772.7
Construction - International	201.6	223.7	239.2	300.1	271.9
Construction	938.8	954.8	993.5	1,122.8	1,044.6
Equipment Services	167.5	154.3	139.9	157.1	171.7
Investments	81.0	160.2	106.6	156.7	134.5
Inter-segment elimination	(64.4)	(45.2)	(47.0)	(36.2)	(42.9)
	2,369.6	2,319.6	2,315.4	2,470.7	2,301.8
Consolidated revenue					
Support Services - UK	1,118.1	1,007.3	1,024.8	963.2	898.5
Support Services - International	-	-	-	-	-
Support Services	1,118.1	1,007.3	1,024.8	963.2	898.5
Construction - UK	737.2	731.1	754.3	822.7	772.7
Construction - International	-	-	-	-	-
Construction	737.2	731.1	754.3	822.7	772.7
Equipment Services	167.5	154.3	139.9	157.1	171.7
Investments	-	-	-	-	-
Inter-segment elimination	(64.4)	(45.2)	(47.0)	(36.2)	(42.9)
	1,958.4	1,847.5	1,872.0	1,906.8	1,800.0
Headline profit					
Support Services - UK	44.3	36.4	25.1	21.3	35.1
Support Services - International	3.7	3.6	3.4	2.1	1.1
Support Services	48.0	40.0	28.5	23.4	36.2
Construction - UK	14.6	18.0	24.5	17.0	22.5
Construction - International	14.3	16.6	22.8	22.4	14.8
Construction	28.9	34.6	47.3	39.4	37.3
Equipment Services	16.0	13.6	14.4	35.9	29.6
Investments	6.6	6.0	4.2	4.7	2.8
Group Services	(19.1)	(20.4)	(20.0)	(17.7)	(17.9)
Total operating profit	80.4	73.8	74.4	85.7	88.0
Investment revenue	40.4	39.7	36.1	31.6	39.9
Finance costs	(42.4)	(40.7)	(40.9)	(39.0)	(42.7)
Headline profit	78.4	72.8	69.6	78.3	85.2
Earnings per share, pence					
Basic EPS	131.9	45.9	39.5	54.9	43.5
Headline EPS	47.2	49.3	42.8	49.7	46.7
Dividend per share, pence					
Interim	6.4	6.0	5.6	5.5	5.3
Final	14.1	13.0	12.4	12.0	11.7

	2012 £million	2011 £million	2010 £million	2009 £million	2008 £million
Balance sheet					
Intangible assets	265.8	221.2	228.3	230.8	262.3
Property, plant and equipment	137.8	139.7	149.0	148.8	156.8
Interests in joint ventures	7.6	103.3	60.1	67.4	114.0
Interests in associated undertakings	76.6	77.2	61.7	57.0	72.5
Deferred tax asset	33.5	23.4	16.5	31.4	19.2
Non-current assets	521.3	564.8	515.6	535.4	624.8
Assets held for sale	51.2	-	-	-	-
Inventories	24.6	22.2	19.6	20.1	27.8
Trade and other receivables	432.0	380.1	386.1	355.3	372.1
Cash and deposits	76.8	46.1	67.6	60.9	61.3
Bank overdrafts and loans	(19.8)	(19.3)	(35.2)	(11.6)	(3.1)
Trade and other payables	(559.7)	(498.6)	(496.7)	(491.2)	(479.8)
Short-term provisions	(24.2)	(28.7)	(20.2)	(23.1)	(14.0)
Net current liabilities	(19.1)	(98.2)	(78.8)	(89.6)	(35.7)
Bank loans	(30.0)	(70.0)	(85.0)	(85.0)	(165.5)
Trade and other payables	(13.2)	(13.3)	(15.8)	(18.1)	(14.2)
Long-term provisions	(27.1)	(26.3)	(26.9)	(25.7)	(24.0)
Retirement benefit obligation	(101.1)	(56.2)	(51.5)	(95.3)	(153.1)
Non-current liablilites	(171.4)	(165.8)	(179.2)	(224.1)	(356.8)
Net assets	330.8	300.8	257.6	221.7	232.3

	2012 £million	2011 £million	2010 £million	2009 £million	2008 £million
Cash flow					
Operating cash flows before movements in working capital	39.5	35.6	31.6	(11.6)	65.8
Movement in working capital	0.2	9.5	(21.5)	52.6	(7.2)
Changes in hire fleet	(6.0)	3.0	15.1	(3.4)	(20.4)
Taxes paid	(10.7)	(3.2)	(6.3)	(15.7)	(14.0)
Net cash from operating activities	23.0	44.9	18.9	21.9	24.2
Acquisitions and investments	63.0	(19.3)	(32.6)	83.7	(7.7)
Net capital expenditure - non-hire fleet	(8.9)	(8.5)	(5.6)	(27.6)	(14.2)
Dividends from joint ventures and associates	19.8	20.6	32.1	17.6	13.5
Interest received	8.4	4.4	3.8	7.2	7.3
Net cash used in investing activities	82.3	(2.8)	(2.3)	80.9	(1.1)
Interest paid	(9.6)	(6.7)	(6.4)	(5.8)	(10.2)
Dividends paid	(27.0)	(25.5)	(24.8)	(24.5)	(23.5)
Other	1.5	-	(2.2)	-	0.8
Net cash used in financing activities excluding debt	(35.1)	(32.2)	(33.4)	(30.3)	(32.9)
Effect of foreign exchange	(0.2)	(0.3)	0.3	(0.6)	2.2
Movement in net debt	70.0	9.6	(16.5)	71.9	(7.6)
Closing net cash/(debt)	25.8	(44.2)	(53.8)	(37.3)	(109.2)

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR 2013

Final results announcement for the year ended 31 December 2012	27 February 2013
Publication of Annual Report and Financial Statements	27 March 2013
Annual General Meeting	13 May 2013
Interim management statement	13 May 2013
Final dividend payable (record date 5 April 2013)	20 May 2013
Half-year results announcement for the six months ended 30 June 2013	14 August 2013
Publication of Half-Year Report	Late August 2013
Interim dividend payable	October 2013
Interim management statement	13 November 2013

SHARE PRICE

As at 31 December 2012	388.80p
Lowest for the year	270.10p
Highest for year	392.80p

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	6	0.14	39,102,156	30.82
Banks, institutions and nominees	1,093	25.35	78,654,089	62.01
Private shareholders	3,212	74.51	9,090,694	7.17
Total as at 27 February 2013	4,311	100.00	126,846,939	100.00

SHAREHOLDER SERVICES

Capita is our registrar and they offer many services to make managing your shareholding easier and more efficient:

(a) Share Portal

The Share Portal is a secure online site where you can manage your shareholding quickly and easily. You can:

- View your holding and get an indicative valuation
- Access shareholder communications
- Change your address
- Request to receive shareholder communications by email rather than by post
- View your dividend payment history
- Make dividend payment choices
- Buy and sell shares
- Register your proxy voting instruction

Just visit www.capitashareportal.com. All you need is your investor code, which can be found on your share certificate or your dividend tax voucher.

(b) Customer Support Centre

Alternatively, you can contact Capita's Customer Support Centre which is available to answer any queries you have in relation to your shareholding:

By email: ssd@capitaregistrars.com
By phone: +44 (0)20 8639 3399 (lines are open 9.00am to 5.30pm, Monday to Friday)
By post: Shareholder Administration, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

(c) Sign up to electronic communications

By signing up to receive your shareholder communications by email, you will help us to save paper and receive your shareholder information quickly and securely. Registering for electronic communications is very straightforward. Just visit www.capitashareportal.com. All you need is your investor code, which can be found on your share certificate or your dividend tax voucher.

(d) Dividend payment options

- Re-invest your dividends
  Capita's Dividend Re-investment Plan is a convenient way to build up your shareholding by using your cash dividends to purchase additional shares. The plan is provided by Capita IRG Trustees Limited which is authorised and regulated by the Financial Services Authority. For more information and an application pack please call +44 (0)20 8639 3402 (lines are open from 9am to 5.30pm, Monday to Friday). Alternatively you can email shares@capitaregistrars.com or log on to www.capitashareportal.com.

  The value of shares and income from them can fall as well as rise and you may not recover the amount of money you invest. Past performance should not be seen as indicative of future performance. This arrangement should be considered as part of a diversified portfolio.

- Elect to have your dividends paid direct into your bank account
  This means that:

  - your dividend reaches your bank account on the payment date;
  - it is more secure – cheques can sometimes get lost in the post; and
  - you don't have the inconvenience of depositing a cheque and waiting for it to clear.

  You can sign up for this service by logging on to www.capitashareportal.com (click on 'your dividend options' and follow the onscreen instructions) or by contacting the Customer Support Centre.

- Choose to receive your next dividend in your local currency
  Capita has partnered with Travelex to provide you with a service that will convert your sterling dividends into your local currency at a competitive rate. You can choose to receive payment directly into your bank account, or alternatively, you can be sent a currency draft. For further information contact Capita on +44 (0)20 8639 3405 (lines are open 9.00am to 5.30pm, Monday to Friday) or by email – ips@capitaregistrars.com.

(e) Buy and sell shares

A quick and easy way to buy and sell shares is provided by Capita Share Dealing Services. There is no need to pre-register and there are no complicated application forms to fill in. You can also access a wealth of stock market news and information free of charge. For further information on this service, or to buy and sell shares, visit www.capitadeal.com or call +44 (0)20 3367 2686 (lines are open 8.00am to 4.30pm, Monday to Friday).

This is not a recommendation to buy and sell shares and this service may not be suitable for all shareholders. The price of shares can go down as well as up and you are not guaranteed to get back the amount you originally invested. Terms, conditions and risks apply. Capita Share Dealing is a trading name of Capita IRG Trustees Limited which is authorised and regulated by the Financial Services Authority. This service is only available to private shareholders resident in the EEA, the Channel Islands and the Isle of Man.

Share registration and associated services are provided by Capita Registrars Limited (registered in England, No.2605568). Regulated services are provided by Capita IRG Trustees Limited (registered in England, No.2729260). The registered office of each of these companies is The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

DONATE YOUR SHARES TO CHARITY

If you have only a small number of shares which are uneconomical to sell, you may wish to donate them to charity free of charge through ShareGift (Registered Charity 10528686). Find out more at www.sharegift.org.uk or by telephoning +44 (0)20 7930 3737.

SHAREHOLDER INFORMATION

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/CAPITALISATION CHANGES

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 27 February 2013, as indicated below, other than the rights issue in 1986 (one new share for every three existing shares at 140p per share).

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.

ADVISERS

GROUP COMPANY SECRETARY
Trevor Bradbury

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