REDEFINING THE FUTURE FOR PEOPLE & PLACES

ANNUAL REPORT 2013

Interserve

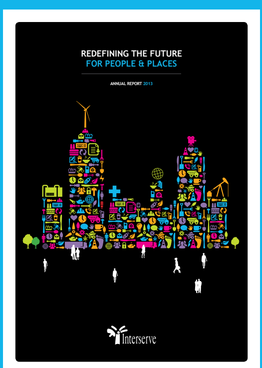
OVERVIEW

2013 IN SUMMARY

REDEFINING THE FUTURE FOR PEOPLE & PLACES

"2013 HAS BEEN ANOTHER GOOD YEAR FOR THE BUSINESS, AND DESPITE CHALLENGING CONDITIONS IN MANY OF OUR MARKETS, WE DELIVERED SUBSTANTIAL GROWTH IN BOTH REVENUE AND HEADLINE PROFIT, AND MADE IMPORTANT STRATEGIC PROGRESS. OUR FOCUS ON DELIVERING THE BEST POSSIBLE SERVICE TO OUR CLIENTS HAS RESULTED IN STRONG WORK-WINNING IN THE YEAR, FROM BOTH NEW AND EXISTING CUSTOMERS, MAINTAINING OUR RECORD FUTURE WORKLOAD AT £6.4 BILLION."

ADRIAN RINGROSE CHIEF EXECUTIVE



FOR FURTHER INVESTOR INFORMATION:

www.interserve.com/investors

HIGHLIGHTS

HEADLINE EPS[1]
47.7p +5.3%

HEADLINE PROFIT BEFORE TAX[2]
£81.1m +7.7%

PROFIT BEFORE TAX[3]
£68.1m -62.1%

FULL-YEAR DIVIDEND
21.5p +4.9%

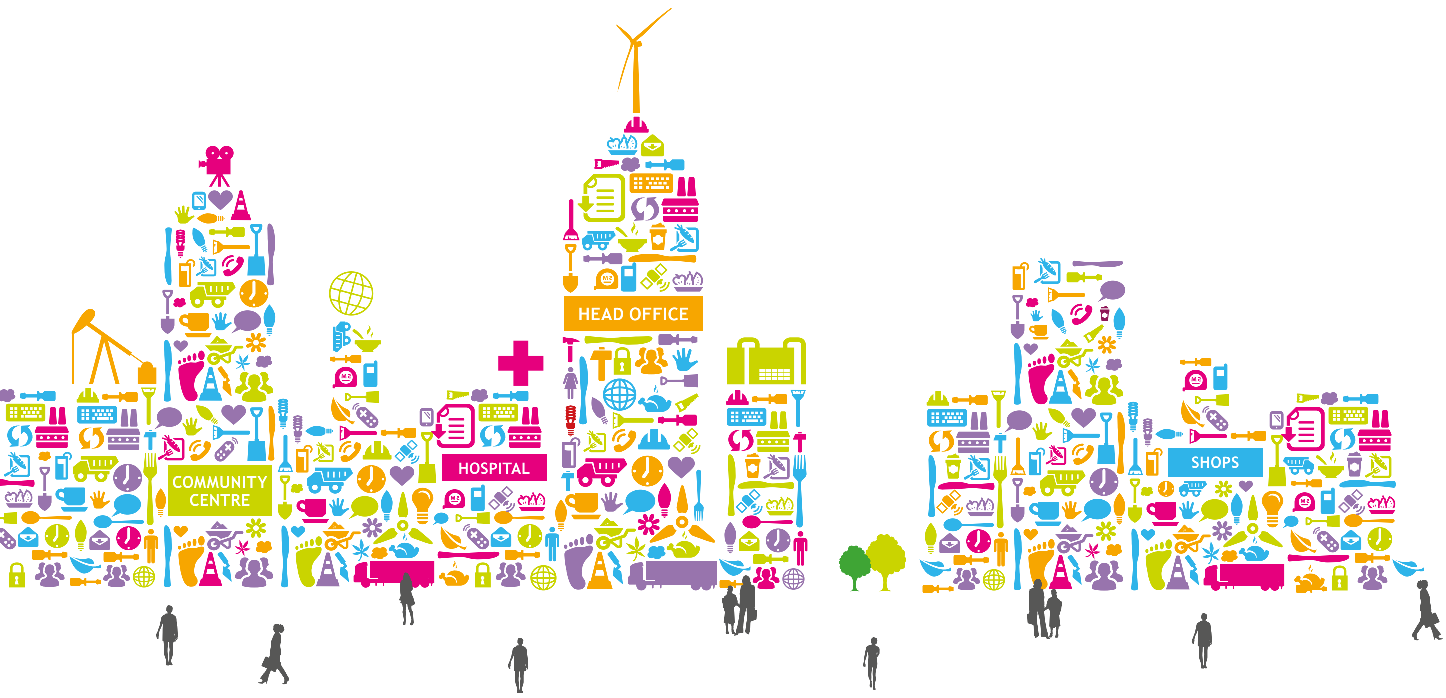
ACCIDENT INCIDENT RATE (AIR)
201 per **100,000** employees -15.9%

FUTURE WORKLOAD
£6.4bn +1.6%

[1] See note 11 on page 123 for calculation of earnings per share
[2] See note 33 on page 148 for calculation of headline profit before tax
[3] 2012 profit before tax benefits from a one-off gain of £114.9 million on the disposal of the majority of the PFI portfolio

STRATEGIC HIGHLIGHTS

- Strong revenue growth (12.0%) and operational performance: headline EPS up 5.3% and dividend up 4.9%.
- Maintained record future workload at £6.4 billion and good revenue visibility (75% of 2014 consensus revenue secured at year end).
- £2.5 billion of new business won in the year, including work with the BBC, University of Sussex, HMRC, The Royal Navy, Ministry of Defence, DWP, Magnox, Jaguar Land Rover, the Lusail Tower in Qatar and the Emirates Engine Maintenance Centre in Dubai.
- Completed the transfer of £55 million of PFI assets into the Interserve Pension Scheme.



OVERVIEW

CHAIRMAN'S STATEMENT

"2013 WAS AN IMPORTANT YEAR FOR INTERSERVE IN WHICH WE MADE BOTH SIGNIFICANT STRATEGIC AS WELL AS OPERATIONAL PROGRESS."

LORD BLACKWELL CHAIRMAN

STRATEGIC DEVELOPMENT

2013 was an important year for Interserve in which we made both significant strategic as well as operational progress. At the beginning of the year we further strengthened our balance sheet by crystallising value from our PFI portfolio. We used this strength to complete a number of acquisitions that increase our exposure to growth markets, to reduce further our pension deficit and to position the Group with the necessary resources to continue its growth. Our strategy remains focused on developing the strength of our three main business streams, while also finding additional growth opportunities where we can gain competitive advantage by applying the core skills from these businesses in adjacent markets and geographies.

Operationally, despite mixed market conditions, the business performed strongly, delivering profitable growth while continuing to invest in the efficiency and scale of our existing businesses. Interserve now operates in over 40 countries around the world and, whilst not uniform in pace, the overall global economic outlook has started to improve. Our business is now well positioned and resourced to take full advantage of the opportunities this will create.

During 2013 the Group expanded its operational footprint through targeted acquisitions as well as new ventures. In the Middle East we continued to grow our capability in the oil and gas services sector, adding both TOCO in Oman and Adyard in the United Arab Emirates (UAE) to complement our capabilities in Qatar with Madina and create a pan-regional presence. In the UK we have deployed our project finance skills into selective commercial development opportunities such as the redevelopment of Edinburgh's Haymarket. We also added to our construction portfolio through the acquisition of Paragon, a London-based fit-out business, thereby expanding our capability and increasing our presence in the key London market.

DIVISIONAL OVERVIEW

Our UK Support Services business has continued to grow organically, mobilising new, innovative projects and continuing to win new business with organisations such as the BBC and the University of Sussex. We have been adept at designing and implementing innovative solutions which support both our public and private-sector clients in meeting their objectives of controlling costs whilst delivering better value services. We continue to pursue opportunities in a number of front-line services in the UK, ever mindful of the reputational risks as well as the commercial potential as we assess the risks and merits of more sensitive areas of Government outsourcing.

Our construction businesses, in both the UK and the Middle East, have performed well, showing continued resilience in the face of difficult economic conditions. We increased our future workload in these segments through new business with clients such as Jaguar Land Rover in the UK, Meraas (UAE), Dubai's Majid Al Futtaim Group (Mall of the Emirates), and remain well placed to grow as market conditions turn for the better.

In Equipment Services we have continued to manage our global fleet to respond to market opportunities and have expanded into new markets in the Far East, Africa and Latin America.

HEALTH AND SAFETY

Whilst we continue to win recognition from organisations like RoSPA for the high standards we hold in health and safety, and have made further and continued progress in reducing our overall accident rate, 2013 has also been a difficult year. We had three separate incidents involving fatalities in our Middle East operations and our thoughts remain with all those affected by these tragic events.

Such events serve as a salutary reminder that we must continue to strive to minimise the risk of accidents. Health and safety has always been the most important of priorities for the Group and we will maintain this focus with renewed intensity in 2014.

SUSTAINABILITY AND INTEGRATED REPORTING

Our 2013 Annual Report is different from previous reports in that it reflects a more integrated approach to the communication of our strategy, reporting our performance in a broader sense than has previously been the case and placing sustainability increasingly at the heart of what we do. During the year we launched a far-reaching sustainability plan, Sustain*Abilities*. This, and our future reports will increasingly focus not just on the impact the business has on financial capital, but also on other 'capitals' - knowledge, social and environmental – that together deliver sustainable performance and profitability.

These impacts take many forms, for example providing learning opportunities for our 2,000 new employees in Leicestershire through an innovative partnership with Leicester College, or by ensuring over 95 per cent of our supply chain spend on a major new divisional headquarters for West Yorkshire Police goes to small and local enterprises. In a recent Cabinet Office study of Government Suppliers, Interserve topped the list with over 70 per cent of our supply chain spend going to SMEs when delivering work for central government.

For many years Interserve has recognised the importance of a sustainable corporate strategy, but this new plan provides a formal framework on which to build further. We have set ourselves clear targets and objectives across the breadth of the Sustain*Abilities* plan and will report our progress accordingly. The idea of business providing a social and environmental benefit, as well as economic and financial, is not a new one, but it has never been more relevant than it is today, with the values and integrity of corporate organisations increasingly in the spotlight.

For a company like ours, for which public service is at its core, I firmly believe that we can and should play a leading role in demonstrating our social, environmental and economic value and I hope that is reflected in this Annual Report.

OUR PEOPLE

On behalf of the Board, I thank all of our people for another year of hard work and dedication. Our people collectively and individually exemplify the ingenuity that embodies the Interserve brand to our customers and make us what we are today, a strong and growing company.

BOARD CHANGES

Following the retirements of David Paterson and David Trapnell from the Board, Les Cullen became Senior Independent Director and we welcomed Anne Fahy, as a non-executive director and chair of the Audit Committee.

PROSPECTS

The Group continues to focus on growth, whether organic or acquired, and now with markets showing signs of broad improvement we are confident of delivering further growth in 2014. On 28 February 2014, we announced the proposed acquisition and associated financing of Initial Facilities for £250 million. The acquisition is conditional upon shareholder approval and we will be holding a General Meeting for shareholders to vote on the proposal on 17 March 2014. The Board believes this acquisition will further strengthen the ability of the Group to take advantage of future market opportunities.

DIVIDEND

We continue to deliver on our growth strategy and are confident in the medium-term outlook for our business. We are therefore recommending an increased final dividend of 14.7p (2012: 14.1p), bringing the total dividend for the year to 21.5p (2012: 20.5p), an increase of 5 per cent. The final dividend will be paid on 21 May 2014 to shareholders on the register at the close of business on 4 April 2014.

Lord Blackwell
Chairman

28 February 2014

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DELIVERING SHAREHOLDER VALUE

OUR VISION

TO REDEFINE THE FUTURE FOR PEOPLE AND PLACES

OUR VALUES

- TAKE PRIDE IN WHAT YOU DO
- EVERYONE HAS A VOICE

OUTCOMES

Create places that benefit people

Deliver public service in the public interest

Build more skills and more opportunities

HOW WE DO IT

OUR STRATEGY

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RECENT WORK

EXTENDING THE MALL OF THE EMIRATES

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DELIVERING HEALTHCARE AT HOME

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AWARD-WINNING DEFENCE PARTNERSHIP

READ THE STORY ON PAGE 29

- BRING BETTER TO LIFE
- DO THE RIGHT THING

Generate a positive environmental impact

Achieve sustainable growth

WHERE WE OPERATE

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TOP OF THE SMALL BUSINESS SPENDING LIST

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TRANSFORMING EDINBURGH'S HAYMARKET

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OUR STRATEGY

STRATEGY

BUILD STRONG CORE BUSINESSES

- Focus on long-term, added-value client relationships
- Understand client dynamics in depth
- Advise, manage and deliver outsourced services
- Framework agreements
- Public-private partnerships

EXPAND INTERNATIONALLY

- 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 RELATED EXPANSION OPPORTUNITIES

- Capture emerging opportunities for increasingly integrated solutions
- Organic growth supplemented by selective accretive acquisitions
- Growth with market expansion, displacement and client relationship management

MARKET

- Attractive UK medium-term demand environment
  - Structural growth in outsourcing
  - Rising population, increasing pressure on ageing infrastructure
  - Drive for public-sector efficiencies

- Emerging and high-growth markets
- Opportunities arising from recovering economies
- Transferable skills in project and change management
- Leveraging existing relationships

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

OUTCOMES – Delivering sustainable shareholder value

Create places that benefit people

Delivering places and services that enhance people's lives, that can be valued, that contribute to individuals' wellbeing and that are designed and built for the future.

Deliver public service in the public interest

Setting ourselves apart by delivering services that benefit people and demonstrating the value our employees offer society.

Build more skills and more opportunities

Building the skills of employees and stakeholders by sharing know-how, providing opportunities for self-improvement and making a positive and productive contribution to society.

Generate a positive environmental impact

Moving beyond compliance towards making a positive and restorative contribution to the environment through every project.

Achieve sustainable growth

Building a profitable business that takes into account the true costs of business and delivers sustained value for all.

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OPERATIONS AT A GLANCE

At Interserve, we believe in putting ingenuity to work. Being inquisitive, putting our clients at the heart of what we do and asking the right questions are ways in which we deliver the best solutions - adding value to what they do for their clients and customers.

DIVISION		2013 FOCUS
SUPPORT SERVICES UK		• Build on current relationships • Expand our offering to the citizen (Welfare, Healthcare, Justice) • Account development and work-winning • Target Operating Model
SUPPORT SERVICES INTERNATIONAL		• Integrate acquisitions to build a regional on and offshore offering • Expand our reach in whole-life management of infrastructure and building in the Middle East
CONSTRUCTION UK		• Broaden services offering • Continued focus on cost management • Further develop long-term relationships • Strengthen presence in the South East and fit-out sector
CONSTRUCTION INTERNATIONAL		• Continued focus on cost management • Develop partnerships for growth • Maintain our capabilities in key sectors
EQUIPMENT SERVICES		• Further geographic expansion • Invest in fleet to take advantage of early cycle infrastructure growth • Selective product development
INVESTMENTS		• Managing equity investments • Exploring new growth opportunities • Property development

Our aspiration is to double our earnings per share over five years from the end of 2010, following the doubling of earnings from 2005 to 2010. The Group's future growth is based on attractive demand drivers in our markets and our financial strength to supplement organic growth with acquisitions.

HOW WE PERFORMED		WHERE NEXT?
· Good work winning – BBC, Sussex University, Dixons, Foreign and Commonwealth Office, Defence Infrastructure Organisation · Providing wider suite of services to our customers – welfare, healthcare at home	· Integration of Advantage Healthcare continuing according to plan · Delivery of the 5% margin exit rate in 2013	· Continued revenue growth in the medium term delivered through: - Account development - New business streams · Margin development: Stable at 5%
· Stable organic revenue supplemented by acquisition	· Margin dilution through acquisition (as expected) accentuated by market weakness · Integration of TOCO and Adyard making good progress	· Revenue growth delivered by: - Broader offering - Geographical expansion - Increased investment in business development · Margin development: Strengthening towards 7% to 8% range
· Revenues: Good performance in a challenging market with a focus on new markets and building on framework strength (e.g. ProCure 21+)	· Stable margins · Acquisition of Paragon, successfully integrated and growing well	· Broaden offer into new sectors · Grow in South East · Expand our infrastructure service offer · Margin development: Stable at 1.5% to 2.0%
· Mixed market conditions – UAE seeing renewed investment in building infrastructure with Oman stable and Qatar remaining subdued	· Margins: Falling as expected, relative to the prior year, due to low activity levels and a more competitive environment	· Revenues recovering with the acceleration of spending in UAE, boosted by Dubai's Expo 2020 and the 2022 World Cup in Qatar · Margin development: Trend towards 6%
· Geographic portfolio development · Pricing / revenue mix · Investment in new fleet · Cost base management	· New commercial models · Margins: Continued improvement due to strong operational leverage	· Further geographic expansion · Demand - lead revenue growth · Investment in fleet · Margin development: To 15% in medium term
· Continued effective management of project investments · Progressing the Haymarket development in Edinburgh and sourcing other development opportunities	· Achieved financial close of Alder Hey Children's NHS Foundation Trust and bidding on new PF2 opportunities	· Investment portfolio management for third parties · Accessing more PF2 opportunities · Strategic business development leadership

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OUR BUSINESS MODEL

The success of our business is dependent on trust, our reputation and delivering great service to our customers. This is what our Business Model is designed to support.

INPUTS

Financial*Capital*
- Share capital
- Borrowings
- Cash generated from operations

Social*Capital*
- Employees
- Suppliers
- Customers
- Citizens
- Communities

Knowledge*Capital*
- Skills
- Experience
- Talent
- Innovation
- Understanding our customers

Natural*Capital*
- Raw materials
- Water
- Energy
- Land

WHAT WE DO

SUPPORT SERVICES
- Facilities management
- Frontline services
- Estate management
- Industrial services
- Oil and gas services

CONSTRUCTION
- Building
- Infrastructure
- Engineering services
- Fit-out
- Consulting

EQUIPMENT SERVICES
- Design
- Engineering
- Propping and shoring solutions

Systems & Processes

Supply Chain Management

Project Management & Delivery

VALUE RE-INVESTED

DO THE RIGHT THING

BRING BETTER TO LIFE

EVERYONE HAS A VOICE

TAKE PRIDE IN WHAT YOU DO

CORE SKILLS

- Training & developing skills
- Efficiency
- Value for money
- Manage complexity
- Technical expertise
- Self-delivery
- Solution design
- Bidding and management of major contracts
- Problem solving/applying innovation
- Management of large dispersed (blue collar) workforce
- International operations and skills transfer
- Sustained joint ventures/partnerships
- Financing structures

OUTPUTS

Financial*Capital*
Achieve financial growth and investment growth; grow EPS and returns for investors; financial contribution to small businesses through local supply chains and generating UK tax through employment and improving returns.

Social*Capital*
Improved facilities and services for customers and communities through partnerships with central and local government; strengthening small businesses through local supply chains; development and career opportunities for employees.

Knowledge*Capital*
Collaborative partnerships and educational links with communities; investment in skills development and training for apprenticeships, graduates and other employees; creating innovative solutions for customers in design, building services and IT.

Natural*Capital*
Reduction in current CO_2 emissions, waste energy usage and water consumption.

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OUR MODEL IN ACTION

Our business model is designed to generate value by using our capabilities to their maximum effect. These examples demonstrate the breadth of our activities and their impact on financial, social, knowledge and natural capital.

DELIVERING HEALTHCARE AT HOME

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Read the full story on page 48

WEST KOWLOON TERMINUS BUILDING EXPRESS RAIL LINK

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Read the full story on page 45

SOLUTIONS FOR THE NUCLEAR INDUSTRY

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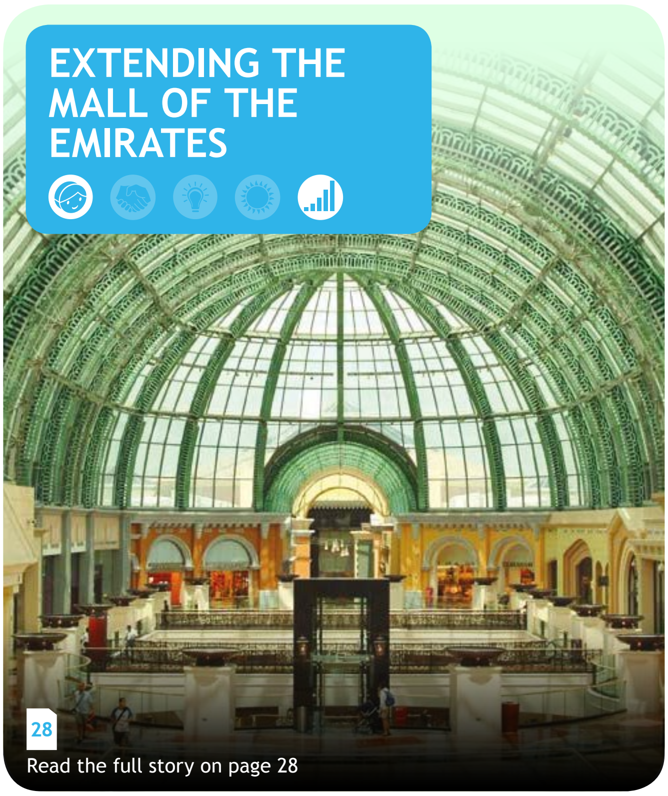
Read the full story on page 24



EXTENDING THE MALL OF THE EMIRATES

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AWARD-WINNING DEFENCE PARTNERSHIP

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DELIVERING MAJOR PROJECTS IN WEST YORKSHIRE

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TOP OF THE SMALL BUSINESS SPENDING LIST

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BUILDING WORLD-CLASS REHABILITATION CENTRES FOR THE MILITARY

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HOLT PARK WELL-BEING CENTRE, LEEDS

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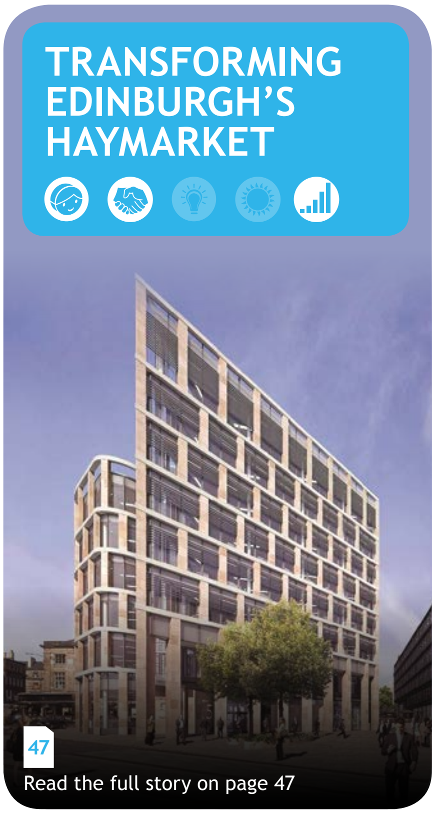
Read the full story on page 30



TRANSFORMING EDINBURGH'S HAYMARKET

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BUILDING INFORMATION MODELLING

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Principal Outcomes

- Create places that benefit people
- Deliver public service in the public interest
- Build more skills and more opportunities
- Generate a positive environmental impact
- Achieve sustainable growth

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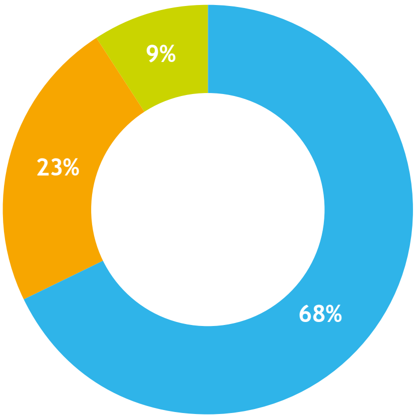
WHERE WE OPERATE

GEOGRAPHIES BY OPERATING PROFIT

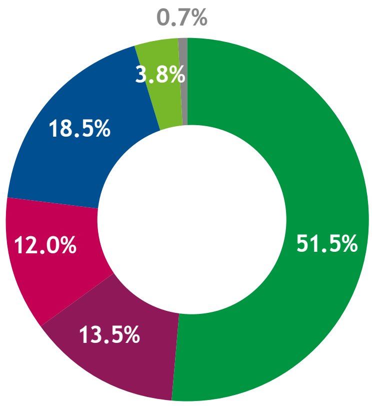


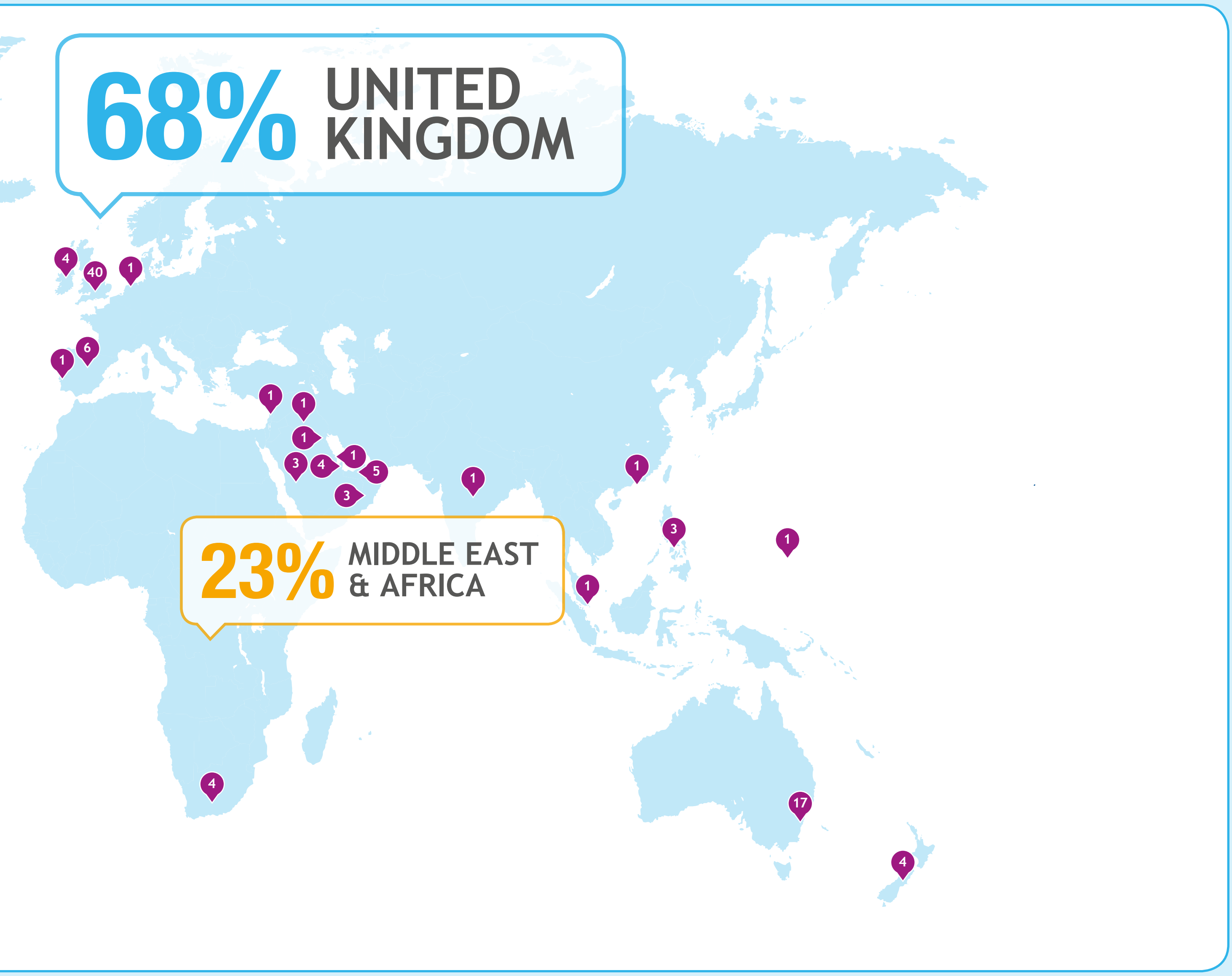
- 68% UNITED KINGDOM
- 23% MIDDLE EAST & AFRICA
- 9% REST OF THE WORLD

No. 112 OFFICES WORLDWIDE

BUSINESSES BY OPERATING PROFIT

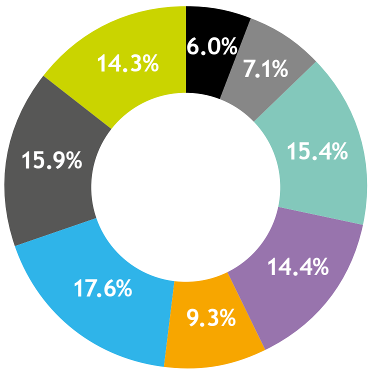
- 51.5% UK SUPPORT SERVICES
- 13.5% UK CONSTRUCTION
- 12.0% INTERNATIONAL CONSTRUCTION
- 18.5% EQUIPMENT SERVICES
- 3.8% INTERNATIONAL SUPPORT SERVICES
- 0.7% INVESTMENTS





SECTORS BY REVENUE

- 6.0% JUSTICE
- 7.1% EDUCATION
- 15.4% COMMERCE
- 14.4% INFRASTRUCTURE
- 9.3% CENTRAL/LOCAL GOVERNMENT
- 17.6% INDUSTRY
- 15.9% DEFENCE
- 14.3% HEALTH



STRATEGIC REPORT

PROTECTING OUR BUSINESS

This is a summary of the risks facing our business. For greater detail, see Principal Risks and Uncertainties on pages 34 and 35.

We focus on those material issues which enable the Group to sustain growth into the future.

What is material is defined as an issue that would impact our Board and committee decisions, based on:

- impact on the business;
- the degree to which our primary stakeholders are concerned with it; and
- the extent to which it is likely to grow in significance and impact in the future.

Through this process, 13 material topics were identified, all of which are key issues affecting the performance and long-term viability of the Group.

- REPUTATIONAL RISK
- FINANCING STRUCTURE
- HEALTH & SAFETY
- MERGERS & ACQUISITIONS
- COMPETITIVE LANDSCAPE
- STABILITY/REGIME CHANGE/POLICY CHANGE
- PENSION DEFICIT
- IT SYSTEMS/SECURITY
- MOBILISATION OF NEW CONTRACTS
- INVESTMENT LEVELS IN OIL & GAS INDUSTRY
- RATE OF INFRASTRUCTURE DEMAND
- EMPLOYEE SKILLS
- WORKERS' COST AND AVAILABILITY

FinancialCapital SocialCapital KnowledgeCapital NaturalCapital

	Reputational risk	Financing structure
What is it about?	Where our reputation is at risk due to the high profile and often politically sensitive work we are involved in.	Our debt tenor, size and choice of providers all affect our ability to finance the business and deliver our strategy.
How it impacts us		
What are we doing about it?	Promoting a good understanding of our brand amongst our stakeholders, through timely, clear and consistent communications, while assessing reputational risk for all new business opportunities.	Debt facilities remain under constant review and in 2012 we refinanced our debt facilities to increase their duration, mix by currency and to diversify the counterparties.

	Health & safety	Mergers & acquisitions
What is it about?	Maintaining high health and safety standards to protect our people and our business.	How well we can integrate acquisitions.
How it impacts us		
What are we doing about it?	Extensive training and communication to ensure a strong health and safety culture; regular monitoring and reward and recognition of health and safety achievements.	We have an experienced team for negotiating M&A deals and business integration specialists who are involved in business change as part of everyday business activities.

	Competitive landscape	Stability/regime change/policy change
What is it about?	The competitive landscape has the potential to restrict business opportunities and margin development.	Political change posing a risk to our business around the world.
How it impacts us		
What are we doing about it?	A strong emphasis on business development and work-winning, built up over many years, coupled with a flexible cost base.	We constantly monitor and assess levels of political risk and have contingency plans to mitigate this risk in any geography.

STRATEGIC REPORT

PROTECTING OUR BUSINESS CONTINUED

	Pension deficit	IT systems/security
What is it about?	Potential risk of a deficit adversely impacting the business.	Managing risk and opportunities through IT.
How it impacts us		
What are we doing about it?	We have undertaken measures to reduce our pension deficit, through additional funding and the reallocation of assets to our pension scheme.	Investing in IT applications and infrastructure and bringing on board a high quality team to implement our strategic IT roadmap.

	Mobilisation of new contracts	Investment levels in oil & gas industry
What is it about?	A risk of poor mobilisation of a new contract, failing to deliver promised cost or efficiency improvements.	The rate of investment in the oil and gas industry will impact our business opportunities in the Middle East.
How it impacts us		
What are we doing about it?	We treat the mobilisation of a new partnership with the highest priority and employ experts to effectively deploy both the business and cultural change requirements.	Our carefully managed investment in this area is part of a global balanced portfolio. We believe the potential growth opportunities outweigh the risks in these markets, where we have successfully operated for many years.

FinancialCapital SocialCapital KnowledgeCapital NaturalCapital

	Rate of infrastructure demand	Employee skills
What is it about?	Much of our construction market, both in the UK and Middle East, is governed by the rate of infrastructure spend.	Ensuring both our existing and future workforce have the necessary skills required to provide our services.
How it impacts us		
What are we doing about it?	We monitor infrastructure planning closely and spread risk through diverse and flexible operations. We seek long-term framework agreements where possible, but also selectively target new markets such as Energy from Waste.	We are committed to providing skills development and training to our current employees through work experience, graduate and apprenticeship schemes, and management training. We work with organisations such as the Social Market Foundation and the Skills Commission to lead the debate with Government on training for the UK workforce of tomorrow.

	Workers' cost and availability
What is it about?	This is especially relevant to the Middle East, where the scale and pace of construction projects require a need to import skilled labour and varying cost and availability can be an issue.
How it impacts us	
What are we doing about it?	Interserve's associates have well established recruitment services as well as the scale to support a large labour force across the Middle East. We are very conscious of workers' rights issues and monitor involving standards and costs of compliance very closely.

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PERFORMANCE

KPIs

We use a set of financial and non-financial KPIs to measure critical aspects of the Group's performance. These KPIs are aligned with:

- Achieving the Group's strategic objectives of delivering a substantial future workload and generating strong earnings growth and cash conversion.
- The Group's key behavioural goals, specifically regarding our employees and the health and safety of everyone working both directly and indirectly for Interserve.

HEADLINE EARNINGS PER SHARE

2013	47.7p
2012	45.3p

Target: Double headline EPS over the five years to 2015

ACCIDENT INCIDENT RATE[3]

2013	201
2012	239

Target: Halve the rate by 2020 from a 2010 base

FUTURE WORKLOAD[1]

2013	75%
2012	78%

Target: Visibility over 70% of next 12 months' revenue (market consensus)

VOLUNTARY EMPLOYEE TURNOVER[4]

2013	8.6%
2012	6.0%

Target: Reduce voluntary employee turnover to under 10% by 2018

GROSS OPERATING CASH CONVERSION[2]

2013	89.5%
2012	105.6%

Target: 100% over medium term

1. 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.
2. See note 33 on page 148 for a definition of gross operating cash conversion.
3. Accident Incident Rate is based on the number of injuries meeting the RIDDOR reporting requirements per 100,000 workforce and includes associate entities.
4. Staff turnover measures the proportion of managerial, technical and office-based staff leaving voluntarily over the course of the period. This measure will be modified in future periods to include all employees.

EMERGING MEASURES

As we continue to embed our Sustain*Abilities* Plan into our corporate strategy, there are a number of evolving measures upon which we will be reporting in future periods. For these new measures we have set out below the 2013 baselines, with comparators where possible, from which future improvements will be measured:

APPRENTICESHIPS & GRADUATE INTAKE[5]

2013	331
2012	231

Target: Double the number of apprenticeships, traineeships and graduate training opportunities

EMPLOYEE ENGAGEMENT INDEX SCORE[6]

2013	64%
2011	60%

Target: year-on-year improvement

CO_2e EMISSIONS[7]

2013 baseline	237,419 tonnes

Target: Cut CO_2e emissions by 30% by 2016

WATER USAGE[8]

2013 baseline	1,399,939 m^3

Target: Cut water use by 20% by 2016

WASTE CREATED[9]

2013 baseline	2,837 tonnes

Target: Cut waste by 50% by 2016

5. Apprentices and graduates employed in the UK.
6. Based on a biennial survey.
7. Global absolute carbon emissions.
8. Water usage from fixed sites for global entities including associates.
9. Waste from fixed office locations for global entities including associates.

"INTERSERVE SERVES THE NEEDS OF ITS BROAD CLIENT-BASE THROUGH MANY DIFFERENT COMBINATIONS OF SERVICES AND VIA A RANGE OF ORGANISATIONAL STRUCTURES."

ADRIAN RINGROSE
CHIEF EXECUTIVE

STRATEGIC REPORT

OPERATIONAL REVIEW

Interserve serves the needs of its broad client-base through many different combinations of services and via a range of organisational structures. Our success is founded on the skills and ingenuity of our people who win repeat business by developing lasting, long-term relationships. Our team, which now stands at more than 50,000, thrives through its ability to retain and attract the right people and through investing in skills development and training.

We segment our results into four main areas of service – Support Services, Construction, Equipment Services and Investments – all of which are supported by central Group Services.

SUPPORT SERVICES

Support Services focuses on the management and delivery of operational services to both public and private-sector clients in the UK and internationally.

Results summary	2013	2012	Change
Revenue			
- UK	£1,196.6m	£1,118.1m	7.0%
- International [1]	£100.5m	£31.3m	
Contribution to Total Operating Profit	£60.1m	£48.0m	25.2%
- UK	£56.0m	£44.3m	26.4%
- International [1]	£4.1m	£3.7m	10.8%
Operating margin (UK)	4.7%	4.0%	
Operating margin (International) [2]	4.4%	12.8%	

[1] Including share of associates.

[2] Operating margin is calculated based on the underlying operating margin of associates and the reported operating margin of subsidiaries.

We performed well in 2013, growing total revenue by 12.9 per cent to £1.3 billion and operating profit by 25.2 per cent to £60.1 million as margins strengthened further in the UK to 4.7 per cent (2012: 4.0 per cent).

We see a continuing trend for outsourcing and aim to be a trusted partner for a broadening range of services on behalf of our clients. We are expanding our reach in front-line services such as justice, community healthcare and rehabilitation and broadening our offering to oil and gas markets in the Middle East.

Our success is founded on our ability to design and deliver improved value from operational services, building long-term relationships with clients and drawing on our experience across the breadth of our service mix and sector experience to win new business.

UK

Our work-winning remained strong and we achieved a number of notable successes that reflect the diversity of capabilities of the division including: Dixons, University of Sussex, BBC, Ministry of Justice (MoJ), Ministry of Defence (MoD), Nottingham University NHS Trust, London Borough of Southwark, London Borough of Lambeth, the Home Office, the Department for Work and Pensions (DWP), Magnox and Meggit.

A significant success for us in the period was winning a five-year, £150 million facilities management contract with the BBC. The contract (which is extendable to nine years' duration) involves the management and delivery of services at over 150 locations across the UK including New Broadcasting House in London and MediaCityUK in Salford. We will be responsible for services ranging from critical broadcast engineering and business continuity services, through to implementing a new and dynamic workplace support model.

In partnership with ESS Support Services Worldwide, we are now providing back-office and facilities management services at five Royal Navy establishments in the South West. The three-year deal, valued at more than £15 million, is part of the Fleet Outsourced Activities Project. Our role involves managing stores and logistics, motor transport and administrative support in areas such as HR, payroll and travel. Elsewhere in the Defence sector we mobilised our services in Gibraltar as part of our 'Four Islands' infrastructure support activities for the MoD.

STRATEGIC REPORT

OPERATIONAL REVIEW CONTINUED

As well as targeting new contracts, expanding and developing our existing client relationships is an important element of our growth strategy. Our relationship with the Home Office (providing support for the National Offender Management Service, the National Probation Service, UK Border Agency and the College of Policing) was extended for a further two years, reflecting the partnership that we have forged since we started delivering services in 2008. We also extended our contract with the Foreign and Commonwealth Office to provide support services to 10 British embassies and consulates across Spain.

In August, our joint venture, Landmarc Support Services, was awarded a contract extension by the MoD worth circa. £110 million. Landmarc will continue until at least July 2014 to manage military training facilities across the MoD's 500,000 acres of built and rural UK training estate, a position it has held since 2003.

A key aspect of our growth strategy is to add new capabilities to our offering. During the year we made significant progress in this regard in the healthcare sector where we see long-term demographic trends and changing needs of patients and commissioners that are likely to result in more outsourced services. By both growing our existing business and expanding into new areas such as healthcare services to people in their homes, we believe we are well-placed to service this growing need.

Advantage Healthcare (acquired in December 2012) extends our service range into community healthcare services including: case management, social care, clinical and nursing services for Clinical Commissioning Groups, local authorities, and through private referrals.

Our innovative approach to finding affordable, yet high quality solutions for our healthcare partners is demonstrated by The Cotton Rooms, a hotel for patients receiving treatment at the nearby University College London Hospital.

Both Advantage Healthcare and The Cotton Rooms provide quality care and services outside of a traditional hospital setting, providing improved patient pathways and benefitting the health economy through lower costs than in 'traditional' care solutions.

CASE STUDY

SOLUTIONS FOR THE NUCLEAR INDUSTRY

Our Support Services division spans a range of operations, which is exemplified by the completion of a major engineering project to construct complex modules for the nuclear industry.

Part of the largest nuclear project underway in the UK, the Highly Active Liquor Evaporator is constructed in modules and delivered to site by sea – a first for Sellafield.

The final and largest in the series of the 10 modules, all built by Interserve, which weighed 520 tonnes and stood 27 metres high, was built at Interserve's off-site facility in Ellesmere Port.

Crossing over the M53 to reach the barge for sea transportation, the Evaporator D module proved to be one of the heaviest loads to be delivered by road in the UK.

Through months of logistical planning with contractors, stakeholders, local police and road crews, which included a scheduled closure of a major route, the module travelled on a self-propelled modular transporter and was delivered to a specialist barge moored at Manchester Ship Canal.

The changing needs of the UK population and economy, together with reform into how front-line public services are commissioned, have created other growth opportunities. Since 2011, Interserve has played its part in the extension of outsourced services that directly engage with the citizen, such as the Work Programme, a flagship policy under Welfare Reform and aimed at supporting the long-term unemployed into sustainable employment. Operating in multiple UK regions, through personalised support, training and intervention, Interserve has now supported its customers into some 34,000 employment opportunities for people who had been out of work for more than a year.

Similarly, our justice team is competing for significant opportunities in offender rehabilitation services, on which we expect to see further developments during 2014.

As a major employer, we take our social and environmental responsibilities very seriously and, as our Sustain*Abilities* Plan demonstrates, we aim to make a positive difference to the communities we serve. Landmarc has been a standard bearer for the Group with its work on social value setting up business hubs for small, rural businesses and promoting local business enterprise through the Landmarc 100 initiative.

We also seek to create opportunities for our people, especially in supporting their ongoing learning and development. This is well-exemplified in Leicester (where we manage a comprehensive facilities and estates contract on behalf of the NHS) in support of which we have forged a partnership with Leicester College to provide opportunities for our 2,000 staff to gain a range of occupational and educational qualifications in parallel with their employment.

International

International Support Services is primarily focused on the oil and gas sector, providing fabrication, maintenance, turnaround services and training in the Middle East.

The business has been centred on Qatar for a number of years but we have recently expanded our footprint to include the United Arab Emirates (UAE) and Oman. In addition to our oil and gas activities, we also provide facilities management services across a broad range of markets, such as hospitality, leisure, education, defence and retail.

A mix of subdued market activity, competitive pressure and the accelerated re-tendering of a significant contract at Ras Laffan (Qatar) impacted the performance of our principal business, Madina, relative to earlier more buoyant periods. Latterly, new contract wins, together with ongoing cost-management focus, should benefit future periods. Overall, performance in this segment was boosted through the acquisitions of two new businesses, resulting in an increase in operating profit of 10.8 per cent to £4.1 million (FY 2012: £3.7 million), albeit within this result, volumes in our Omani business, TOCO, were similarly temporarily affected by deferred client expenditure at Mukhaizner.

In January 2013 we expanded our oil and gas services activity by acquiring TOCO, an Omani business specialising in fabrication, maintenance, repair and logistics services for the on-shore oil sector. In September we completed the acquisition of Topaz Oil and Gas (now known as Adyard), based in Abu Dhabi and Fujairah, which provides project management and maintenance for off-shore activities and marine rig maintenance. These acquisitions provide us with greater reach and capability across the Gulf region, opening up access to a wider pool of potential customers and pan-regional, as well as national opportunities.

We are making good progress with the integration of these businesses, and although there have been some delays and deferrals to the services we are providing, pushing some work out to 2014, this should not have a negative impact in the medium term. Indeed, shortly before year-end, Adyard was awarded a $17.0 million (circa. £10.8 million) contract for the fabrication of an offshore platform for the Zora Field Development Project on behalf of Dana Gas.

Our other facilities management activities in the Middle East have made further progress in the year and, although the market is relatively immature compared to the UK, there is significant potential to export our skills further. Examples of new facilities management contracts secured in the period include that with Habib Bank in Dubai (a longstanding customer of our construction business) and for estate management services at the Monte Carlo Beach Club in Abu Dhabi.

Outlook

In the UK we expect Support Services to continue its strong progress and to maintain margin levels as we win new work and extend relationships with existing clients. Of particular focus in 2014 will be the procurement of services for the UK's Defence Infrastructure Organisation (DIO), where we are incumbent on two of the six contracts on which we are currently bidding. In addition, we are adding new competences and capabilities as we expand both our front-line services directed at the citizen, as well as our service offer to the private-sector market, building on successful contract wins such as the BBC.

Internationally, we expect to see further revenue growth as we look to exploit the opportunities of our expanded presence and broader offering.

STRATEGIC REPORT

OPERATIONAL REVIEW CONTINUED

CONSTRUCTION

We offer design, consultancy and construction services to create whole-life, sustainable solutions for building and infrastructure projects. Our focus is on forming long-term relationships and delivering repeat business through commercial structures such as framework agreements and project-financed schemes.

Our presence in the Middle East is structured through longstanding joint-venture partnerships, enabling us to form long-term relationships and extend activities with existing clients.

Results summary	2013	2012	Change
Revenue			
- UK	£802.2m	£737.2m	8.8%
- International [1]	£215.9m	£201.6m	7.1%
Contribution to Total Operating Profit	£27.8m	£28.9m	-3.8%
- UK	£14.7m	£14.6m	0.7%
- International [1]	£13.1m	£14.3m	-8.4%
Operating margin (UK)	1.8%	2.0%	
Operating margin (International) [2]	5.1%	6.5%	

[1] Share of associates.

[2] Operating margin is calculated based on the underlying operating margin of associates.

UK

UK Construction again performed well, showing continued resilience amid challenging market conditions.

Against a backdrop of subdued major infrastructure activity, our strategy of nurturing repeat business on key accounts and selectively diversifying into new sectors yielded increased revenue, up by 8.8 per cent to £802.2 million, with operating profit 0.7 per cent ahead of 2012 at £14.7 million. Margins remained within our expected range at 1.8 per cent. Future workload remained broadly stable at £1.0 billion (FY2012: £0.9 billion), benefitting from our successful targeting of a mixture of new and existing frameworks, and from selective opportunities in the private sector.

One example of our diversification is in the construction of Energy from Waste (EfW) plants in the UK. Our £146 million scheme in Glasgow, on behalf of Viridor, is now underway and in February we announced a joint venture with Babcock & Wilcox Vølund A/S to design and build an EfW plant for Viridor in Peterborough, UK, with a contract value of £15 million.

In May we acquired Paragon, a specialist fit-out and refurbishment business based in London, significantly extending our capabilities in that market. The business continues to thrive and is benefitting from integration into the Group by gaining access to larger scale projects such as with HM Courts and Tribunal Service, as part of a national framework.

Our ability to grow through structuring innovative investment models is illustrated by the redevelopment of the Haymarket area of Edinburgh. As part of the scheme we have invested an initial £10.6 million of equity and will subsequently undertake circa. £150 million of construction work to develop the mixed-use site. We will look to exploit further opportunities to combine our construction and project-financing skills during 2014 and beyond.

Much of our work for the public sector is channelled through framework agreements, which provide a strong foundation and good visibility for our UK construction business.

During the year we continued to undertake various projects on NHS frameworks, including completions at Frome Medical Centre, Kettering General Hospital, Langdon Hospital in Dawlish, with new awards including Mid-Cheshire Hospitals NHS Foundation Trust and Hywel Dda Health Board in Wales.

In education, we redeveloped the Charter Academy in Portsmouth under the National Academies Framework and were confirmed as selected contractor in the Priority School Building Programme to deliver eight schools in the West Midlands region. We also completed a University Technical College next to the famous Silverstone race circuit which specialises in a high performance engineering syllabus.

In December we were awarded a place on the £250 million DIO framework for the East Midlands and Eastern England region. The four-year framework covers an area spanning Lincolnshire to Essex, with an option for the DIO to extend by a further three years. The Regional Framework will be used to deliver a programme of projects each valued at up to £12 million.

Our relationship with Jaguar Land Rover (JLR) has grown over the course of the year. In April we announced the start of the first phase of works at JLR's new Engine Manufacturing Centre near Wolverhampton, with further phases also underway to extend the engine plant in the West Midlands. This was supplemented by two subsequent contract awards at other JLR sites and will provide work through to late 2014.

Part of our success in growing this relationship has been through the use of innovative technologies such as BIM (Building Information Modelling) which we have used as part of the consultation and co-ordination process with JLR, providing an unprecedented level of detail at the design stage. Our use of BIM has helped to create real-world models for procurement, prefabrication, coordination, manufacturing and installation.

CASE STUDY

TOP OF THE SMALL BUSINESS SPENDING LIST

In August The Cabinet Office revealed what many of the main construction contractors spend with small and medium-sized enterprises (SMEs) on central government projects with Interserve leading the way.

We topped a list of main contractors cited in the *Making Government business more accessible to SMEs: Two years on* report, with some 70 per cent of supply chain spend awarded to SMEs when delivering work for central government clients.

The report highlighted that SMEs are important and increasingly valuable members of our regional business offering.

Where possible, Interserve has modified its procurement systems to allow the future identification and tracking of activity with SMEs within its supply chain. This is supported through its standard tendering process which asks suppliers to provide examples of using SMEs in their own supply chains as well as actively seeking to identify, with existing key suppliers, opportunities for further engagement.

We hold regular events where potential new suppliers have the chance to showcase their capabilities to the Company's procurement teams to improve visibility of opportunities.

Another initiative that demonstrates the value we create for communities has been the development and introduction of a digital application that helps our project teams identify existing supply chain partners in range of a construction project.

STRATEGIC REPORT

OPERATIONAL REVIEW CONTINUED

CASE STUDY

EXTENDING THE MALL OF THE EMIRATES

Our joint venture in the United Arab Emirates, Khansaheb, was awarded a £110 million contract to extend, redevelop and upgrade Dubai's Mall of the Emirates, one of the world's largest shopping complexes.

The Mall of the Emirates, the third largest in the world and the largest outside North America when it opened in 2005, provides over 7.9 million sq ft of retail space and can comfortably accommodate 50,000 people at a time. It houses more than 450 retail units, including a 656,000 sq ft Carrefour hypermarket; a 14-screen cinema with separate theatre and two entertainment zones; three food courts and an indoor ski slope.

Khansaheb, which built the mall and completed an extension in 2008, is in the process of extending and remodelling the 'live' shopping mall, building additional parking facilities along with a link to the Dubai Metro public transport system. Construction started late last year and is due to complete in the fourth quarter of 2014.

The award – one of many prestigious projects Interserve is involved in around the region – demonstrates the confidence our client, Majid Al Futtaim, has in our ability to deliver.

Sustainability is high on our agenda and is becoming a powerful differentiator with a growing number of clients. Renewable technology is incorporated into schemes more and more often, including the use of photovoltaics, solar collectors and grey water recycling. As part of our design development we regularly provide feasibility reports and business cases to help clients' consideration of sustainable options and, selectively, we are able to provide solutions through financing secured against long-term energy savings.

Our added value as a main contractor is to provide coordination of the many trades, skills and suppliers involved in delivering construction projects. As such, small and medium-sized enterprises (SMEs) have long been important and valued members of our supply chain. In August, the Cabinet Office published details of the UK Government's main construction contractors' spend with SMEs across central government projects. We are pleased that Interserve topped the list of companies, channelling 70 per cent of our supply chain spend to SMEs, when delivering work for central government clients.

We also actively focus spend on suppliers that are local to our projects, thereby reducing unnecessary environmental impact and stimulating economic activity within the local community. In our development agreement with West Yorkshire Police Authority, 95 per cent of sub-contracts are awarded to local companies.

International

Construction in the Middle East performed broadly in line with expectations and generated satisfactory results in relatively tight market conditions which have experienced increased levels of competition and consequently lowered margins.

Against this backdrop we have continued to manage our cost base actively, whilst seeking to maintain our capabilities in key sectors. We remain optimistic that the Middle East offers good medium-term potential – a view that, despite variances in regional market conditions, is evidenced by a slight increase in work winning in the year and by the positive early-cycle activity witnessed by our Equipment Services businesses in the region.

Our experience in the Middle East, built up over decades of strong local partnerships, continues to stand us in good stead. One such example is the contract awarded to Khansaheb valued at AED 636 million (circa. £110 million) for the redevelopment, expansion and upgrading of the Mall of the Emirates in the UAE, on behalf of long-standing client, Majid Al Futtaim.

More generally, market conditions in the UAE have begun to exhibit signs of improvement as we secured work for the Office of HM Crown Prince of Dubai (leisure), EMAAR Boulevard (restaurants), Chalhoub Group (retail), Government of Fujairah (roads) and Dubai Festival City

CASE STUDY

AWARD-WINNING DEFENCE PARTNERSHIP

Our long-standing partnership with Defence Infrastructure Organisation's (DIO) PFI Team at the Military of Defence's Corsham site was recognised this year at the Premises and Facilities Management (PFM) Awards.

The PFM Awards are recognised as the premier accolade for best practice at working in partnership to deliver facilities and support services across a broad spectrum of organisations in the private and public sectors.

More than 36 different services are provided through the Corsham PFI Project, including building and grounds maintenance, medical and dental support, leisure and hospitality services, environmental and conservation services, logistics, tailoring, administration, reprographics and motor transport services.

Interserve also manages the underground military town at Corsham, which provides an important link to our Cold War history.

(retail) in the period. In addition, we were awarded a contract from General Electric International to construct the new GE Emirates Engine Maintenance Centre in Dubai, and won contracts to carry out extensive fit-out works to the Four Seasons Hotel, along with road and infrastructure work for Meraas.

In Qatar, where market conditions remained more subdued, we were awarded a contract for the construction of the 26-floor Lusail Tower and for civil engineering in connection with a new desalination plant at the Ras Abu Fontas power and water station. We were commissioned by Siemens to provide civil and building works in the energy sector and, in joint venture with Arabtec Construction, by Doha Festival City for site enabling, which we hope may lead to further awards on this major new development scheme.

In Oman, work was completed for Daewoo Engineering and Construction on the Sur Independent Power Project, including civil engineering works on the largest seawater intake structure in the Sultanate. Further work was secured with a range of clients including HSBC, The Wave Muscat and Petroleum Development Oman.

Although this region may, at first glance, not appear to be the most fertile for our Sustain*Abilities* Plan, we are at the forefront of thinking, bringing our perspectives to markets increasingly appreciating the importance of these issues. Already we have had a number of notable successes, including reducing the carbon emissions of our Qatar business by 30 per cent, and rolling out a range of solar powered, water and waste-neutral ambulance facilities in Dubai.

During the year we also exited our business in India, where recent results and future potential did not meet our expectations. A financial charge of £5.1 million is included in exceptional items in our 2013 financial statements.

STRATEGIC REPORT

OPERATIONAL REVIEW CONTINUED

CASE STUDY

HOLT PARK WELL-BEING CENTRE, LEEDS

In October, we successfully handed over a £28 million innovative fitness and well-being centre called Holt Park Active to Leeds City Council. Funded through the Private Finance Initiative (PFI) and built through the Leeds Education Partnership, the project showcased the work of teams across the Group - including Investments, Construction, Engineering Services and Support Services.

Holt Park Active is an innovation centre, which represents a new approach to community fitness centres, putting health and well-being at its core. The centre consists of a range of flexible spaces for activities and support services that suits people of all ages. It features a gym, 25-metre pool, hydrotherapy and learning pools, dance studio, café, garden, sports hall, multi-activity rooms and meeting/training areas.

The Holt Park Active project follows the successful completion of Armley and Morley leisure centres for Leeds City Council by Interserve adding to other PFI schemes in the Leeds area including Allerton High School, the Rodillian Academy, Pudsey Grangefield High School, Allerton Grange and Leeds West Academy.

Outlook

We believe we are well placed to take advantage of market improvements that may begin to emerge in the UK during 2014.

We are seeing early signs of a nascent recovery in the UAE and Qatar, while our prospects in the region have also been boosted by a proactive move to broaden our accessible markets and extend our capabilities through partnerships, such as our joint venture with Arabtec in Qatar.

We are also looking to augment revenue growth by bringing our project finance competences to bear in respect of key international markets.

EQUIPMENT SERVICES

Our Equipment Services business delivers bespoke engineering solutions and provides temporary structural equipment (formwork and falsework) for complex infrastructure and building projects.

Results summary	2013	2012	Change
Revenue	£169.6m	£167.5m	1.3%
Contribution to Total Operating Profit	£20.1m	£16.0m	25.6%
Margin	11.9%	9.6%	

The division performed strongly, increasing profit by 25.6 per cent to £20.1 million (FY 2012: £16.0 million) with operating margins gaining 230 basis points as this operationally geared business benefitted from increased activity in global infrastructure markets.

In anticipation of improved market conditions we increased our net capital expenditure, by 65 per cent to £10.4 million, to facilitate growth. We expect this trend to continue during 2014.

We continued to expand into new territories such as Singapore, Colombia and Kurdistan and grew our presence in a number of existing markets such as Chile, Panama, South Africa and the USA. Alongside these expansions, we have continued to remain flexible and agile, downsizing in weaker markets, relocating our fleet to exploit opportunities in stronger markets and keeping our cost base responsive to demand fluctuations.

Middle East and Africa

We continued to perform well in the region, benefitting from strong work-winning and increased demand in the Kingdom of Saudi Arabia, where we designed and supplied in excess of 15,000 tonnes of equipment to Roots Group Arabia for the expansion of the Grand Haram Mosque in Makkah. The 250,000 square metres of ornate prayer halls, ceremonial halls and courtyards is the largest project RMD Kwikform has undertaken in the region to date.

In Oman, we supplied equipment for the construction of a state-of-the-art college for the technical education of armed forces in Muscat and for the new Salalah International Airport, which includes the construction of a Passenger Terminal Building, an Air Traffic Control Tower, ancillary buildings, roads and bridges.

Following restructuring in 2012, our performance in South Africa improved significantly as we opened new branches and gained market share.

Australasia and the Far East

As anticipated, demand weakened somewhat in Australia, reflecting more subdued economic conditions and the reining back of a number of large natural resources projects. Elsewhere in the Asia-Pacific region demand grew, providing some mitigation for this region overall.

Notable projects in the region included the application of our Airodek system in a $50 million redevelopment programme for the Channel Court shopping complex in Hobart, Tasmania, where the operational efficiencies of our rapid erection/dismantling system helped accelerate the project against a challenging programme.

Growth in Hong Kong was largely driven by increased Government infrastructure spending on major transport projects in which we designed and supplied specialist shoring equipment for the widening of the Tolo Highway connecting the towns of Sha Tin and Tai Po. We are also providing equipment on significant projects to connect a new underground railway to the multi-level West Kowloon Terminus.

Europe

In the UK, the business performed well, despite a fragile overall construction market. Much of our success in the UK is attributable to providing a major formwork and falsework solution for a casino, hotel and cinema complex being built near Birmingham.

The market remained slow across much of mainland Europe. We undertook further cost reduction in our operations in Ireland and Spain to manage our cost base but also sought to develop export opportunities, in particular to other Spanish-speaking markets, such as Panama and Colombia.

Americas

We operate in the USA and some Central South American markets. The US construction market began to exhibit signs of growth in the period which, combined with the benefits from restructuring undertaken in 2012, generated a much improved performance. Towards the end of the year we extended our West Coast operations, centred around San Francisco and Los Angeles.

In Chile, where we now have three operational locations, we supplied a large-scale formwork and shoring project to create walls and slabs for the new US$65 million hydro-electric Laja power station.

Across the Equipment Services business, our Sustain*Abilities* programme includes a focus on procurement, environmental and ethical aspects to supplier audits, helping suppliers improve emissions performance through manufacturing improvements and involvement in the ‘Surplus Network’, which recycles construction waste.

Outlook

We anticipate further improvement in Equipment Services’ performance as the business continues to focus on margin improvement and benefits from global economic trends. To support this growth, we plan to continue increasing investment in our fleet of equipment and to implement further territorial expansion.

INVESTMENTS

The Investments division is responsible for leading the Group’s project-investment activities and managing equity investments both in Public Private Partnership (PPP) projects and with selective private-sector projects.

Results in respect of PFI activities are summarised below.

	2013	2012
Contribution to Total Operating Profit	**£0.8m**	£6.6m
Interest received on subordinated debt investments	**£0.6m**	£5.4m
Total	**£1.4m**	£12.0m
Exceptional profit from PFI disposals	**£3.6m**	£114.9m

Highlights of 2013 included completion of the transfer of further PFI assets into the Interserve Pension Scheme, thereby reducing the Group’s pension deficit and resulting in an exceptional profit of £3.6 million in the period.

Comparison of results year-on-year is impacted by the disposal of the majority of the PFI portfolio in 2012 and January 2013.

Financial close was achieved on the Alder Hey Children’s NHS Foundation Trust project, and Phase One of the Help for Heroes accommodation on the Armada PFI contract in Plymouth was completed and successfully integrated into our existing contract. Facilities at the St Helens Building Schools for the Future project became fully operational during the period.

CASE STUDY

BUILDING WORLD-CLASS REHABILITATION CENTRES FOR THE MILITARY

Interserve handed over the second of two new facilities in Plymouth to British services charity Help for Heroes that will benefit wounded military personnel and veterans undergoing recovery.

The recently completed Endeavour Centre, part of HMS Drake's larger Naval Service Recovery Centre, offers state-of-the-art rehabilitation equipment and consists of three buildings incorporating a gym, consultation rooms, a hydrotherapy area with changing facilities and a cafe. It also features a 25-metre six-lane competition swimming pool with a floor - made of low-density material enabling it to float - that can be raised or lowered.

The Endeavour Centre, constructed with steel frames and finished with metal and brick cladding, was handed over on time and within budget after a 69-week construction period, following complex groundworks which included the remediation of land contaminated with hydrocarbons and metals.

Last summer, Interserve handed over Parker VC, a specialist adaptive accommodation facility made up of 60 single 'cabins' and six family cabins. Both the Endeavour Centre and Parker VC facilities will be run and staffed by the Navy/MoD with Interserve continuing to provide a full range of 24-hour support.

The facilities will provide those who have suffered life-changing injuries and illnesses with the very best support they need, for life.

GROUP SERVICES

All central costs, including those related to our financing and central bidding activities, are disclosed within the Group Services segment.

Group Services' costs in 2013 were £22.1 million (FY 2012: £21.1 million), accommodating an increased investment in back-office capabilities, such as IT, people development and communications. We also continue to invest in skills development and training to support and enable our continued growth. In addition, we have rolled out an ongoing, Company-wide campaign to communicate Interserve's vision and values, reinforcing our shared corporate culture.

We anticipate this level of investment will continue in the medium term, as we ensure that the quality, professionalism and scale of our support functions keep pace with the growth of our operational businesses.

OUTLOOK

Whilst individual circumstances remain mixed, in aggregate, market conditions are now beginning to show signs of improvement. Against this backdrop and through our strategic plans, we expect to deliver further progress in 2014, with revenue and profit growth together with the successful integration of a number of acquisitions offsetting slightly weaker near-term performance in International Construction.

We remain confident in our medium-term outlook, based on strong long-term growth drivers and our attractive positioning in our core markets and our ability to identify and deliver on exciting project and corporate opportunities.

CASE STUDY

DELIVERING MAJOR PROJECTS IN WEST YORKSHIRE

Interserve successfully delivered the first of three Private Finance Initiative (PFI) projects which will provide new, state-of-the-art facilities for the West Yorkshire Police Authority. The three developments - designed and built by Interserve - will provide a 21st century working environment for over 1,000 police officers and civilian staff.

Late last year work was completed on an 11,500 square metre divisional headquarters in Wakefield, to accommodate a number of operational units, response teams and CID, as well as providing a 35-cell custody suite and office accommodation for staff.

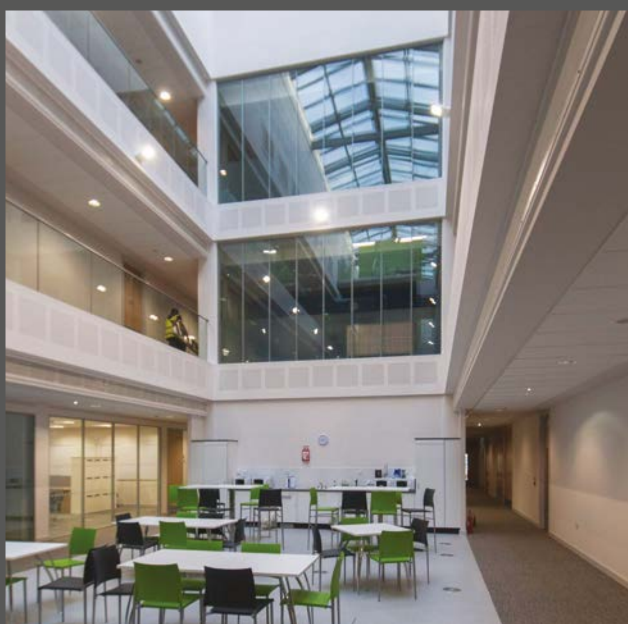
Work is close to completion on a new divisional headquarters being built in Leeds and a specialist operational training centre at Carr Gate near Wakefield, with both on track to be fully operational during the first half of 2014.

The three facilities have a total capital cost in the region of £114 million.

West Yorkshire Police last year held a 'topping off' ceremony - marking the highest point of the building's development - for the £35 million Leeds facility, which will cover 12,500 square metres of floor space and house a 40-cell custody area.

Under the PFI model, Interserve will provide facilities management services, including cleaning, repairs and ground maintenance at the three sites, for the next 25 years.

In line with Interserve's Sustain*Abilities* Plan, some 85 per cent of sub-contracts on the projects were awarded to local companies, with the majority of construction staff working on the development living in local communities.



STRATEGIC REPORT

PRINCIPAL RISKS & 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.

Risk	Potential impact	Mitigation and monitoring
Business, economic and political environment	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 or cancellation of 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 significant committed financing with long maturity dates. 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, 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 and ensuring that periodic benchmarking and/or market testing are included in long-term contracts and PFI/PPP contracts.
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.

Risk	Potential impact	Mitigation and monitoring
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 44 to 51. 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 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.
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, especially where we are delivering front-line services to the public and may have an adverse impact upon the Group's "licence to operate".	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, supported by our values. 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 in place business continuity plans for our own businesses and work closely with our clients in respect of their business continuity arrangements. 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.

STRATEGIC REPORT

SUSTAINABILITY REVIEW

> “OUR VISION CAN ONLY BE REALISED THROUGH A COMPLETE AND COMMITTED APPROACH TO SUSTAINABILITY.”

TIM HAYWOOD
FINANCE DIRECTOR & HEAD OF SUSTAINABILITY

Our vision is to redefine the future for people and places. That vision can only be realised through a complete and committed approach to sustainability in its widest scope, to include not only our impact on the natural environment, but also our influence on people and society. We believe that this wider social purpose is an inherent part of how we deliver growth and value for both investors and stakeholders.

We have long been aware of our responsibilities in the field of sustainability and have a strong record of delivering excellent projects and initiatives in this area. In the period since 2012 we have sharpened our focus, raised our ambition and sought to demonstrate our leadership credentials. This culminated with the launch of Sustain*Abilities* in March 2013, our single, unified plan to embed sustainability as a key element of how we operate and which commits us to an ambitious and stretching programme. Further information is available at *www.sustainabilities.interserve.com*.

Our progress with Sustain*Abilities* continues to gather pace, with strong governance and data capture systems, established to guide and measure our operational activities and enable us to collate performance metrics (as set out on page 21). In the process of defining and refining the many targets in our plan, we have also forged mutually beneficial partnerships with organisations such as Business in the Community, the International Integrated Reporting Council, Social Enterprise UK and Groundwork, the national environmental regeneration charity.

We are seeking to measure our performance, not only in traditional financial terms, but also in terms of our contribution to three other forms of capital value: social capital – the value of people and communities; natural capital – the value of the natural environment; and knowledge capital – the value of know-how and learning.

In designing our Sustain*Abilities* Plan, we took a different perspective on the operations of the Group, identifying not just the activities that we undertake, but the overarching outcomes that we were seeking to achieve in meeting our objective in creating sustainable shareholder value.

Create places that benefit people

Generate a positive environmental impact

Deliver public service in the public interest

Achieve sustainable growth

Build more skills, more opportunities

These outcomes mean that our buildings and the services we deliver meet users' expectations and benefit wider communities. Also, we create more opportunities for learning, innovation and sharing experiences; we take on board environmental impacts and opportunities and deliver growth, efficient operations and new employment opportunities.

Our plan, which stretches out to 2020, includes 15 distinct goals, with clear deliverables against each, all aimed at supporting these outcomes.

2013 has been our baseline year, identifying and capturing relevant and reliable data to establish the benchmarks for our future performance. As a result, the first year of truly measurable, comparable progress towards our goals will be 2014. However, we have taken many important steps in the last year, in seeking to deliver a balanced performance across all four capitals.

NATURAL CAPITAL

We aim to generate a positive environmental impact, moving beyond compliance towards a positive and restorative contribution through our operations, including design and build of facilities that are highly energy efficient and our management and stewardship of estates and land.

In the education sector, we have been able to meet exacting demands of our local authority clients by creating schools that perform to the highest standards of energy efficiency, dramatically reducing long-term life-cycle costs.

Our ability to tackle energy efficiency of offices and schools was recognised in the 2013 Construction News Awards for our innovative use of Passivhaus building techniques to create the most efficient building envelope for thermal performance and air-tightness. This was showcased in our Richmond Hill Primary School project which was completed on behalf of Leeds City Council and uses 80 per cent less energy than a conventionally-built, equivalent-sized facility with 60 per cent lower carbon emissions.

We have also been working hard to improve the environmental performance of our own operations by:

- introducing a wide range of measures (intelligent air conditioning and lighting systems and Bionest water and waste recycling) to the accommodation camps for our businesses in Qatar that reduced CO_2e emissions by 30 per cent compared with 2010 levels;
- trialling the use of electric vehicles and introducing incentives to lower emissions in our car fleet; and
- extending the use of video conferencing to reduce our business travel.

Monitoring environmental performance

We have identified the following core impacts for the Group:

- greenhouse gas (CO_2e) emissions from our use of energy, including electricity, gas, fuel in vehicles, transport and travel;
- use of natural resources such as water and timber; and
- generation, treatment and disposal of waste.

We have also introduced improved systems to collect data in support of our reduction targets in these areas.

For 2013 our total greenhouse gas emissions were 237,419 tonnes CO_2e. This includes the emissions from our international subsidiaries and associates and is the baseline figure from which our Sustain*Abilities* targets will be monitored. The figure can be broken down as 61 per cent Scope 1* (143,825 tonnes), 18 per cent Scope 2* (42,048 tonnes) and 21 per cent Scope 3* (51,546 tonnes).

*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.

CASE STUDY

Generate a positive environmental impact

REDUCING OUR CARBON FOOTPRINT IN THE MIDDLE EAST

Across our business operations in the Middle East, reducing our carbon footprint is a significant step in decreasing our overall impact on the local ecosystem, which boasts its own irreplaceable species, plants and wildlife.

In recent years we have made major steps in innovation and sustainability, including the introduction of Bionest, a wastewater solution suited to local environmental conditions and solar-power ambulance shelters built recently in Qatar.

We are also reviewing the decisions we make every day, including cutting down on non-essential travel and better use of technology such as video conferencing and other online tools. These seemingly small decisions are adding up. For instance in the United Arab Emirates we have cut annual fuel costs from 60 million AED (circa £10 million) to 35 million AED (circa £6 million) and we continue to explore the use of technology that may offer long-term value.

Across the region we have taken up the challenge of reducing emissions from energy use at construction sites by 30 per cent by the year 2016.

STRATEGIC REPORT

SUSTAINABILITY REVIEW CONTINUED

We have historically reported our UK bases emissions and for 2013 these amounted to 36,340 tonnes CO_2e (2012: 37,702 tonnes). The reduction has been achieved through lower fuel use in our vehicle fleet and lower electricity use in our offices.

Our reduction targets for 2013 related to these emissions:

Measure	2012 outcome	2013 target	2013 outcome	Status	2014 target
Reduce carbon emissions from energy used at UK fixed site locations (tonnes CO_2e per £million UK revenue) by 2.5% per annum.	3.32 tonnes/£m	3.24 tonnes/£m	3.10 tonnes/£m	target fully met	Not applicable, new SustainAbilities targets will apply to 2014
Reduce carbon emissions from fuel used in UK fleet and cars (tonnes CO_2e per £million UK revenue) by 2.5% per annum.	12.18 tonnes/£m	11.88 tonnes/£m	10.20 tonnes/£m	target fully met	
Reduce water consumption at UK fixed site locations (m^3 water used per £million UK revenue) by 2% per annum.	20.38 m^3/£m	19.97 m^3/£m	21.16 m^3/£m	target not met	
Reduce waste generated at UK fixed site locations (kg of waste generated per UK employee) by 2% per annum.	40.74 kg/employee	39.93 kg/employee	40.07 kg/employee	reduction but target not fully met	

SOCIAL CAPITAL

Our wide range of operations and capabilities give us the opportunity to create places that benefit people and to deliver public service in the public interest.

This includes designing and building facilities such as leisure and commercial developments and delivering services in the public sector such as hospitals and schools that enhance people's lives, contribute to their wellbeing and 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 offices and public-service facilities to operate more efficiently, providing healthcare in people's own homes, improving the built environment or helping to get the long-term unemployed back into work (34,000 people).

Our joint venture, Landmarc, is helping the Ministry of Defence (MoD) to forge closer relationships with the communities close to where it trains. The Landmarc 100 scheme was launched this year to provide £100,000 of financial support and practical one-to-one guidance to grass roots innovation in the rural communities around the MoD training estate.

As a large procurer of goods and services we recognise the paramount importance of our supply chain and were pleased to receive two government-backed acknowledgements of our efforts in this area:

- Our Support Services division achieved an NQC CAESER score of 81 per cent (60 per cent is the average score). This UK government system scores suppliers according to their performance in environmental, social and economic sustainability areas.
- Our Construction division came top of a Cabinet Office survey of contractors spend with Small and Medium Sized Enterprises (SMEs) across central government projects, with 70 per cent of our supply chain spend awarded to SMEs when delivering work for central government clients.

We have also continued our partnership work with two charitable organisations striving to use employment opportunities to improve social cohesion:

- Allia Future Business Centre, for whom we designed and built in 2012 a 35,000 sq ft innovation centre to support technology-related SMEs and start-up businesses in Cambridge. We are proud to be one of the providers of seed capital to this social enterprise, investing £250,000 in their recently completed social impact bond.
- Groundwork, a charity improving the environment, employment prospects and communities in disadvantaged parts of the UK, with whom we entered a number of formal partnerships for the welfare-to-work and community work placement programmes. Through our Give A Day of Your Time initiative, Interserve employees were also able to work with, and provide training and employment opportunities for, Groundwork volunteers on a number of local projects, including a community allotment scheme in Wednesbury, West Midlands.

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 engaging in matters of local, national and global interest.

STRATEGIC REPORT

SUSTAINABILITY REVIEW CONTINUED

Building more skills and more opportunities

CASE STUDY

GAINING SKILLS ON A MAJOR PROJECT

The scope of our Support Services division spans a range of operations, such as our Industrial unit which has completed a major engineering project to construct complex modules for the nuclear industry, the final of which was completed in the period.

The size of the project opened up a number of opportunities for apprentices, such as 19-year-old pipe-fitter Louis Atherton, Interserve's Apprentice of the Year.

Louis talked about his experiences:

"Initially, I started off by attending college on an industry training scheme and after an interview, Interserve agreed to sponsor me to complete my apprenticeship, which was fantastic. I've been with the Company three years now.

"I'm currently working on the Tees Valley Gas Plant, laying carbon steel and stainless pipe work. Before this, I worked on the Evaporator D decommissioning project, which involved high-specification fabrication and installation. Pipe fabrication involves the creation of pipe in a workshop or in the field.

"I have been on the NVQ level three apprenticeship training scheme, which involves nine months in a training school, two months in a fabrication workshop and around 12 months on-site. I am now progressing to study for my Higher National Certificate (HNC) in Mechanical Engineering. This will take me two years to complete and will allow me to progress in my career within the industry and with Interserve."

Charitable giving

During the year we continued to support Help for Heroes, providing direct, practical support to those wounded in UK military service. Our three-year partnership with Help for Heroes has to date raised more than £450,000. The total raised in 2013 was over £170,000, with staff taking part in a wide range of fundraising activities, including the Yukon River Quest and 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 £60,000 during the year for Together for Short Lives, a UK charity for children with life-threatening conditions, with a further £77,000 donated to smaller charities across the business, including our annual corporate donation to Help for Heroes.

Our charitable organisation, Interserve Employee Foundation (IEF) continues to thrive. 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 charities and good causes supported by IEF reflect the wide scope of our operations and of the interests and concerns of our staff. Some examples of this support during the year include:

- Our colleagues in the Philippines were impacted by Typhoon Haiyan and joined in the relief effort by using their skills and equipment to set up temporary shelter for displaced people. Fundraising to help people find alternative accommodation took place across the Group raising more than £20,000 in just two weeks.
- We also support the Children of Hope Tumaini Kwa Watoto charity in Nairobi which provides hope for children living on the streets by working to return them from the slums back to their families by donating computers.
- IEF supports the Big Book Drop in support of Literacy for Life, aimed at improving the life chances of disadvantaged children in the territories where we work. To date, more than 50,000 books have been collected in the UK, which have been sent to schools in the Philippines, South Africa, India and Chile.
- The Foundation also funded the building of a £25,000 cycle track for Pathways Primary School in Yorkshire, a school for children with special needs and which offers specialist resources for pupils with Autistic Spectrum Disorder.
- Interserve employees helped sort and pack toys for families who would not have otherwise received Christmas presents at Reading Family Aid. Not only was Interserve's Headquarters a donation centre for the Reading Family Aid Toy Appeal but the IEF also granted £1,000 towards the appeal.

KNOWLEDGE CAPITAL

We understand that by providing more skills and opportunities for our 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 and training offered to customers, as well as through our work as a major provider in the Welfare to Work services market, helping to train and place the long-term unemployed into jobs.

Career development

As a broad service provider, we are differentiated by the quality of our people who demonstrate the skills, knowledge and attitude which makes a real difference to our customers' needs every day.

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. We also run a number of other professionally accredited programmes through organisations such as the Royal Institute of Chartered Surveyors (RICS) and the British Institute of Facilities Management (BIFM) for whom we are the first facilities management employer to become a Recognised Centre delivering the BIFM qualifications in facilities management.

In total, we have more than 140 people across the Group serving apprenticeships, we have given work experience to 100 school leavers through our employment 'boot camp' programme, and have delivered 6,841 days' worth of training to our people – in addition to external courses and self-directed learning.

In 2013 we joined forces with Leicester College to provide skills and development opportunities for our 2,000 staff working in the hospitals and NHS estate in Leicestershire.

The courses available include numeracy, literacy and languages plus opportunities for enrolment on to more than 20 different apprenticeship programmes in relevant areas such as facilities management, security, cleaning, business administration, customer service, hard FM services and management.

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Create places that benefit people

CASE STUDY

JOINING FORCES TO SUPPORT COMMUNITIES

Our drive to help people where we operate improve the environments they live in was further enhanced with the formation of a unique partnership with Groundwork to make use of surplus equipment and construction materials for community projects.

At the heart of the relationship is a commitment from both organisations to support the delivery of community projects using materials that can be recycled or are surplus to requirements throughout the Interserve business.

Groundwork Trusts across the country have access to a whole range of items, including everything from office furniture to new or recycled building materials such as timber, cement, bricks and concrete slabs.

Projects include building shared spaces where people can grow their own food; provide locations to learn new skills and places where communities can come together in safe, environmentally-friendly settings. Many of our own employees are involved in community projects through the Group's Give a Day of Your Time scheme.

The first project between Interserve and Groundwork involved creating a shared community and allotment space on a former derelict site in the town of Wednesbury in the West Midlands. Some 75 employees from across the business gave up their time to bring the project to fruition.

STRATEGIC REPORT

SUSTAINABILITY REVIEW CONTINUED

Another good example of working with our customers and enhancing the skills and opportunities available to local people can be seen in the case study covering our projects in Yorkshire including our contract with West Yorkshire police on page 33.

Further afield, we donated surplus classroom furniture from Leeds East Academy to the charity Rehabilitation Response, for use in a town in Punjab, Pakistan, recently affected by floods.

We supported a cross-party inquiry by the Skills Commission, an independent body of senior leaders from across parliament and the education sector, into how the education system meets the needs of the workplace. The report published in November (One System, Many Pathways) sought to find consensus across the education and training sector and create a blueprint upon which future policy should be assessed. The report is available to view at *www.policyconnect.org.uk*.

FINANCIAL CAPITAL

We are focused on delivering sustainable growth, building a profitable business that recognises all of our impacts and delivers sustained value for all. We acknowledge that economic activity consumes resources, but how we value those resources and the benefits obtained from them can influence how efficiently we use them and what we use them for. Our Sustain*Abilities* Plan requires us to think beyond just the monetary value and consider the environmental, knowledge and social impacts of what we do.

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

Economic success is an integral part of sustainable development, enabling the sharing of wealth to benefit 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. However, as a pilot member of the International Integrated Reporting Council (IIRC), we have been working with leading companies and advisers worldwide to design and begin to implement the <IR> framework, a radical redefinition of corporate reporting which fits very well with the thinking behind our own Sustain*Abilities* Plan.

With this Annual Report we are taking our first steps to refine how we integrate our financial and sustainability reporting in the future, to begin to address the recognition of the four capitals that underpin our thinking, and to demonstrate that sustainable business is good business.

OUR PEOPLE

Health and safety

Our 'Aim to be Accident Free' campaign focuses on the individual behaviour that is critical to the effective implementation of our well-established safety management systems.

Although it is encouraging to report overall a year of improvement in health and safety overall, we were saddened to experience three incidents in the Middle East in which six people tragically lost their lives.

Our overall reportable injury Accident Incident Rate (AIR) showed a 16 per cent reduction to 201 with the total Lost Time Accident (LTA) incident rate reducing by 10 per cent to 474.

	2013	2012	2011	2010	2009
All labour AIR (subsidiaries only)	242	298	310	377	344
AIR (including associates)	201	239	260	326	n/a
Target	224	240	302	310	386
Lost Time Accident (LTA) Incident Rate	474	524	n/a	n/a	n/a

The Accident Incident Rate (AIR) is based on the number of injuries meeting the RIDDOR reporting requirements per 10,000 workforce.

Employee consultation and participation

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

In the period we carried out our biennial, Group-wide opinion survey to help us understand how our employees view working at Interserve and what improvements we are able to make at a local or central level. The result of this comprehensive survey will be analysed and acted upon to address any issues that arise.

We operate two all-employee HMRC-approved share schemes in order to support our Employer of Choice goal and 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, 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.

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 re-assignment); 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.

Employee 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.

We respect and value the individuality and diversity that every employee brings to the Company. We base our relationship on respect, underlined by a set of values, promoting common behaviours across the business.

As at 31 December 2013, 20,765 of our global workforce of 34,547 were male and 13,782 female. Further information is provided in the table below.

	Gender		
	Male	Female	Total
Number of persons who were directors of the Company [1]	9	1	10
Number of persons who were senior managers of the Group [2]	87	4	91
Number of persons who were employees of the Group [3]	20,669	13,777	34,446
Total	20,765	13,782	34,547

[1] Plc board directors at year end.

[2] Subsidiary directors and Persons Discharging Managerial Responsibility (PDMR) at year end.

[3] Employees of subsidiaries included within group consolidation at year end.

CASE STUDY

Building more skills and more opportunities

POSITIVE ENVIRONMENTAL OUTCOMES ACROSS THE DEFENCE ESTATE

Landmarc, one of our subsidiaries in the defence sector, delivers a range of support services on behalf of the Defence Infrastructure Organisation (DIO) to provide safe and sustainable places for the UK armed forces. The contract encompasses 120 sites in England, Scotland and Wales, covering some 200,000 hectares, with many sites of Special Interest. Much of this is located in national parks and in remote rural communities. There is therefore, a drive to increase the economic, environmental and social value that Landmarc can generate.

The Landmarc Difference report, published in 2013, outlined the positive outcomes of the organisation's operations across the Ministry of Defence's national training estate.

Highlights included:

- Over £63 million of additional financial value for the DIO and its tenants have been generated over the past ten years and profits of almost £2 million have been reinvested.
- 94 per cent of all waste on the estate was diverted from landfill in 2013, up from 70 per cent in 2012. Emissions decreased by 7 per cent across Landmarc's value chain and, significantly, allowed the DIO to reduce the output of CO_2 on the training estate by some 10,000 tonnes in 2013.
- Landmarc forecasts that it will make a combined £750,000 investment commitment and estimated contribution over the next two years to rural communities through a number of initiatives, which include:
  - Landmarc 100 was launched, creating a £100,000 fund to provide financial support and mentoring for up to 100 start-up rural enterprises.
  - The Rural Enterprise Hub opened, offering a free touch-down office facility for rural-based entrepreneurs.
  - Landmarc's first Business in the Community (BiTC) Rural Business Connector was appointed to support small business growth.

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FINANCIAL REVIEW

SUMMARY

Financial highlights of 2013 included:

- Increase in headline EPS of 5 per cent
- A strong trading performance in line with expectations, based on:
  - Further improvement in UK Support Services margins with achievement of the 5 per cent margin target within H2 2013
  - Good revenue growth in UK Construction with margins in line with expectations
  - Further margin enhancement in Equipment Services
- Further net investment in capex and working capital
- Investment of £49 million in acquisitions, expanding our oil and gas maintenance provision in the Middle East (TOCO & Adyard) and strengthening our offering in the UK interior fit-out business (Paragon)
- Completion of the PFI disposal process begun in 2012 with £55 million of PFI assets transferred to the Interserve Pension Scheme in January 2013

REVENUE AND OPERATING PROFIT

Consolidated revenues increased by 12 per cent compared with 2012, and total gross revenues (including our share of joint ventures and associates) by 9 per cent.

UK Support Services (assisted by the full-year impact of Interserve Working Futures, acquired in 2012) delivered a strong performance with a 7 per cent increase in revenues. With the acquisitions of TOCO & Adyard the International Support Services division revenues increased to £101 million. Despite continuing tight markets UK Construction grew revenues by 9 per cent, of which 4 per cent was attributable to Paragon, acquired in the year. International Construction revenues grew by 7 per cent although margins remained under pressure. Equipment Services delivered a broadly flat revenue performance with growth of 1 per cent.

Full-year operating margin of 3.4 per cent (2012: 3.3 per cent) again reflects a stronger second half than first half with an operating margin of 3.5 per cent (H1 2013: 3.2 per cent). UK Support Services achieved its 5 per cent margin target in the second half of the year with a return of 5.1 per cent, this helped lift the overall year result from 4.0 per cent in 2012 to 4.7 per cent in 2013. International Support Services' margin of 4.4 per cent (2012: 12.8 per cent) reflects the changing shape of the division following the acquisitions of TOCO & Adyard. UK Construction margins were in line with our expectations at 1.8 per cent (2012: 2.0 per cent) and have reverted to near long-term norms. Margins in our International Construction operations remain under pressure, declining from 6.5 per cent to 5.1 per cent. Market conditions are mixed with the UAE beginning to show signs of recovery but Qatar remaining difficult. We remain confident in the medium-term potential of our chosen markets. Equipment Services delivered a strong performance with full-year margins of 11.9 per cent (2012: 9.6 per cent). We continue to see half-on-half improvements in this division with H2 2013 margins at 13.5 per cent (H2 2012: 10.7 per cent). We expect a further recovery towards medium-term margin expectations of 15 per cent over the coming year.

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

	Average rates		Closing rates	
	2013	2012	2013	2012
US dollar	1.57	1.59	1.65	1.62
Australian dollar	1.63	1.53	1.86	1.56
Qatar Rial	5.72	5.79	6.00	5.89
UAE Dirham	5.76	5.83	6.06	5.94

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 £5.6 million can be analysed as follows:

£million	2013	2012
Net interest on Group debt	(4.8)	(6.6)
Interest receivable from PFI sub-debt	0.6	5.4
IAS 19 Pension finance charge	(1.4)	(1.9)
Group net interest charge	(5.6)	(3.1)

Despite an increase in year-end net debt a lower average net debt during 2013 helped to drive a reduction in the net interest charge.

CASE STUDY

WEST KOWLOON TERMINUS BUILDING EXPRESS RAIL LINK

Currently under construction, the West Kowloon Rail Terminus will be Hong Kong's only hub for the national high speed rail network. When complete this network will link Hong Kong with Beijing.

The terminus building will reflect the strategic importance of this project, to Hong Kong and to China, in both its scale and scope. With construction costs estimated at HK$8 billion, the terminus will be capable of handling 99,000 passengers per day and is expected to be the largest terminus of its kind in the world.

While much of the terminus is being built underground, an iconic roof has been designed to give the structure the grandeur it deserves amidst an already dramatic Kowloon skyline.

The unique design of the roof, which incorporates an exposed huge sloping concrete beam and concrete arch, required RMD Kwikform's innovative engineering team to work closely with the contractor teams, providing them with solutions that complement the schedule, as well as the construction problems.

These solutions have included over 45,000 square metres of soffit support and travelling forms to construct over 3 km of overhead concrete ducting. RMD Kwikform has used much of its product range on the project, providing the contractor with schemes and guidance that maximize productivity, whilst providing superior health and safety performance.

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Interest receivable on sub-debt decreased to £0.6 million (2012: £5.4 million) reflecting the disposal of the majority of PFI assets in 2012 and January 2013.

Under IAS 19R the same rate is now used to calculate the return on scheme assets and the discount rate on scheme liabilities. The net impact of these two pension-related items was a (non-cash) net interest cost of £1.4 million in 2013 (2012: £1.9 million cost).

TAXATION

The tax charge for the year of £13.1 million represents an effective rate of 19.2 per cent on Group profit before taxation. The factors underlying this effective rate are shown in the table below:

£million	2013			2012		
	Profit	Tax	Rate	Profit	Tax	Rate
Group companies	52.4	14.0	26.7%	39.9	12.9	32.3%
Joint ventures and associates*	17.2	-	0.0%	25.0	-	0.0%
Underlying tax charge and rate	69.6	14.0	20.1%	64.9	12.9	19.9%
PFI disposals	3.6	-	-	114.9	-	-
Interserve India writedown	(5.1)	-	-	-	-	-
Prior period adjustments	-	(0.9)	-	-	(2.3)	-
Total per Income Statement	68.1	13.1	19.2%	179.8	10.6	5.9%

*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, reflecting both the fall in UK corporation tax and continuing management action to stem losses in overseas tax jurisdictions that are not available for relief against other Group profits.

Profit before tax of £68.1 million (2012: £179.8 million) is lower than the previous year, due principally to the inclusion in 2012 of £114.9 million of gains on the disposal of PFI investments.

DIVIDEND

The directors recommend a final dividend for the year of 14.7 pence, to bring the total for the year to 21.5 pence, an increase of 4.9 per cent over last year. This dividend is covered 2.2 times by headline earnings per share.

NET DEBT AND CASH FLOW

Average net debt for the year was £15 million (2012: £27 million). At the year end, we had net debt of £38.6 million (net cash 2012: £25.8 million), reflecting our continuing investments in acquisitions (2013: £49.1 million) and net capital expenditure (2013: £33.7 million).

£million	2013	2012
Operating profit before exceptional items and amortisation of intangible assets	69.4	53.0
Other exceptional items	(2.1)	(4.0)
Depreciation and amortisation	33.8	29.3
Net capital expenditure	(33.7)	(14.9)
Gain on disposal of property, plant and equipment	(13.4)	(14.3)
Share-based payments	5.5	4.3
Working capital movement	(19.7)	0.2
Operating cash flow	39.8	53.6
Pension contributions in excess of the income statement charge	(18.5)	(28.8)
Dividends received from associates and joint ventures	13.7	19.8
Tax paid	(5.7)	(10.7)
Other	(5.3)	(1.4)
Free cash flow	24.0	32.5
Dividends paid	(29.1)	(27.0)
Investments (net)	(10.6)	(11.6)
Disposals	(0.2)	119.3
Acquisitions	(49.1)	(44.7)
Other non-recurring	0.6	1.5
Increase/(decrease) in net cash/(debt)	(64.4)	70.0

The operating cash flow of £39.8 million (2012: £53.6 million) reflects the increased level of capital expenditure and an increase in working capital levels, both of which were anticipated at the start of the year. Our rolling three-year gross operating cash conversion is 89.5 per cent (2012: 105.6 per cent).

The net working capital outflow of £19.7 million (2012: £0.2 million inflow) reflects a partial reversal of previous years' trends, due both to the growth of the business, and to continued pressures on payment terms. The aggregate working capital movement over the past three years is an outflow of £10.0 million, during which time consolidated revenue has increased by 19 per cent.

Net capital expenditure increased significantly to £33.7 million (2012: £14.9 million) and was in excess of the depreciation charge for the first time for a number of years. This reflects continuing investment in the Equipment Services fleet, further investment in our back office and client facing assets in UK Support Services and refreshing of the plant and fleet of our newly acquired businesses.

Despite tight trading conditions in the Middle East our remitted dividends of £13.7 million remained stable as a percentage of profits earned.

Tax paid of £5.7 million (2012: £10.7 million) remains lower than the Consolidated Income Statement charge incurred by the Group, principally driven by tax deductions for pension deficit payments and timing differences.

Investments outflow in the year of £10.6 million (2012: £11.6 million) reflects our 2013 equity investment in the Edinburgh Haymarket development scheme; the prior year balance reflects Group PFI investments.

Acquisitions outflow of £49.1 million in 2013 represents the net cash payable for the acquisitions of TOCO, Paragon and Adyard.

DISPOSALS/PFI

The majority of PFI assets were disposed of during 2012. A final tranche of 19 assets was transferred to the Interserve Pension Scheme at a valuation of £55 million on 7 January 2013. This transaction generated a profit on disposal of £3.6 million which is treated as an exceptional item within the 2013 results.

ACQUISITIONS

We continued the process of reinvesting the proceeds raised from the PFI disposals by completing three acquisitions, for gross consideration of £52.4 million, during the year.

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 £25.7 million, of which we contributed 85 per cent. The review of fair values identified acquired net assets of £10.0 million including £4.9 million of acquired intangible assets representing customer relationships. These acquired assets will be amortised over periods up to five years. The balance of £11.8 million has been recognised as goodwill.

On 23 May 2013 we acquired Paragon Management UK Limited, a specialist interiors and property refurbishment business. The acquisition boosts our interiors fit-out offering in the UK. Total cash consideration was £3.0 million. The review of fair values identified acquired net assets of £2.6 million including £0.4 million of acquired intangible assets representing customer relationships. These acquired assets will be amortised over periods up to five years. The balance of £0.4 million has been recognised as goodwill.

On 17 September 2013 we acquired the oil and gas maintenance business of Topaz Oil and Gas Limited (now known as Adyard). The acquisition gives us an operational footprint in the oil and gas services business within the UAE and, in combination with the acquisition of TOCO, continues

CASE STUDY

TRANSFORMING EDINBURGH'S HAYMARKET

Work on The Haymarket - one of Edinburgh's biggest commercial developments of recent years - started last year as Interserve and Tiger Developments, our joint-venture partner on the project, set about transforming the four-acre city centre site next to the Haymarket rail station.

Preparatory work on the railway tunnels beneath the site, which started in December, will finish later this year, allowing on-site construction to kick off during spring, with the project's first phase earmarked for completion in 2016. The result will be a £200 million mixed-use development delivering a mix of high quality city centre office, hotel and retail space with the potential to create 3,500 jobs.

The Haymarket has full planning consent for 404,000 square feet of office accommodation and 60,000 square feet of commercial and leisure space, together with a 165-bedroom hotel and a 320-space underground car park.

Interserve has initially invested £10.6 million in the project with the follow-on works – worth £150 million - being undertaken by Interserve's local construction team, based in Livingston, employing around 250 staff employed either directly by the company or by specialist and local sub-contractors.

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our strategy of building a regional capability. Total cash consideration was £27.6 million. The review of fair values identified acquired net assets of £17.7 million including £4.4 million of acquired intangible assets representing customer relationships. These acquired assets will be amortised over periods up to five years. The balance of £9.9 million has been recognised as goodwill.

We maintain a selective approach to reviewing potential acquisition opportunities, seeking out strategically attractive assets in growth markets. With our expanded debt capacity and facilities, we remain able to take advantage of further appropriate acquisition opportunities as they are identified.

PENSIONS

At 31 December 2013 the Group pension deficit under IAS 19, net of deferred tax, has significantly decreased to £5.9 million (2012: £77.8 million):

£million	2013	2012
Defined benefit obligation	826.9	799.3
Scheme assets	(819.2)	(698.2)
Deferred tax thereon	(1.8)	(23.3)
Net deficit	5.9	77.8

The Scheme assets increased by £121.0 million during the year after allowing for benefits paid, benefitting both from a strong performance on the investment portfolio and the additional contribution of £55.0 million of PFI assets to the Scheme on 7 January 2013.

CASE STUDY

DELIVERING HEALTHCARE AT HOME

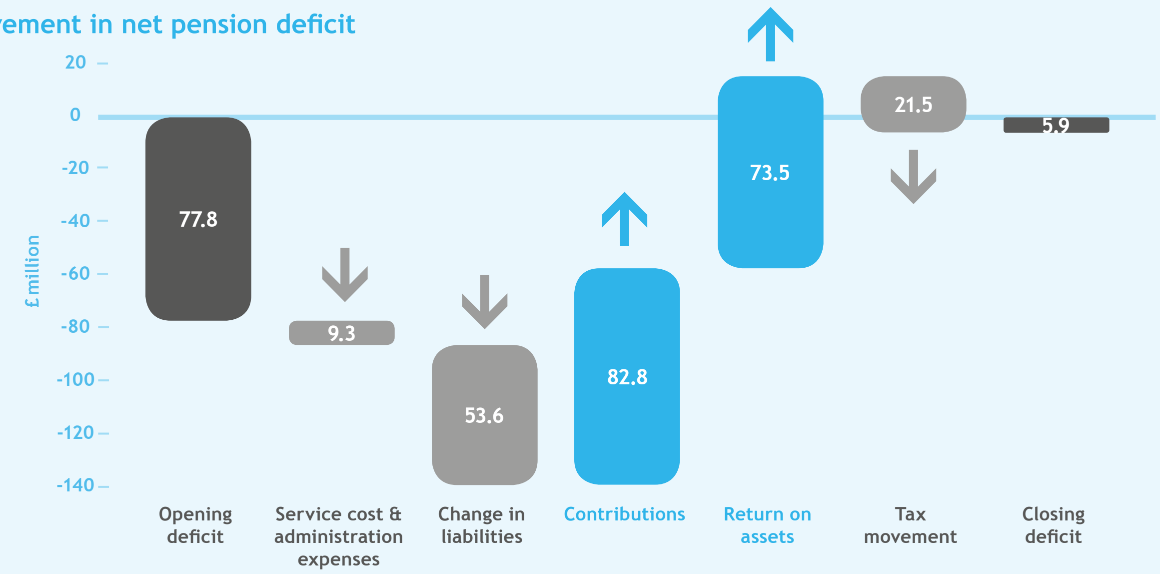
Advantage Healthcare - a leading provider of UK healthcare-at-home services acquired by Interserve in late 2012 - further supported our expansion into the wider health market and front-line service delivery during the year, while providing Advantage with the investment, support and infrastructure to further accelerate its growth.

Advantage provides high quality, bespoke home care services to both individuals and healthcare establishments throughout the UK. Its nurses and carers serve over 500 adults, children and young people with varying conditions including spinal and brain injuries, learning and mental health issues, offering live-in, palliative and complex care. Through a network of 27 branches, Advantage also works with clinical commissioning groups, social services, private and NHS hospitals, nursing homes and learning disability establishments as well as delivering care to private clients in their own homes.

During the year Advantage has benefitted from Interserve's social housing, health, education and local authority expertise as well as from its existing relationships with the NHS and public-sector bodies across the UK.

Advantage has continued to work with clients to provide quality staff who meet their needs, whether on one-off cover or national projects, while also helping the NHS manage its patient flow by allowing more people to be treated at home, freeing up hospital beds. By putting healthcare first, Advantage provides solutions that enhance the patient experience, improve efficiency and deliver increased value for money across the sectors.

Movement in net pension deficit



Defined benefit liabilities and funding

The Group's principal pension scheme is the Interserve Pension Scheme, comprising approximately 92 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 2012 with an assessed actuarial deficit of £150 million. Following the £55 million contribution of PFI assets (which completed in January 2013) the annual recovery payments now stand at £12 million per annum, indexed each year, until 2019. The reduction in these cash contribution levels, from the previous £23 million per annum, makes an additional £11 million of cash flow per annum available for reinvestment.

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 2013, 49 per cent of the Scheme assets were invested in performance-seeking assets (2012: 45 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.

Having focused in recent years on investment strategy and on injecting PFI assets and additional cash contributions into the Scheme to address the funding deficit, our future focus is more likely to be on liability management. In particular, we intend to assess the viability of insuring some of our liabilities in order to reduce the level of volatility in the Scheme.

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		Sensitivity	Indicative change in liabilities	
	2013	2012			
Key financial assumptions					
Discount rate	4.5%	4.4%	+/- 0.5%	-/+ 8%	-/+ £67m
RPI / CPI	3.4% / 2.4%	3.0% / 2.3%	+/- 0.5%	+/- 6%	+/- £50m
Life expectancy (years)					
Current pensioners[1]					
Men	87.4	87.3			
Women	89.4	89.3			
Future pensioners[2]			+ 1 year	+3%	+£25m
Men	89.2	89.1			
Women	90.9	90.9			

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

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

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The Group has applied the new accounting standard, IAS 19 (Revised) *Employee benefits* from 1 January 2013. As a result, comparative numbers for 2012 and earlier years have been restated to a consistent basis. Scheme administration expenses are now expensed within operating profit (they were previously included in the return on scheme assets disclosed within interest) and the expected return on scheme assets is now accounted for at the lower liability discount rate (equivalent to an AA corporate bond yield). The combined impact of this restatement on 2012 was a reduction in the published headline EPS of 1.9 pence. There was no impact on the disclosed obligation, asset or balance sheet.

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 bank facilities we have access to committed syndicated revolving credit facilities totalling £150 million until February 2017 and £100 million of various bi-lateral agreements which expire between February 2016 and February 2017.

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 under 18 months.

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 44.

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 2012 consolidated financial statements, has led to a decrease in consolidated net assets of £13.0 million (2012: £8.4 million decrease).

GOING CONCERN

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

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 £250 million until a range of dates that extend at least to February 2016. 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.

This Strategic Report was approved by the Board of Directors on 28 February 2014 and signed on its behalf by

A M Ringrose
Director

T P Haywood
Director

CASE STUDY

BUILDING INFORMATION MODELLING

Building Information Modelling (BIM) is playing a pioneering role in the realisation of three new facilities for West Yorkshire Police in Wakefield and Leeds.

The police service is an enthusiastic advocate of our use of BIM for the project. The facilities include two new divisional headquarters with associated custody facilities for Leeds and Wakefield Divisions, and a new Specialist Operational Training Centre at Carr Gate, Wakefield where the Operational Support Division is based. All are to be delivered to a BREEAM Excellent rating.

Another example of a revolutionary approach to the use of BIM for this scheme lies in how it facilitates the close integration of construction processes with facilities management services right from the start. This means that looking at the lifecycle costs of the buildings as opposed to just the build costs is far easier. Even a detail such as the use of LED lights in the buildings' car parks in order to reduce long-term maintenance costs can be included.

The use of BIM on this scheme is allowing our divisions to work in close partnership, sharing information at every stage of the build whose detail is unprecedented.

GOVERNANCE

DIRECTORS

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 will become Chairman of Lloyds Banking Group in April 2014. During 2013 he was also a non-executive director of Halma and a non-executive board member of 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.

ADRIAN RINGROSE [1]
Chief Executive

Adrian has been Chief Executive of Interserve since 2003 during which time the Group has developed significantly, from around 15,000 to over 50,000 people, with operations in over 20 countries providing services to governments and a range of commercial and industrial clients. Adrian's background is in commercial management and business development. Prior to leading Interserve he spent time in the outsourcing and utilities sectors. Adrian is a member of the CBI President's Committee and was for four years chairman of the CBI's Public Services Strategy Board until late 2013. He is also a past President of the Business Services Association. He is a member of the Chartered Institute of Marketing, the Chartered Management Institute and is a Fellow of the Institute of Directors. He is an adviser to the University of Liverpool from where he has a degree in Political Theory and Institutions.

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. Since 2011 he has also been Head of Sustainability, launching Interserve's Sustain*Abilities* Plan in March 2013.

[1] Member of the Nomination Committee

[2] Member of the Audit Committee

[3] Member of the Remuneration Committee

[4] Senior Independent Director

STEVEN DANCE
Executive Director

Steven is Managing Director of RMD Kwikform, the Group's Equipment Services division. He is the Board's lead director in Health and Safety. 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.

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.

DOUGIE SUTHERLAND
Executive Director

Dougie is Managing Director of Interserve's Investments division and is also responsible for UK Construction's operations. He was appointed to the Board of Interserve in January 2011. 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 and then, between 1995 and 1999, he worked for HM Treasury developing the Private Finance Initiative. 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 health and education business before joining 3i. Dougie has a BSc (Hons) from Edinburgh University and an MBA from Cranfield School of Management.

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DIRECTORS CONTINUED

LES CULLEN [1 2 3 4]
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 became Senior Independent Director in May 2013 following the retirement of David Trapnell.

ANNE FAHY [1 2 3]
Non-Executive Director

Anne was appointed as non-executive director of Interserve on 1 January 2013. She is also Chief Financial Officer of BP's Global Fuels business. During her 25 years at BP Anne has gained extensive experience of global business, developing markets, risk management, internal control, compliance and strategy development in BP's aviation, petrochemicals, trading and retail sectors. 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 has chaired the Audit Committee since May 2013.

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 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.

[1] Member of the Nomination Committee

[2] Member of the Audit Committee

[3] Member of the Remuneration Committee

[4] Senior Independent Director

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 and Nair & Co Bidco. 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 and a director of the British Horseracing Board. Previous non-executive roles include Arena Leisure, VT Group, Anite and Tunstall Holdings. David is a Liveryman of the Worshipful Company of Information Technologists and a Chartered Public Finance Accountant. David chairs the Remuneration Committee.

ADVISERS

Group Company Secretary
Trevor Bradbury

Registered Office
Interserve House
Ruscombe Park
Twyford
Reading
Berkshire RG10 9JU
T +44 (0)118 932 0123
F +44 (0)118 932 0206
info@interserve.com
www.interserve.com

Registered Number
88456

Registrar and Share Transfer Office
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
T +44 (0)20 8639 3399
F +44 (0)1484 600911
shareholderenquiries@capita.co.uk
www.capitashareportal.com

Auditors
Deloitte LLP

Stockbrokers
J.P. Morgan Cazenove Limited
Numis Securities Limited

Lawyers
Ashurst LLP

GOVERNANCE

DIRECTORS' REPORT

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2013.

The directors' responsibility for the preparation of the Annual Report and Financial Statements, which forms part of this report, and the statement by the auditors about their reporting responsibilities, are set out on pages 98, and 99 to 103, respectively, of this Annual Report.

CHAIRMAN'S STATEMENT

A review of the development of the Group and its future prospects is included in the Chairman's Statement, which is incorporated into this Directors' Report by reference.

CORPORATE GOVERNANCE STATEMENT

The Disclosure and Transparency Rules of the Financial Conduct Authority (the "FCA") require certain information to be included in a corporate governance statement in the Directors' Report. Information that fulfils the requirements of the corporate governance statement can be found in the Corporate Governance report and the Audit Committee Report, which are incorporated into this Directors' Report by reference.

GROUP RESULTS AND DIVIDENDS

Financial reporting

The Group's Consolidated Income Statement set out on page 104 shows Group profit before taxation of £68.1 million (2012: £179.8 million). The detailed results of the Group are given in the financial statements on pages 104 to 149 and further comments on divisional results are given in the Operational Review on pages 22 to 33.

Since the balance sheet date the Company has entered into a conditional agreement with subsidiaries of Rentokil Initial plc to acquire their facilities services business for a cash consideration of £250 million. Due to the size of this transaction it is subject to and conditional upon the approval of shareholders. A General Meeting has been convened for this purpose and will be held at 10 a.m. on 17 March 2014 at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA. A notice of the General Meeting and of the resolution to be proposed and considered at this meeting has been sent separately to shareholders. There have been no further post balance sheet events that require disclosure or adjustment in the financial statements.

Dividends

An interim dividend of 6.8p per 10p ordinary share (2012: 6.4p) was paid on 23 October 2013. The directors recommend a final dividend of 14.7p per 10p ordinary share, making a total distribution for the year ended 31 December 2013 of 21.5p per 10p ordinary share (2012: 20.5p). Subject to approval of shareholders at the Annual General Meeting ("AGM") on 13 May 2014, the final dividend will be paid on 21 May 2014 to shareholders appearing on the register at the close of business on 4 April 2014. The shares will be quoted ex-dividend on 2 April 2014.

The Company's dividend reinvestment plan continues to be available to eligible shareholders. Further details of the plan are set out in the Shareholder Information section on page 167.

Capita Trustees Limited, the trustee of the Interserve Employee Benefit Trust (the "Trust"), waived its right to receive a dividend over 368,601 shares held by the Trust in the name of Capita IRG Trustees (Nominees) Limited in respect of the dividend paid in May 2013 and 647,411 shares in respect of the dividend paid in October 2013. The former trustee of the Trust, EES Trustees International Limited, waived its right to receive a dividend over 1,072,720 shares held by the Trust in respect of the dividend paid in May 2012 and 1,057,217 shares in respect of the dividend paid in October 2012.

SHARE CAPITAL

General

The Company's issued share capital as at 31 December 2013 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 1,564,400 shares were issued at par fully paid to participants of the Performance Share Plan (the "PSP") on the vesting of awards granted in April 2010. A further 642,429 shares were issued fully paid to participants of the 2002 Executive Share Option Scheme (the "2002 ESOS") at prices of 205.83p, 253.25p, 324.00p and 359.33p per share. As a result of the foregoing allotments, the Company's issued share capital at the end of the year stood at 129,053,768 (2012: 126,846,939) ordinary shares of 10p each (£12,905,376.80) (2012: £12,684,693.90).

Since the year end, a further 53,047 shares have been issued to participants of the 2002 ESOS at prices of 253.25p and 359.33p per share. The issued share capital at the date of this report therefore stands at 129,106,815 ordinary shares of 10p each (£12,910,681.50).

Details of outstanding awards and options over shares in the Company as at 31 December 2013 are set out in notes 27 and 29 to the financial statements on pages 139 and 140 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 13 May 2013. The AGM authorities were used in 2013 only in relation to the issue of shares pursuant to the PSP and the 2002 ESOS as described above.

This authority will also be used in connection with the placing of 12,897,771 shares (representing approximately 9.9 per cent of the Company's issued ordinary share capital) by J.P. Morgan Cazenove and Numis Securities with institutional placees, the proceeds from which will be used, together with other funds, to finance the purchase of the facilities services business of Rentokil Initial plc should shareholders approve this transaction at the General Meeting to be held on 17 March 2014.

In accordance with the guidelines issued by the Association of British Insurers (the "ABI"), the directors propose Resolution 18 set out in the Notice of AGM to renew the authority granted to them at the 2013 AGM to allot shares up to an aggregate nominal value of one-third of the Company's issued share capital plus a further one-third (i.e. two-thirds in all) where the allotment is in connection with a rights issue.

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

Shareholders should note that the Listing Rules of the FCA 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 2013 and in the period 2011 to 2013 pursuant to employee share schemes (calculated by reference to the Company's closing issued share capital at 31 December 2013), were 1.71 per cent and 2.52 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 renewed authorities sought by Resolutions 18 and 19 although they consider their renewal appropriate in order to retain maximum flexibility to take advantage of business opportunities as they arise.

REPURCHASE OF SHARES

The Company has authority under a shareholders' resolution passed at the 2013 AGM to repurchase up to 12,709,595 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 2014. No shares have been repurchased by the Company under the authority granted at the 2013 AGM.

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

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

SHAREHOLDERS' RIGHTS

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.

GOVERNANCE

DIRECTORS' REPORT CONTINUED

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 2014 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.

The Company operates a number of employee share schemes. Under some of these arrangements, shares are held by trustees on behalf of employees. The employees are not entitled to exercise directly any voting or other control rights. The trustees abstain from voting on these shares.

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 22 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 FCA, 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 its 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.

SUBSTANTIAL SHAREHOLDINGS

As at 31 December 2013 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
Mondrian Investment Partners Ltd	9,272,292	7.18	Indirect
Henderson Global Investors Ltd	8,541,009	6.62	Indirect
JPMorgan Asset Management Holdings Inc	6,592,992	5.11	Indirect
Standard Life Investments Ltd	5,988,205	4.64	Direct and indirect
Norges Bank	4,915,250	3.81	Direct
Prudential plc group of companies	4,354,580	3.37	Direct

Between the year end and the date of this report, the Company has been notified that the interests in the voting rights over shares of Standard Life Investments Ltd and JPMorgan Asset Management Holdings Inc have changed as follows:

- Standard Life Investments Ltd – increase to 6,715,225 shares (5.20 per cent)
- JPMorgan Asset Management Holdings Inc – decrease to below minimum threshold.

GOVERNANCE

DIRECTORS' REPORT CONTINUED

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.

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.

The Articles also require one-third of the directors to retire by rotation at each AGM. Any director who has not retired by rotation must retire at the third AGM after his or her last appointment or re-appointment. However, in accordance with the Corporate Governance Code, which requires all directors of FTSE 350 companies to be subject to annual re-election by shareholders, the Board has again decided that all the directors will be subject to re-election at this year's AGM.

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.

DIRECTORS AND DIRECTORS' INTERESTS

The following have served as directors during the year:

Lord Blackwell* (Group Chairman)
Adrian Ringrose (Chief Executive)
Les Cullen* (Senior Independent Director from 13 May 2013)
Steven Dance
Anne Fahy*[1]
Tim Haywood
Keith Ludeman*
Bruce Melizan
David Paterson[2]
Dougie Sutherland
David Thorpe*
David Trapnell*[3] (Senior Independent Director to 13 May 2013)

*Non-executive director
[1]Appointed to the Board on 1 January 2013
[2]Retired from the Board on 30 April 2013
[3]Retired from the Board on 13 May 2013

The biographical details of the directors of the Company are given on pages 52 to 55.

The directors' beneficial interests in, and options to acquire, ordinary shares in the Company, are set out in the Directors' Remuneration Report on pages 91 to 95 of this Annual Report and Financial Statements.

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.

DIRECTORS' INDEMNITIES AND INSURANCE

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 2006 Act 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.

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 31 January 2012 but the indemnity remains in force.

EMPLOYEES

The average number of persons, including directors, employed by the Group and their remuneration, is set out in note 6 to the financial statements. A breakdown of employee diversity, as required by the 2006 Act, can be viewed on page 43 of the Sustainability Review section of the Strategic Report. The Group's statement with regard to its employees, including its disclosure on employee consultation, equal opportunities and diversity, is set out within the Sustainability Review section of the Strategic Report on pages 42 and 43.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL PROVISIONS

The following significant agreements contain provisions entitling the counterparties 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 50 of the Strategic Report, 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. These are set out on page 83 the Directors' Remuneration Report.

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.

POLITICAL DONATIONS

No political donations were made during the period (2012: £nil). It is not the Company's policy to make cash donations to political parties. This policy is strictly adhered to and there is no intention to change it. However, the definitions used in the 2006 Act for "political donation" and "political expenditure" remain very broad, which may have the effect of covering a number of normal business activities that would not be considered political donations or political expenditure in the usual sense. These could include support for bodies engaged in law reform or governmental policy review or involvement in seminars and functions that may be attended by politicians. To avoid any possibility of inadvertently contravening the 2006 Act, the directors are again seeking shareholder authority at the AGM (Resolution 17) to ensure that the Company acts within the provisions of current UK law when carrying out its normal business activities.

BRANCHES

The Company, through various subsidiaries, has established branches in a number of different countries in which the Group operates.

GREENHOUSE GAS EMISSIONS

In this section we report on greenhouse gas ("GHG") emissions in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Organisation boundary

We report using a financial control approach to define our organisational boundary.

A range of approaches can be taken to determine the boundaries of an organisation for the purposes of GHG reporting including 'financial control', 'operational control' or 'equity share'.

The methodology used to calculate our emissions is based upon the "Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance" (June 2013) issued by DEFRA, which make it clear that, in most cases, whether an operation is controlled by the organisation or not does not vary based on whether the financial control or operational control approach is used.

On this basis of the above guidelines we are including emissions associated with our owned and controlled businesses but not the emissions from our associate companies. GHG emissions from our leased vehicles when used on company business are not reported. Were we to have adopted the operation control approach, the GHG emissions associated with the use of those same vehicles for both private and company business would have been reported. We consider neither method to be appropriate and have therefore included the GHG emissions from leased vehicles used on company business within our overall GHG emissions data on pages 37 and 39 of our Sustainability Review.

Summary table

Global GHG emissions data for 1 January 2013 to 31 December 2013 is as follows:

	2013 Tonnes CO_2e
Emissions from:	
Combustion of fuel and operation of facilities	**36,562**
Electricity, heat, steam and cooling purchased for own use	**10,088**
Intensity measurement: Emissions reported above normalised to tonnes CO_2e per £m revenue	**21.28 tonnes CO_2e/£m**

As this is the first year of reporting, there are no comparable figures for 2012.

GOVERNANCE

DIRECTORS' REPORT CONTINUED

Methodology

We have reported on all of the emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. These sources fall within our consolidated financial statements.

We have used the DEFRA Environmental Reporting Guidelines and the 2013 UK Government GHG Conversion Factors for Company Reporting to calculate our emissions based on data gathered from each of our business units.

Boundaries

Company	Included	Division
Interserve Plc	Yes	Group Services
Advantage Healthcare Group Ltd	Yes	Support Services
Adyard Abu Dhabi LLC	Yes	Support Services
First Security (Guards) Ltd	Yes	Support Services
Interserve Environmental Services Ltd	Yes	Support Services
Interserve (Facilities Management) Ltd	Yes	Support Services
Interserve (Facilities Services-Slough) Ltd	Yes	Support Services
Interserve*fm* Ltd	Yes	Support Services
Interserve Industrial Services Ltd	Yes	Support Services
Interserve Technical Services Ltd	Yes	Support Services
Landmarc Support Services Ltd	Yes	Support Services
MacLellan International Ltd	Yes	Support Services
SSD UK Ltd	Yes	Support Services
TASS (Europe) Ltd	Yes	Support Services
The Oman Construction Company	Yes	Support Services
Interserve Construction Ltd	Yes	Construction
Interserve Engineering Services Ltd	Yes	Construction
Rapid Metal Developments (Australia) Pty Ltd	Yes	Equipment Services
Rapid Metal Developments (NZ) Ltd	Yes	Equipment Services
RMD Kwikform (Al Maha) Qatar WLL	Yes	Equipment Services
RMD Kwikform Almoayed Bahrain WLL	Yes	Equipment Services
RMD Kwikform Chile SA	Yes	Equipment Services
RMD Kwikform Guam LLC	Yes	Equipment Services
RMD Kwikform Holdings Ltd	Yes	Equipment Services
RMD Kwikform Hong Kong Ltd	Yes	Equipment Services
RMD Kwikform Ibérica SA	Yes	Equipment Services
RMD Kwikform India Private Ltd	Yes	Equipment Services
RMD Kwikform Ireland Ltd	Yes	Equipment Services
RMD Kwikform Ltd	Yes	Equipment Services
RMD Kwikform Middle East LLC	Yes	Equipment Services
RMD Kwikform North America Inc	Yes	Equipment Services

Company	Included	Division
RMD Kwikform Oman LLC	Yes	Equipment Services
RMD Kwikform Panama SA	Yes	Equipment Services
RMD Kwikform Philippines Inc	Yes	Equipment Services
RMD Kwikform Saudi Arabia LLC	Yes	Equipment Services
RMD Kwikform Singapore Pte Ltd	Yes	Equipment Services
RMD Kwikform (South Africa) (Proprietary) Ltd	Yes	Equipment Services
Interserve Investments Ltd	Yes	Investments
Interserve Working Futures Ltd	Yes	Investments
Interserve Finance Ltd	Yes	Group Services
Interserve Group Holdings Ltd	Yes	Group Services
Interserve Holdings Ltd	Yes	Group Services
Interserve Insurance Company Ltd	Yes	Group Services
Khansaheb Group LLC	No	Associate
Madina Group WLL	No	Associate
Occupational Training Institute LLC	No	Associate
Qatar Inspection Services WLL	No	Associate
Qatar International Safety Centre WLL	No	Associate
Severn Glocon (Qatar) WLL	No	Associate
Douglas OHI LLC	No	Associate
Gulf Contracting Co WLL	No	Associate
How United Services WLL	No	Associate
Khansaheb Civil Engineering LLC	No	Associate
Khansaheb Hussain LLC	No	Associate
PriDE (SERP) Ltd	50%	Direct impact in Support Services
Rehab Jobfit LLP	49%	Direct impact in Investments
KMI Water Joint Venture	33%	Direct impact in Construction
KMI Plus Water Joint Venture	31%	Direct impact in Construction
Acciona Agua SUA Joint Venture	47%	Direct impact in Construction

Data sources

Element	Data source	Comment
The combustion of fuel		
Stationary combustion	Natural gas used in heating systems in buildings Heating oil used in heating systems in buildings Gas oil used for emergency (standby) generation at fixed sites Gas oil used in generators on temporary construction sites	We purchase the fuel and are responsible for the activities from which these emissions arise
Mobile combustions	Fuel used in cars, vans and other road going vehicles Fuel used in other plant including forklift trucks and construction plant	We purchase the fuel which is used in the vehicles and plant as part of our activities
The operation of any facility		
Process emissions	We have no process operations which generate direct emissions	
Fugitive emissions	Assessment of fugitive emissions from refrigeration (air conditioning) equipment installed at our sites	De minimis, less than 1% of reportable emissions
Purchase of electricity, heat, steam or cooling		
Electricity	Electricity purchased for use in offices, facilities and temporary sites	We purchase the electricity and are responsible for the activities which use it
Heat, steam & cooling	We do not purchase heating, steam or cooling	

Further disclosures relating to the Group's greenhouse gas emissions and the actions being taken to reduce them are set out within the Sustainability Review section of the Strategic Report on pages 37 to 39.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are set out within the Financial Review section of the Strategic Report on pages 44 to 51.

AUDITORS

Resolutions to appoint auditors and to authorise the directors to determine their remuneration will be proposed at the forthcoming AGM.

Statement of disclosure of information to auditors

The directors in office at the date of approval of this report confirm that:

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

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the 2006 Act.

GOVERNANCE

DIRECTORS' REPORT CONTINUED

ANNUAL GENERAL MEETING RESOLUTIONS

The resolutions to be proposed at the AGM to be held on 13 May 2014, together with the explanatory notes, appear in the separate Notice of Annual General Meeting accompanying this Annual Report. The Notice is also available on our website at *www.interserve.com*.

Interserve House
Ruscombe Park
Twyford
Reading
Berkshire
RG10 9JU

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

T Bradbury
Company Secretary
28 February 2014

CAUTIONARY STATEMENT

The Directors' Report (the "Report") set out above (including the sections of the Annual Report and Accounts incorporated by reference) is the "management report" for the purposes of paragraph 4.1.8R of the FCA'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 FCA. 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.

GOVERNANCE

CORPORATE GOVERNANCE

LORD BLACKWELL
CHAIRMAN

Dear Shareholder

Our role as a Board is to provide entrepreneurial leadership within an appropriate governance framework, set the standards of behaviour, values and ethics by which the business is expected to operate and to call to account those who do not abide by those principles.

Our continued success depends upon delivering outstanding service and better solutions to our customers in order for us to pursue our robust strategy and deliver continued growth and shareholder value. The Board is confident of this strategy and is continually testing our current and proposed activities against this framework.

We aim to set stretching financial objectives while maintaining our prudent risk appetite. We also recognise that our continued "licence to operate" relies as much on maintaining the trust and confidence of our wider stakeholder base as it does on managing the financial risks. During the year we launched Sustain*Abilities*, our vision for creating a sustainable business, re-visited and revised our values and provided considerable amounts of training to and communication with our employees in these areas.

To perform our role effectively we believe we need a strong and diverse Board, with an open culture of debate and challenge, with all directors appointed on merit, for the experience and insights they can bring to the Board and their commitment to our values.

Our succession planning has seen a number of changes to the Board composition and roles during the period under review. We believe that our particular mix of executive and non-executive directors works well for the business, ensuring we have knowledge and accountability around the Board table as well as a range of external experiences. I continue to be satisfied through my observations of the manner in which the Board functions that the strength and independence of our non-executives and our open style of debate ensures the continuance of an effective governance check within the Board.

In making new appointments to the Board we seek to embrace diversity in all its forms, taking into account the additional range of insights and perspectives that new and diverse candidates can contribute to an effective, cohesive and challenging mix of individuals around the Board table. I was therefore delighted when in January we appointed Anne Fahy to our Board, bringing with her a wide range of international experience in a major industrial company.

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

As was the case last year, all directors wishing to remain in office will seek re-election at the AGM.

Lord Blackwell
Chairman

GOVERNANCE

CORPORATE GOVERNANCE CONTINUED

COMPLIANCE WITH THE CODE

The Financial Conduct Authority requires the Company to disclose how it has applied the principles of the UK Corporate Governance Code published in September 2012 (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 Financial Reporting Council's website (*www.frc.org.uk*).

The directors consider that the Company has complied fully with the provisions of the Code applicable to it throughout the accounting period ended 31 December 2013 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. As at year end, the Board comprised five executive and four non-executive directors plus the Chairman. 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 68.

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, values and reputation risk management;
- reviewing IT in the Support Services business and its use more generally to obtain competitive advantage;
- the assessment of a number of potential acquisitions including the proposed acquisition of the facilities services business of Rentokil Initial plc;
- reviewing the promotion of the Company's brand;
- 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 contracts (including joint ventures) and capital expenditure; and
- monitoring progress with the Group's Sustain*Abilities* 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 regularly considers succession planning and the Board's composition with the Nomination Committee and ensures effective communication with shareholders and other stakeholders.

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. The Company Secretary plays a key role in the good governance of the Company and in particular by supporting the Group Chairman on all Board matters pertaining to governance.

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 retired from the Board, Les Cullen succeeded him as Senior Independent Director and Anne Fahy replaced 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 2013 the Board comprised ten members: the Group Chairman, five 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	13	5	6	5
Lord Blackwell	13		6	5
L G Cullen	13	5	6	5
S L Dance	13			
A K Fahy	13	5	6	5
T P Haywood	13			
K L Ludeman	13	5	6	5
B A Melizan	13			
D J Paterson[1]	4			
A M Ringrose	13			5
D I Sutherland	13			
D A Thorpe	12	5	6	5
D A Trapnell[2]	5	2	2	1

[1]Retired on 30 April 2013
[2]Retired on 13 May 2013

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 the non-executive directors have attended a number of seminars and/or other non-executive forums relevant to their roles.

Development below Board level has been through the Trusted Partner Programme, Ingenuity at Work and Coaching Programmes. All are Group-wide leadership development programmes, offered at different management levels, established to support the ambitious vision of the business. The programmes include topics associated with the new corporate vision, values and Sustain*Abilities* Plan. To help achieve the vision, these programmes aim 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.

GOVERNANCE

CORPORATE GOVERNANCE CONTINUED

The Board evaluation is currently in progress, the Board having appointed Independent Audit to undertake this role. Independent Audit has no other connection with the Company. To date an Executive Board and a Board meeting have been observed and one-to-one interviews undertaken with all members of the Board, the Company Secretary and certain other functional heads. The outcome of this review is due to be presented to the Board in April.

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

All directors 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 52 to 55.

EXECUTIVE BOARD

The Executive Board, which, during the year, comprised the executive directors together with Trevor Bradbury (Group Company Secretary), George Franks (Managing Director of Interserve International), Robin O'Kelly (Director of Communications), Ian Renhard (Managing Director of UK Construction) and Catherine Ward (Group Director of Human Resources), is chaired by the Chief Executive.

The Executive Board, which met 10 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, once approved by the Board, implementing suitable policies and monitoring procedures for health and safety, environmental, social and ethical, treasury, human resources and information technology.

AUDIT COMMITTEE

Details of the Audit Committee are included in the Audit Committee Report on pages 72 to 76 and are incorporated into this Corporate Governance report by reference.

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 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 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 77 to 97.

The terms and conditions of appointment of all directors and the Group Chairman are available for inspection at the Company's registered office during normal business hours. The letters of appointment of the non-executive directors and the Group Chairman specify 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/about-us/policies*. The goal is to recruit, motivate, develop and retain outstanding people that reflect the diversity of the communities in which the Group operates.

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 in 2012, the first construction company to be so recognised.

We have 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 67. 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 77 to 97 and are incorporated by reference into this Corporate Governance report.

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	1
General Purposes	38
Inside Information	-
PFI	1

RISK COMMITTEE

The Board has overall responsibility for internal control, including risk management and 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 68, 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; reputation management; 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 98, an Independent Auditors' Report about their reporting responsibilities on pages 99 to 103 and a going concern statement on page 50. An explanation of the Company's business model and strategy for delivering the Company's objectives is set out on pages 10 and 11, and 6 and 7, respectively.

The Directors' Report contained on pages 56 to 64, 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 (as amended by The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013).

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.

GOVERNANCE

CORPORATE GOVERNANCE CONTINUED

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 50 a description of how the Group manages those risks is set out on page 35.

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 and treasury, real estate, internal and external communication, investor relations, information technology network services and operating systems, human resources 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 whistleblowing policy which sets out a framework for dealing with any allegations of fraud, financial misreporting and any whistleblowing notification. A copy of the policy is available on the Company's website at *www.interserve.com*.

OUR INVESTORS

The Company encourages two-way communication with both institutional and private investors. The Chief Executive, accompanied by the Group Finance Director, attended 30 meetings with analysts and institutional investors during the year ended 31 December 2013. In addition, the Chief Executive and the Group Finance Director attended a further 10 and 14 meetings, respectively.

One-to-one meetings with shareholders focus on such matters as Group strategy, operational performance, market trends, macro-economic influences, financial performance, merger and acquisition ambitions, peer group issues, the political environment and progress of key bids and key contract renewals.

One-to-one and group meetings with analysts focus on the above issues and in addition the key factors which influence analysts' financial forecasts, with a view to ensuring market consensus is based on accurate and up-to-date information, properly interpreted.

Communication with financial investors involves their attendance at half-year and full-year results presentations, site visits and capital markets days. There is also a programme of regular one-to-one meetings during which all matters covered in shareholder meetings are discussed, together with specific issues pertinent to the Company's debt finance such as covenant compliance, new facilities or renewal and the availability of ancillary services.

The Company's brokers produce periodic notes of the feedback from institutional investors which are reported to the Board to enable it to develop an understanding of the views of the major investors regarding the Company. 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.

GOVERNANCE

AUDIT COMMITTEE REPORT

ANNE FAHY
CHAIR OF THE AUDIT COMMITTEE

INTRODUCTION FROM THE AUDIT COMMITTEE CHAIR

Following on from my appointment as Chair of the Audit Committee in May 2013, I am pleased to present, on behalf of the Board, our Audit Committee Report for the financial year ended 31 December 2013. I would also like to take this opportunity to thank Les Cullen for his stewardship of the committee over the past five and a half years.

Since my appointment as a non-executive director I have been gaining a broad understanding of the Group's operations and challenges and have spent time with both my executive and non-executive colleagues and other senior employees who have provided me with an appreciation and valuable insight into the strategy, operations and key risks of the Group.

During the year the key focus of the committee has been upon the trading judgements and estimates which underpin our revenue and margin recognition on long-term construction and service contracts, impairment testing of the value of goodwill and of the fleet within the Equipment Services business, and retirement benefit obligations, all of which are covered in more detail within the body of the report.

In addition, we have spent time understanding the extended scope of our responsibilities and how we discharge them as well as evaluating the independence and the effectiveness of both internal and external audit processes.

Anne Fahy
Chair of the Audit Committee

MEMBERSHIP

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

Name	Date of appointment to committee	Qualifications
A K Fahy	1 January 2013	BA (Hons) FCA
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 and succeeded Les Cullen as Chair on 13 May 2013 following a handover process. David Trapnell retired from the committee on 13 May 2013.

Appointments to the committee are made by the Board, on the recommendation of the Nomination Committee and in consultation with the committee chairman. Anne Fahy, Les Cullen and David Thorpe are all financially qualified. Directors' biographies are included on pages 52 to 55.

The Company Secretary is secretary to the committee.

TERMS OF REFERENCE

The committee has written terms of reference based on the FRC's Guidance on Audit Committees and which set out clearly its authority and duties. These are available on the Company's website at *www.interserve.com* and on request. The terms of reference are considered at least annually by the committee and were updated in 2013 to incorporate recent changes.

The committee may investigate any activity within its terms of reference and is authorised to seek any information it requires from and require the attendance at any meeting of any director, officer or employee of the Company or of the Group.

The committee is authorised by the Board to obtain, at the Company's expense, external legal or other professional advice on any matters within its terms of reference.

A full set of committee papers is provided to every director and the chair of the committee reports to the subsequent Board meeting on the committee's work. The Board also receives a copy of the minutes of each meeting.

ROLE AND RESPONSIBILITIES

The role and responsibilities of the committee are to:

- review with management and the external auditors 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, before submission to the Board;
- review the annual report and accounts and advise the Board as to whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- make recommendations to the Board on the appointment of and take responsibility for reviewing the effectiveness of and agreement of the fees for the statutory audit and approval of fees to be paid to the external auditors for non-audit work;
- approve the annual work programme of the internal auditor, the fees to be paid in connection with that work and review the effectiveness of the internal audit process;
- provide an independent overview of the Group's systems of internal control, whistleblowing processes and outcomes, 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
- review the Company's processes for detecting fraud.

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

MEETINGS

The committee met five times during the year. The external auditors were present at three 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 each of 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. In addition, the Chair met with both parties periodically to review audit and internal control topics on an ongoing basis.

GOVERNANCE

AUDIT COMMITTEE REPORT CONTINUED

OVERVIEW OF ACTIVITIES

In the year the committee has:

- reviewed the 2012 annual report and financial statements and the 2013 half-year report. As part of each review the committee received a report from the external auditors on their audit of the annual report and review of the 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 annual and half-year reports;
- reviewed audit effectiveness following the audit of the 2012 annual report;
- reviewed and approved the external auditors' terms of engagement for the 2013 half-yearly review and for the audit of the 2013 annual report;
- received a briefing from the Group Finance Director on the principal judgements made in determining the 2012 annual report and financial statements and the 2013 half-year report, reviewed these judgements and satisfied itself that they were robust and in accordance with the Group's accounting policies;
- considered and agreed the scope and fees to be paid to the external auditors for the 2013 audit;
- received a bi-annual update on the Group's monitoring of fraud risk assessment;
- reviewed the risk register and ensured that the audit activities aligned with it;
- ensured itself as to the adequacy of controls across the worldwide businesses, particularly with regard to entities which are not controlled by the Group;
- 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);
- reviewed the internal audit programme and findings and remediation actions as well as agreeing the internal audit plan for 2014 ensuring an adequate coverage of risks;
- received a report at each meeting on the progress and outcome of the investigation of whistleblowing notifications;
- received a report from the Group's information security forum on the state of information security within the Group and reviewed a plan to strengthen cyber resilience;
- reviewed the capability and bench strength of the divisional finance functions;
- reviewed its terms of reference and proposed changes to the Board;
- conducted an evaluation exercise to review its own effectiveness; and
- made a recommendation to the Board regarding the tender of the external audit.

SIGNIFICANT ISSUES CONSIDERED

The committee has reviewed the key judgements applied in the preparation of the consolidated financial statements which have been prepared in accordance with the accounting policies and detailed notes to the financial statements on pages 110 to 149. The committee received a paper, prepared by management and reviewed by the external auditors, setting out by division the key judgements made in relation to the following matters:

- **Revenue and margin recognition**
  The recognition of revenue and profits on long-term construction and service contracts requires management to exercise significant levels of judgement involving a high degree of discretion and control. For construction-type contracts the key judgement concerns the recognition of profits, the recovery of work-in-progress and debtors, especially on non-certified amounts (including variations and claims) and forecast outcomes. For service-type contracts the key accounting risk is that the revenue and costs are not recognised in the correct period and provisions are not made for losses when foreseen. For contracts in the Equipment Services division, where revenue is recognised on either the sale of equipment or over the period of an equipment hire, the key accounting risk relates to whether the appropriate cut-off for sales and period of hire has been applied.

  The committee reviewed the findings of audits and management judgements/reviews undertaken on a selection of contracts perceived to carry the highest risk of misstatement against the background of its familiarity with the operationally and/or commercially challenged contracts which are regularly discussed at Board meetings.

- **Retirement benefit accounting**
  Calculation of the retirement benefit obligation requires management to make a number of assumptions including the selection of an appropriate discount rate and mortality.

  The committee satisfied itself as to the reasonableness of the assumptions set out in note 30 to the financial statements, taking into account the independent third-party confirmations sought of the pension assets held at the balance sheet date, validation of the value established by management of the PFI assets and the accounting treatment of the adoption of IAS 19 (Revised), including the restatement of the 2012 comparators.

- **Carrying value and existence of equipment hire fleet**
  The committee satisfied itself regarding the carrying value of the hire fleet within Equipment Services taking into account prospective utilisation, the results of a selection of asset counts both in the UK and overseas, the testing of the existence of equipment on customer sites by checking that customers were paying the rentals for that equipment and the appropriateness of recognition of sales income when it is on hire, not returned or damaged at customer sites. The committee also satisfied itself as to the reasonableness of management's impairment testing model including the cash flow projections from the latest budgets, the discount rate applied to those cash flows and sensitivities applied to those key assumptions.

- **Carrying value of goodwill and other intangible assets**
  The carrying value of goodwill and other intangible assets on the balance sheet at the year end was £286.6 million which included goodwill with a value of £248.0 million.

  The committee received a report on and satisfied itself of the appropriateness of the impairment testing undertaken by management including the key assumptions used, such as the discount rate and future cash flows, in light of current business performance and future projections.

FAIR, BALANCED AND UNDERSTANDABLE FINANCIAL STATEMENTS

The directors are responsible for preparing the annual report. At the request of the Board the committee considered whether the report and accounts taken as a whole was fair, balanced and understandable. In making that assessment, the committee took into account whether the report and accounts provided the necessary information for shareholders to assess the Company's performance, business model and strategy.

The committee was satisfied that, taken as a whole, the 2013 annual report was fair, balanced and understandable and contained the information set out above and reported accordingly to the Board. The Board's statement in this regard is set out on page 98.

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.

Deloitte LLP has been the Company's auditor since August 1990. The committee concluded that the end of the 2013 statutory audit would be an appropriate juncture at which to invite four accounting firms representing a cross-section of the market to compete for the appointment.

Presentations are due to be made by the competing firms to a selection panel in good time for the committee to consider the panel's proposal and make a recommendation to the Board, well in advance of the planned posting date for the Notice of AGM.

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 2012 audit cycle, throughout the course of the year and again at year end, canvassing the views of a number of those involved in the audit process and concluded that Deloitte LLP remained independent.

The Company has an established policy aimed at safeguarding the independence and objectivity of the Group's external auditors.

The external auditors may carry out certain categories of non-audit work in areas that have been pre-approved by the committee up to a monetary limit of £150,000 per transaction. Any other work for which management may wish to instruct the external auditors up to a value of £250,000 must be approved in advance by the committee or, more normally, by the committee Chair on its behalf. Instructions above £250,000 require prior approval of the Board. The pre-approved services may be summarised as follows:

- assurance services, tax compliance and advisory services and where audit reports are required by statute or regulation; and
- other services, encompassing general consultancy services.

The above policy also 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 auditor, acting in the role of advocate for the Company or being appointed as recruitment consultants without the committee's prior consent.

The committee receives a report at each of its meetings itemising the fees expended and forecast to be expended with the external auditors for non-audit services. Having reviewed the December 2013 report, the committee concluded that the nature and extent of non-audit fees expended on tax compliance and advice, work on the liquidation of a Malaysian subsidiary and the review of the half-year report (amounting to 14 per cent, 3 per cent and 7 per cent, respectively, of the overall audit fee of £807,000), in conjunction with the safeguards implemented by Deloitte, including the use of specialists independent of the audit team, were sufficient so as not to compromise auditor objectivity and independence.

GOVERNANCE

AUDIT COMMITTEE REPORT CONTINUED

Further details of the audit and non-audit fees paid to the auditors are included in note 4 to the financial statements on page 120.

A change in audit partner is made every five years in accordance with latest guidance and best practice. Accordingly, the transition between audit partners is currently underway in conjunction with the audit tender process. 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 is responsible for monitoring, reviewing and assessing the role and effectiveness of internal audit in the overall context of the Group's risk management system and review.

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 2013 programme was modified to include the acquisition of Paragon, TOCO and Adyard.

The internal audit programme of work is risk based, with key business activities and financial reporting processes considered for internal audit review on a cyclical basis. The work is carried out by PwC under an outsource contract, renewable annually.

The principal objectives for the 2013 plan were to provide core assurance against those areas identified as high risk on the audit universe (created by considering the organisational structure and key business processes within it), together with further assurance on some of the medium-risk areas identified for rotational audit testing.

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. Closure of the agreed corrective actions is tracked via a web-based system and is monitored by management and the committee.

2013 also saw the introduction of a system-based tracking and questionnaire tool requiring management to complete a self-assessment of compliance with key controls across 14 different business areas within their particular business unit or function which provided compliance statistics from across the Group. The results of the self-assessments were aggregated by division and processed with the results of other basic controls reviews conducted by the internal audit team during the year. A comparison was then made with the results of the basic controls reviews performed during 2011 and 2012 which showed that:

- businesses subject to previous basic controls reviews had maintained or improved their level of control;
- whilst differing business units approached controls in different ways common mitigation controls existed; and
- newly acquired businesses were in a state of transition to the higher control standards required by the Group.

The Internal Audit partner has direct access to the Chair of the Audit Committee and they meet on a periodic basis.

The committee also agreed an internal audit work plan for 2014, designed to provide core assurance against areas identified as high risk, updated in accordance with the changing risk profile of the Group, together with further assurance on some of the medium-risk areas identified for rotational testing.

REVIEW

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.

AGM

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

Approved by the Board

Anne Fahy

Anne Fahy
Chair of the Audit Committee
28 February 2014

GOVERNANCE

DIRECTORS' REMUNERATION REPORT

DAVID THORPE
CHAIRMAN OF THE REMUNERATION COMMITTEE

CHAIRMAN'S SUMMARY STATEMENT

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 the revised remuneration regulations and, as such, has been split into two parts:

- our Policy on Directors' Remuneration, which sets out our future remuneration policy (pages 78 to 85); it will be put to a binding shareholder resolution at the forthcoming AGM; and
- our Annual Report on Remuneration, which describes how the policy was implemented in 2013 and how it will be applied in 2014 (pages 85 to 97); it will be put to an advisory shareholder resolution.

This was another important year for the Company during which we strengthened the balance sheet by completing the transfer of a significant proportion of our remaining PFI assets to the pension fund and made three acquisitions, including two in the oil and gas sector in the Middle East.

Despite continuing mixed market conditions the business performed strongly, delivering growth by expanding into new markets and through continued investment in the existing business and increasing headline EPS by 5.3 per cent.

Our strategy remains to develop the strength of our three main business streams and grow these businesses where we are able to gain competitive advantage by applying our core skills in adjacent markets and geographies leading to sustainable growth in shareholder value. Our share price increased during the year by 60.2 per cent on top of 21.2 per cent in the previous year. This was reflected in our TSR growth of 267.3 per cent over the three-year performance period, placing us well ahead of our comparator group. The TSR element of the 2011 Performance Share Plan awards will therefore vest in full.

We were again mindful of the continued restraint on pay across the Group, with the result that the salaries of the executive directors were increased by 3 per cent, which was broadly in line with the increase awarded to salaried employees generally.

The performance conditions for Annual Variable Pay have been set such that an on-target performance will result in a payout of 50 per cent of annual salary and, in order to achieve the maximum payout of 100 per cent, normalised EPS will need to achieve a level that is on track to achieve a doubling of normalised EPS over a five-year period from a 2010 base.

We have again set exacting targets for the Performance Share Plan in order to provide a strong incentive to management to deliver sustained EPS growth and linked to the Board's aspiration to double normalised EPS over the five-year period from 2010.

Growth in normalised EPS over the three-year performance period of the 2011 Performance Share Plan awards was 19 per cent which, when adjusted for the PFI transaction mentioned above, increased to 77.5 per cent and will result in a full vesting of the EPS element of those awards.

We will continue to strike an appropriate balance between incentivising the executives, setting stretching targets which support our strategic ambition and our increasing shareholder value whilst not encouraging excessive risk taking.

We believe our Remuneration Policy achieves this aim and trust that you will endorse it with a vote in favour at the AGM, as the directors intend to do in respect of their own beneficial holdings.

David Thorpe
Chairman of the Remuneration Committee

GOVERNANCE

DIRECTORS' REMUNERATION REPORT CONTINUED

REMUNERATION POLICY

This part of the Directors' Remuneration Report sets out the remuneration policy for the Company with effect from 13 May 2014, subject to shareholder approval at the AGM to be held on that day.

SUMMARY OF REMUNERATION POLICY FOR 2014 ONWARDS

The following table summarises the main elements of the executive directors' remuneration policy for 2014 onwards, the key features of each element, their purpose and linkage to our strategy. Details of the remuneration arrangements for the non-executive directors are set out on page 84.

Element of pay	Purpose and link to strategy	How operated in practice (including framework for assessing performance)	Maximum opportunity
Base salary	To recruit and retain executives of a suitable calibre for the role and duties required. Reflects the market rate for the individual and their role.	Reviewed annually with any changes generally taking effect from 1 July. Salaries are determined taking into account: • the experience, responsibility, effectiveness and market value of the executive; • the pay and conditions in the workforce; • pay relativities within the Group; • broadly the median position in light of remuneration within other similar companies and the Company; and • affordability, given the profits of the Company. Normally paid monthly in cash.	There is no prescribed maximum annual increase. The Committee is guided by the general increase for the broader workforce but recognises that higher increases may be appropriate where an individual is promoted, changes role, where the size, composition and/or complexity of the Group changes or where an individual is materially below market comparators or is appointed on a below market salary with the expectation that his/her salary will increase with experience and performance.
Benefits	To provide benefits commensurate to the market in which the Company operates and/or the market in which the director is based and in line with policies applicable to all other senior salaried employees.	Car (cash allowance and/or company car) and fuel (or fuel allowance). Private medical insurance. Permanent health insurance. Life assurance. Relocation expenses, allowance for disruption and ongoing expatriate benefits. Directors' and officers' liability insurance. Reasonable personal use of mobile telephone.	The value of benefits may vary from year to year depending on the cost to the Company. Additional benefits may be provided and the range of those benefits may vary taking into account market practice, the relevant circumstances and the requirements of the executive.
Pension	To provide benefits commensurate to the market in which the Company operates.	A Company contribution calculated at up to 15% of base salary for executive directors provided they are making the maximum 8% employee contribution. Employees whose pension provision exceeds HMRC limits are permitted to opt out of making pension contributions and instead receive the Company contribution as a non-bonusable salary supplement. Employees who elect to take the cash allowance still benefit from the life cover of four times base salary provided to members of the pension scheme and death-in-service cover. Employees who have not chosen to opt out of making pension contributions are eligible to participate 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.	Employer's defined contribution and/or pension cash supplement up to a total maximum of 15% of base salary.

Element of pay	Purpose and link to strategy	How operated in practice (including framework for assessing performance)	Maximum opportunity
Annual Variable Pay	To incentivise the achievement of annual targets, rewarding strong operational performance in line with and in excess of targeted performance.	Targets are set by the Committee in relation to stretching targets that are set annually by the Board. A majority (if not all) of the bonus will be based on financial targets and a minority (if at all) of the bonus may be based on other performance metrics linked to the business strategy. Annual Variable Pay is deliverable in cash, an element of which must be invested in Company shares until the shareholding guidelines are achieved. If an executive director's shareholding in the Company is less than 100% of his basic salary, a percentage of the net Annual Variable Pay receivable in excess of 25% of basic salary is required to be invested in Company shares in accordance with the arrangements stated below: • for the balance of any Annual Variable Pay received between 25% and 50% of basic salary, 30% of the net Variable Pay must be invested in Company shares and 70% may be retained; and • for the balance of any Annual Variable Pay received between 50% and 100% of basic salary, 50% of the net Variable Pay must be invested in Company shares and 50% may be retained. Company shares so acquired must be held for three years. The Committee has the overriding discretion to adjust the bonus outcome up or down (subject to the overall 100% maximum) to ensure the payment is fair and appropriate in all the circumstances. Clawback applies to any overpayment of Annual Variable Pay in the event of misstatement, error or misconduct for a period of one year after the date on which a payment is made. Annual Variable Pay is not pensionable.	Maximum opportunity: 100% of basic salary. Entry level performance: No more than 10% of basic salary. A graduated scale of targets operates between entry level and maximum performance.
Performance Share Plan (PSP)	To provide a longer term incentive to reward executive directors for achieving the Group's longer term objectives. To provide alignment with shareholders and provide a retention tool.	PSP awards may be granted each year to senior executives. The awards will usually 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 (commencing on 1 January in the year of the award). 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. Clawback applies in the event of misstatement, error or misconduct for a period of one year after the date on which a payment is made. Awards will be made in the form of nil-cost options. Long-term incentive awards vest based on three-year performance against a challenging range of EPS and, separately, relative TSR performance targets. EPS performance targets are set after having due regard to internal planning and market expectations for the Company's performance and relative TSR performance is measured against a bespoke comparator group of similar companies. No more than one-third of each part of an award vests for achieving the threshold performance levels with full vesting for achieving the maximum performance targets under each element (e.g. upper quartile TSR performance) with graduated scales operating between performance points. No awards vest for below threshold performance levels. The Committee will review the performance conditions each year prior to awards being made (e.g. to determine whether the TSR peer group continues to remain appropriate, whether the range of EPS performance targets remains appropriate and, more generally, in light of the Company's long-term strategy and growth aspirations). Should there be a material change in the Company's performance conditions (e.g. introducing an additional performance metric) appropriate dialogue with the Company's major shareholders would take place along with a full explanation in the Annual Report on Remuneration to support any such change.	Maximum: 150% of basic salary (at the date of grant) for the executive directors, save in exceptional circumstances in relation to recruitment or retention where an award of up to 200% of basic salary (at the date of grant) may be made. No more than one-third of any part of a performance condition can vest for achieving the threshold performance level.

GOVERNANCE

DIRECTORS' REMUNERATION REPORT CONTINUED

Element of pay	Purpose and link to strategy	How operated in practice (including framework for assessing performance)	Maximum opportunity
All-employee share schemes	To support and encourage share ownership by employees at all levels.	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"). Under the Sharesave Scheme, eligible employees may enter into a savings contract for a minimum fixed term of three years and at the end of the savings period they have the option to buy shares in the Company at an exercise price fixed at the start of the savings contract. Under the SIP, eligible employees are offered the opportunity to invest pre-tax earnings (subject to HMRC limits per tax year) in Company shares under a regular monthly share purchase plan or by up to two lump sum payments per tax year (or a combination of the two). Shares so purchased are placed in trust. The shares can be released from the trust to participants at any time, but income tax and national insurance contributions are payable on their value should they be released within five years of their purchase date. The SIP rules also provide for matching shares and free shares (up to certain prescribed limits) to be given to participants. Dividend payments on SIP shares are reinvested in dividend shares and must be held in the trust for three years.	The executive directors are entitled to participate in both schemes on the same terms as all other eligible employees. Maximum opportunity is the same for all participants as defined within the terms of the scheme and prescribed by HMRC.
Shareholding guidelines	Under the Shareholding Guidelines executive directors are expected to retain no fewer than 100% of shares net of taxes following an option exercise or award vesting under the PSP, until such time as a shareholding equivalent to 100% of their base salary has been achieved. Shares purchased under the Annual Variable Pay arrangements, the Sharesave Scheme and the SIP also count toward this limit. Share options and vested, but unexercised, PSP awards do not count towards satisfying these Guidelines. The Remuneration Committee retains the discretion to adjust the requirement to invest Annual Variable Pay in Company shares and retain share awards on vesting in appropriate circumstances.		

Notes to the table

The Committee will select financial and, if appropriate, strategic measures as targets for Annual Variable Pay that are key performance indicators for the business over the short term. For the long-term incentives, the Committee will select a combination of measures that provide a good focus on the outcomes of the Company's strategy together with sustainable improvements in long-term profitability. The Committee sets appropriate and demanding targets for Variable Pay in the context of the Company's trading environment and strategic objectives.

The Committee considers that, for awards made to date, a combination of normalised EPS and TSR for the Executive Board is the most appropriate measure of performance for awards made under the PSP. The EPS target rewards significant and sustained increases in value and delivers strong "line of sight", 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 PSP compared to the position if a single metric applied to the entire award.

There are no performance conditions for the Sharesave Scheme and SIP as they are all-employee share plans aimed at encouraging wider employee share ownership.

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 is 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.

Specifically, benefits provided to executive directors (with the provision of a cash allowance and/or company car benefit the element that is considered significant in value terms and limited to £30,000) are aligned with those provided to senior managers across the Group, as is participation in the PSP, which is limited to the top 130 or so senior employees. Senior employees below Executive Board level are provided with lower levels of awards that only have an EPS-based performance condition.

For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority is given to the Company to honour any commitments entered into with current or former directors (such as the payment of a pension or the vesting or exercise of past share awards) that have either been set out in previous remuneration reports or disclosed to and approved by shareholders and in respect of outstanding share awards as detailed on pages 91 to 94 of the Annual Report on Remuneration. Details of any payments to former directors will be set out in the Annual Report on Remuneration as they arise.

DISCRETION RETAINED BY THE COMMITTEE

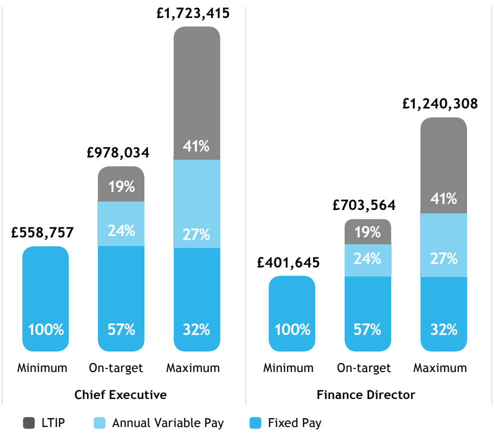
Annual Variable Pay and Long-Term Incentive Plan flexibility

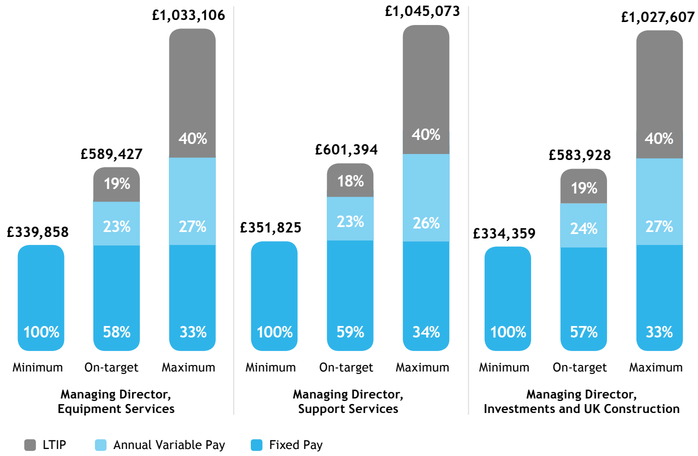
The Committee will operate the Company's incentive plans according to their respective rules and consistent with normal market practice, the Listing Rules and HMRC rules where relevant including flexibility and discretion in a number of respects and as set out in the respective plan rules. In particular, but not limited to, the Committee has flexibility regarding: the testing of a performance condition over a shortened performance period; how to deal with a change of control or restructuring of the Group (as set out in more detail on page 83); determination of a good/bad leaver for incentive plan purposes; and adjustments required in certain circumstances (e.g. rights issues, corporate restructuring, events and special dividends).

The Committee also retains the discretion to adjust the targets and/or set different measures and alter weightings for the Annual Variable Pay arrangements and PSP or to remove the effects of "one-off" events in relation to the PSP if events occur that cause it to determine that the metrics are no longer appropriate and amendment is required so they can achieve their original intended purpose and to waive some or all of the shareholding guidelines in exceptional circumstances.

DIRECTORS' REMUNERATION SCENARIOS

The charts below show how the composition of the executive directors' remuneration packages varies at different levels of performance under the remuneration policy to be implemented in 2014. A substantial portion of the remuneration packages are performance related and therefore this is illustrated for three different performance scenarios: minimum (fixed pay only), on-target performance and maximum performance.





Assumptions:

- **Minimum** – fixed pay only, including salary effective 1 July 2013, 15 per cent of salary pension contribution (or 15 per cent of salary contribution in lieu of pension) and benefits received in the 2013 financial year.
- **On-Target** – minimum plus 50 per cent of the maximum payout under the Annual Variable Pay plan, and 34 per cent PSP vesting.
- **Maximum** – minimum plus 100 per cent of the maximum payout under the Annual Variable Pay plan, and full PSP vesting.

Dividend equivalent payments provided for under the PSP have been disregarded and no share price growth assumed for the purposes of these charts.

SERVICE CONTRACTS AND POLICY ON PAYMENTS FOR LOSS OF OFFICE

Service contract policy

All newly appointed executive directors will have contracts terminable at any time on up to one year's notice. Under the terms of the contract, should notice be served by either party, the executives can continue to receive basic salary, benefits and pension for the duration of their notice period during which time the Company may require the individual to continue to fulfil their current duties or may assign a period of garden leave.

Contracts also contain the ability, at the Company's discretion, to make a payment in lieu of notice of up to of one year's basic annual salary.

Details of the current executive directors' service contracts 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
A M Ringrose	13 December 2001
D I Sutherland	1 January 2011

GOVERNANCE

DIRECTORS' REMUNERATION REPORT CONTINUED

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.

The table below summarises the policy on payments to executive directors for loss of office. The overriding principle will be to honour contractual remuneration entitlements and determine on an equitable basis the appropriate treatment of deferred and performance-linked elements of the package, taking account of the circumstances. Failure will not be rewarded.

Element	Resignation[1]	Departure on agreed terms[2]	Good leaver[3]
Salary (after cessation of employment)	Nil	For existing directors up to one year's basic salary. Newly appointed executive directors can continue to receive basic salary for the duration of their notice period of one year. The Company will have the discretion to make a payment in lieu of notice comprising up to 12 monthly instalments of base salary which would be mitigated proportionate to income received through alternative employment.	Nil
Pension and benefits	Nil	For existing directors up to one year's benefits and pension. For newly appointed directors up to one year's benefits and pension as part of the PILON as detailed above.	Nil
Annual Variable Pay	Nil if the executive departs before the payment date unless the Remuneration Committee determines otherwise.	May be payable at the discretion of the Committee based upon performance and pro-rated for the proportion of the financial year worked. No payment will be made in respect of any period of notice not worked.	May be payable at the discretion of the Committee based on performance pro-rated for the proportion of the financial year worked.
Performance Share Plan	All awards, including those which have vested but are unexercised will lapse immediately upon cessation of employment.	Awards will lapse upon cessation of employment unless the Committee decides otherwise in which case awards may be exercised within 12 months of the vesting date. Where employment ends before the vesting date, awards may only be exercised to the extent that the performance conditions have been satisfied, but will be reduced pro-rata based upon the period of time after the grant date and ending on the date of cessation of employment relative to the three-year performance period unless the Committee, acting fairly and reasonably, decides that such a reduction is inappropriate in any particular case.	Awards may be exercised within 12 months of the vesting date. Where employment ends before the vesting date, awards may only be exercised to the extent that the performance conditions have been satisfied, but will be reduced pro-rata based upon the period of time after the grant date and ending on the date of cessation of employment relative to the three-year performance period unless the Committee, acting fairly and reasonably, decides that such a reduction is inappropriate in any particular case.
All-employee share schemes (Sharesave and SIP)	In accordance with the scheme rules.		
Other payments	Nil	Depending upon circumstances the Committee may consider payments in respect of any statutory entitlements, outplacement support and assistance with legal fees.	Nil

[1]For example, normal resignation from the Company or termination for cause (e.g. gross misconduct).

[2]This may cover a range of circumstances such as business reorganisation, changes in reporting lines, change in need for the role, termination as a result of a failure to be re-elected at an AGM.

[3]For compassionate reasons such as death, injury or disability, retirement with the agreement of the employer. Should a compromise agreement be reached with an individual, in terms of quantum it will be within the maximum amounts set out above.

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. The Annual Variable Pay scheme does not include any provision entitling early or any payment to be made on a change in control of the Company.

In the event of change of control, PSP awards would be eligible to vest based on (i) the extent to which performance targets had been met, as assessed by the Committee, over the shortened performance period and (ii) subject to a pro rata reduction for time (which the Committee retains discretion to disapply if it considers it appropriate to do so). As an alternative, and in agreement with an acquiring company, the awards may be replaced with equivalent awards in the acquiring company's shares.

The Sharesave Scheme provides that if a change in control of the Company occurs, any options may be exercised within a month (or such longer period as the Board may permit up to a maximum of six months). There are also rollover provisions similar to those under the PSP explained above.

RECRUITMENT REMUNERATION

In cases where the Company recruits a new executive director, the Committee will follow the policy set out below to determine his/her ongoing remuneration package. In arriving at a total package and in considering quantum for each element of the package, the Committee will take into account the skills and experience of the candidate, the market rate for a candidate of that experience as well as the importance of securing the preferred candidate. The remuneration package for a new executive director would be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment.

Element	General policy	Specifics
Salary	At a level required to attract the most appropriate candidate.	Discretion to pay a lower basic salary with increases at a rate above inflation over two to three years as the new appointee becomes established in the role.
Pension and benefits	In line with Company policies.	Where appropriate, relocation expenses/arrangements may be provided.
Annual Variable Pay	In line with existing schemes. Maximum opportunity 100% of base salary.	Specific targets could be introduced for an individual where necessary for the first year of appointment if it is appropriate to do so to reflect the individual's responsibilities and the point in the year in which they joined the Board.
Performance Share Plan	In line with Company policies and PSP rules. Maximum award up to 200% of basic salary (at the date of grant) may be made.	An award may be made in the year of joining or, alternatively, the award can be delayed until the following year. Targets would be the same as for other directors.
Other share awards or remuneration[1]	The Committee may make an incentive award to replace remuneration forfeited on an executive leaving a previous employer, where to do so would be in the commercial interests of the Company.	Awards would, where possible, take into account the awards forfeited in terms of vesting periods, expected value and performance conditions. For unvested performance-related awards, awards of broadly similar quantum (allowing for the impact of any performance targets), with appropriate performance conditions.

[1]The Committee may make use of the flexibility provided in the Listing Rules to make such awards if deemed appropriate in terms of replacing forfeited variable pay.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms on grant, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue as appropriate.

EXTERNAL DIRECTORSHIPS

The Board is comfortable with the principle of executive directors sitting on another company board as a non-executive in order to assist with their development, subject to the prior approval of the Chief Executive and the Board. Any fees earned in that capacity may be retained by the executive director.

GOVERNANCE

DIRECTORS' REMUNERATION REPORT CONTINUED

TERMS OF APPOINTMENT AND REMUNERATION POLICY FOR 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 dates of appointment of the non-executive directors are set out below:

Name	Date first appointed	Date last re-elected
Lord Blackwell	1 September 2005	13 May 2013
L G Cullen	1 October 2005	13 May 2013
A K Fahy	1 January 2013	Elected 13 May 2013
K L Ludeman	1 January 2011	13 May 2013
D A Thorpe	1 January 2009	13 May 2013
D A Trapnell	11 July 2003	Retired 13 May 2013

SUMMARY OF REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

Element	Purpose and link to strategy	How operated in practice	Maximum opportunity
Fees	To recruit and maintain non-executives of a suitable calibre for the role and duties required.	The Group Chairman's fee is reviewed by the Committee (without the Group 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 the Senior Independent Director and for those non-executive directors who chair the primary Board committees (i.e. Audit and Remuneration Committees). Other fees may be introduced if considered appropriate, for example in the event of exceptional levels of additional time being required, or new responsibilities being assigned in response to corporate developments. The non-executive directors and the Group Chairman do not currently receive benefits, but the Board retains a discretion to introduce such benefits if considered appropriate. The fees of the non-executive directors are determined by the Board taking into account amounts paid by other similar-sized listed companies, the time commitment of the individual, role and responsibilities. Fees are reviewed in detail biennially with an annual interim review.	There is no prescribed maximum annual increase. The Committee is guided by the general increase in the non-executive director market and for the broader employee population but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of the role.

CONSIDERATION OF EMPLOYEE VIEWS

Although the Committee does not consult directly with employees on executive remuneration we do run a biennial employee survey where employees are able to express their views on a range of issues including their own remuneration.

The Committee considers the general basic salary increase as well as pay and conditions for the broader salaried employee population when determining the annual salary increases for the executive directors.

The Committee receives an annual report for all employees whose basic salary is in excess of £120,000 p.a., detailing the significant elements which make up total remuneration. This enables the Committee to assess the impact of remuneration decisions upon the total cost of employment.

CONSIDERATION OF SHAREHOLDER VIEWS

The Committee considers any shareholder feedback received in relation to the AGM as well as taking into account the general climate regarding executive pay. This feedback, plus any additional feedback received during any other shareholder meetings from time to time, is then considered as part of the Company's annual review of remuneration policy.

When there are material issues relating to executive remuneration or proposed changes in policy, we engage actively with major shareholders to ensure we understand the range of their views. When significant changes are made within the policy, the Remuneration Committee Chairman will inform shareholders accordingly.

ANNUAL REPORT ON REMUNERATION

HOW THE DIRECTORS' REMUNERATION POLICY WILL BE APPLIED FOR THE YEAR ENDING 31 DECEMBER 2014

A summary of how the Directors' Remuneration Policy will be applied during the year ending 31 December 2014 is set out below.

Salaries for executive directors

Salaries are reviewed annually with increases effective from July of each year.

The current salaries as at 1 January 2014 are as follows:

Name	Salary as at 1 January 2014 £	Percentage change from 1 January 2013 %
S L Dance	277,299	3.00
T P Haywood	335,465	3.00
B A Melizan	277,299	3.00
A M Ringrose	465,863	3.00
D I Sutherland	277,299	3.00

Mr Melizan is an unremunerated director of the Safer London Foundation.

Annual Variable Pay

The maximum bonus potential for the year ending 31 December 2014 will remain at 100 per cent of salary for all the executive directors. Between 50 per cent and 100 per cent of annual basic salary will become payable upon achievement of between 100 per cent and 135 per cent of budgeted normalised EPS (defined as headline EPS adjusted to exclude IAS 36 *Impairment of assets* and IAS 39 *Financial instruments* and any unbudgeted "one-off" contributions to EPS which the Committee exercises its discretion to exclude). Where normalised EPS is between 95 per cent and 100 per cent of budgeted normalised EPS, a payment of between 10 per cent and 50 per cent of annual basic salary will become payable.

Targets are not disclosed on a prospective basis as this information would permit the Group's profits to be reverse engineered. It is expected, under normal circumstances, that targets will be disclosed retrospectively for the previous financial year.

Performance Share Plan

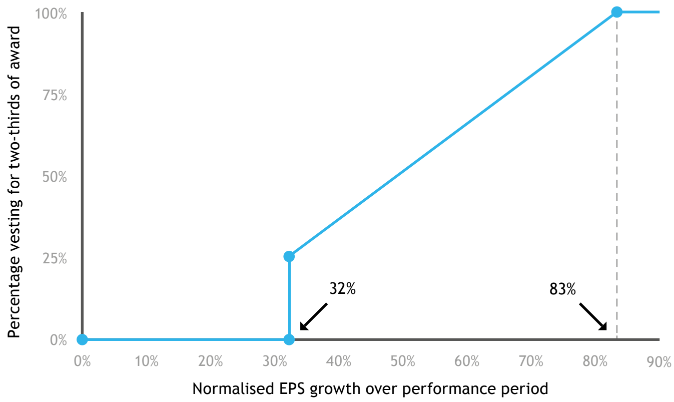
Awards will be made in 2014 to executive directors over shares worth 150 per cent of basic salary as at the date of grant, subject to the following performance conditions:

Earnings per share growth

Normalised EPS[1] growth of the Company over the performance period	Vesting percentage of two-thirds of shares subject to the award
Less than 32%	0%
32% to 83%	25% to 100% (pro-rated)
Greater than 83%	100%

[1]Normalised EPS is Headline earnings per share adjusted to reflect growth in underlying value created by (a) removing the impact of IAS 36 *Impairment of assets* and IAS 39 *Financial instruments*; and (b) recognising or removing "one-off" events at the judgement of the Committee. For the 2014 awards vesting in 2017, the Committee intends to exercise discretion such that the award will reflect the underlying earnings growth, in line with our strategic ambitions.

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 overleaf (the "Comparator Group") over a three-year performance period, commencing on the first day of the 2014 financial year.

GOVERNANCE

DIRECTORS' REMUNERATION REPORT CONTINUED

TSR is calculated as the percentage change in the net return index from the start to the end of the performance period[1]. This measures the return to an investor on a holding of Interserve shares. The Comparator Group is drawn from the Construction and 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:

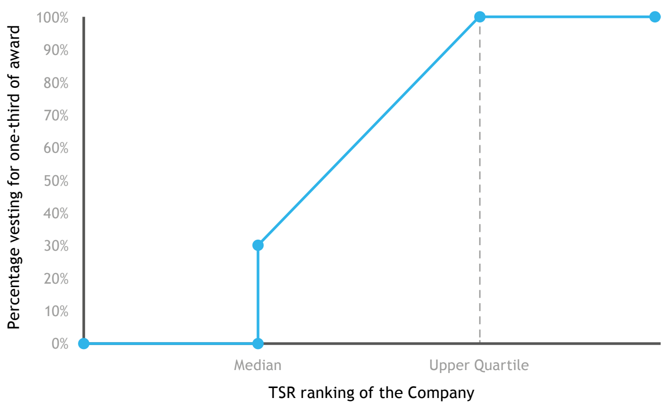
Atkins (WS)	Kier Group
Babcock International	MITIE Group
Balfour Beatty	Morgan Sindall
Capita Group	Rentokil Initial
Carillion	RPS Group
Costain Group	Serco

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

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

TSR ranking of the Company compared to the Comparator Group over the performance period	Vesting percentage of one-third of 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%

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



Non-executive director fees

The fee levels for the non-executive directors for 2014 are set out in the table below:

Element	Fee effective 1 January 2014 £	Fee effective 1 January 2013 £	Percentage change %
Fee paid to Group Chairman	150,000	143,000	4.9
Base fee paid to other non-executive directors	45,100	44,000	2.5
Supplementary fees:			
Senior Independent Director	7,000	7,000	nil
Audit Committee Chairman	10,000	6,000	66.7
Remuneration Committee Chairman	9,000	5,000	80.0
Nomination Committee Chairman	See note[1]	See note[1]	n/a

[1]The Group Chairman is Chairman of the Nomination Committee and receives no supplementary fee for chairing this committee.

HOW THE REMUNERATION POLICY WAS APPLIED FOR THE YEAR ENDED 31 DECEMBER 2013

This section is audited.

The table below shows the remuneration paid to each director. Further detail is included in the additional tables overleaf.

Remuneration paid to each director

£	Year	Salary & fees	Taxable benefits	Annual Variable Pay	PSP[4/5]	Pension	Other remuneration[10]	Total
Executive directors								
S L Dance	**2013**	**273,261**	**20,964**	**162,719**	**680,637**	**40,989[6]**	**1,233**	**1,179,803**
	2012	265,939	20,014	269,223	558,116	39,891[6]	2,050	1,155,233
T P Haywood	**2013**	**330,579**	**15,860**	**196,851**	**823,409**	**49,587[6]**	**–**	**1,416,286**
	2012	321,722	14,965	325,694[11]	–	48,258[6]	–	710,639
B A Melizan	**2013**	**273,261**	**32,931**	**162,719**	**680,637**	**40,989[8]**	**–**	**1,190,537**
	2012	265,939	31,723	269,223	558,116	39,891[6/7]	–	1,164,892
D J Paterson[1]	**2013**	**89,741**	**6,639**	**–**	**460,170**	**13,461[6]**	**–**	**570,011**
	2012	265,939	19,704	269,223	468,820	39,891[6]	–	1,063,577
A M Ringrose	**2013**	**459,078**	**23,015**	**273,368**	**1,143,475**	**68,862[8]**	**1,233**	**1,969,031**
	2012	446,778	22,546	452,294	937,639	67,017[8]	2,050	1,928,324
D I Sutherland	**2013**	**273,261**	**15,465**	**162,719**	**610,912**	**40,989[6/9]**	**1,233**	**1,104,579**
	2012	252,486	15,465	269,223	410,598	37,872[6]	2,050	987,694
Sub-total	**2013**	**1,699,181**	**114,874**	**958,376**	**4,399,240**	**254,877**	**3,699**	**7,430,247**
	2012	1,818,803	124,417	1,854,880	2,933,289	272,820	6,150	7,010,359
Non-executive directors								
Lord Blackwell	**2013**	**143,000**	**–**	**–**	**–**	**–**	**–**	**143,000**
	2012	130,000	–	–	–	–	–	130,000
L G Cullen	**2013**	**50,641**	**–**	**–**	**–**	**–**	**–**	**50,641**
	2012	46,000	–	–	–	–	–	46,000
A K Fahy[2]	**2013**	**47,846**	**–**	**–**	**–**	**–**	**–**	**47,846**
	2012	–	–	–	–	–	–	–
K L Ludeman	**2013**	**44,000**	**–**	**–**	**–**	**–**	**–**	**44,000**
	2012	40,000	–	–	–	–	–	40,000
D A Thorpe	**2013**	**49,000**	**–**	**–**	**–**	**–**	**–**	**49,000**
	2012	45,000	–	–	–	–	–	45,000
D A Trapnell[3]	**2013**	**18,569**	**–**	**–**	**–**	**–**	**–**	**18,569**
	2012	47,000	–	–	–	–	–	47,000
Sub-total	**2013**	**353,056**	**–**	**–**	**–**	**–**	**–**	**353,056**
	2012	308,000	–	–	–	–	–	308,000
Former directors	**2013**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2012	–	–	–	–	–	–	–
Total	**2013**	**2,052,237**	**114,874**	**958,376**	**4,399,240**	**254,877**	**3,699**	**7,783,303**
	2012	2,126,803	124,417	1,854,880	2,933,289	272,820	6,150	7,318,359

[1]David Paterson retired on 30 April 2013. He received no payment for loss of office. His PSP awards have been scaled back in accordance with the good leaver provisions set out in the policy for payments for loss of office on page 82 of this report.

[2]Anne Fahy was appointed on 1 January 2013.

[3]David Trapnell retired on 13 May 2013. Mr Trapnell was appointed on 1 January 2013 to the board of directors of Interserve Trustees Limited, the corporate trustee of the Interserve Pension Scheme, for which he receives an annual director's fee of £16,000 per annum.

[4]The share price used to calculate the value of shares for the 2013 PSP awards (which will vest on 20 April 2014) was 621.37p, being the three-month average to 31 December 2013. This will be adjusted in the 2014 report to reflect the actual value once the share price on the date of vesting is known. The values above also include a dividend equivalent of 61.0p per vested share inclusive of the final dividend for 2013 which is subject to shareholder approval at the 2014 AGM.

GOVERNANCE

DIRECTORS' REMUNERATION REPORT CONTINUED

[5]The share price used to calculate the value of shares for the 2012 PSP awards was 462.5p, the market price on the date of vesting, 19 April 2013. The values above also include a dividend equivalent payment of 69.5p per vested share.

[6]Excludes SMART contributions (see table included in the Directors' Pension Entitlements section on page 89).

[7]Inclusive of a 15 per cent salary supplement (£30,041) in lieu of pension contribution for the period 1 April 2012 to 31 December 2012.

[8]15 per cent salary supplement in lieu of pension contribution.

[9]Inclusive of a 15 per cent salary supplement (£27,528) in lieu of pension contribution for the period 1 May to 31 December 2013.

[10]Gains made on the exercise of options under the Sharesave Scheme (see table on page 94). The options granted in 2009, although not exercised until 2013 due to a close period, vested on 1 October 2012 and have therefore been included in the 2012 figures.

[11]A proportion of Tim Haywood's Annual Variable Pay was subsequently invested in 11,393 shares at 488.2p per share, pursuant to the Shareholding Guidelines.

Additional notes to the Directors' Remuneration Table

1. Taxable benefits

The table below sets out the constituent elements of the taxable benefits for the executive directors:

Executive director	Year	Company car £	Cash allowance in lieu of company car £	Fuel benefit £	Travel allowance £	Medical insurance £	Total £
S L Dance	2013	13,188	–	6,207	–	1,569	20,964
	2012	12,744	–	5,701	–	1,569	20,014
T P Haywood	2013	9,961	–	4,330	–	1,569	15,860
	2012	9,480	–	3,916	–	1,569	14,965
B A Melizan	2013	15,206	–	5,372	10,784	1,569	32,931
	2012	14,499	–	4,871	10,784	1,569	31,723
D J Paterson[1]	2013	4,567	–	1,690	–	382	6,639
	2012	13,633	–	4,909	–	1,162	19,704
A M Ringrose	2013	–	19,192	2,254	–	1,569	23,015
	2012	–	19,192	1,785	–	1,569	22,546
D I Sutherland	2013	–	13,896	–	–	1,569	15,465
	2012	–	13,896	–	–	1,569	15,465
Total	2013	42,922	33,088	19,853	10,784	8,227	114,874
	2012	50,356	33,088	21,182	10,784	9,007	124,417

[1]David Paterson retired on 30 April 2013.

2. Determination of 2013 Annual Variable Pay

The analysis below explains how the Annual Variable Pay was determined for 2013.

Annual Variable Pay was determined with reference to performance over the financial year ending 31 December 2013. The performance measures and targets, as well as performance against them, are set out below:

Metric	Performance target	Actual performance	Maximum annual award as percentage of salary	Actual annual award as percentage of salary
Normalised EPS[1]	See below	Normalised EPS[1] growth of 7.9%	100%	58.68%

[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.

	Percentage of maximum Annual Variable Pay award
Less than budgeted normalised EPS	0%
Budgeted normalised EPS	50%
131% of budgeted normalised EPS	100%
Between budgeted normalised EPS and 131% of budgeted normalised EPS	50% to 100% pro rata

Headline EPS was adjusted by 2.6 per cent for the effect of a £1.5 million post-tax increase in the IAS 19R charge from that included within the budget, resulting in a payout of 58.68 per cent.

3. Determination of Performance Share Plan payments for 2013

The analysis below explains how the Performance Share Plan payments for the performance period ending 31 December 2013 were determined.

The PSP awards granted on 20 April 2011 were based on performance over the three-year period from 1 January 2011 to 31 December 2013 and were subject to the following performance conditions:

The EPS Performance Condition for 50 per cent of 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%

Growth in normalised EPS over the three-year performance period of the 2011 award was 19 per cent which increased to 77.53 per cent after making the PFI adjustment. Accordingly, the EPS element of these awards will result in a full vesting.

The TSR Performance Condition for 50 per cent of the 2011 Awards

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, RPS Group, Serco, Spice 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%

Growth in TSR was 267.3 per cent over the three-year performance period, which means that the TSR element of the awards will also vest in full.

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

The 2011 PSP awards will vest as follows:

Executive director	Number of shares granted	Number of shares to lapse	Number of shares to vest	Dividend equivalent on shares to vest[2] £
S L Dance	99,746	–	99,746	60,845
T P Haywood	120,669	–	120,669	73,608
B A Melizan	99,746	–	99,746	60,845
D J Paterson[1]	99,746	32,309	67,437	41,136
A M Ringrose	167,574	–	167,574	102,220
D I Sutherland	89,528	–	89,528	54,612

[1]David Paterson retired on 30 April 2013. The number of shares to vest has therefore been reduced pro-rata based upon the period of time between the grant date and the date of cessation of employment.

[2]This includes the dividend equivalent of 14.7 pence per share for the financial year ended 31 December 2013 which is subject to approval of the corresponding dividend by shareholders at the 2014 AGM. Accordingly, payment of this dividend equivalent will not be made until after the AGM.

4. 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 78).

The table below shows, for each executive director, the amount by which their base salaries were reduced and paid by the Company into their pension scheme (SMART contributions), together with the total contributions paid by the Company (including SMART contributions but excluding SMART Bonus and AVC arrangements).

Executive director	Year	Company contributions (excluding SMART contributions) £	SMART contributions £	Total Company contributions (including SMART contributions) £
S L Dance	2013	40,989	8,786	49,775
	2012	39,891	12,038	51,929
T P Haywood	2013	49,587	581	50,168
	2012	48,258	1,800	50,058
B A Melizan[1]	2013	–	–	–
	2012	9,850	3,400	13,250
D J Paterson[2]	2013	13,461	6,244	19,705
	2012	39,891	15,867	55,758
A M Ringrose[1]	2013	–	–	–
	2012	–	–	–
D I Sutherland[3]	2013	13,461	3,963	17,424
	2012	37,872	9,495	47,367

[1]Bruce Melizan and Adrian Ringrose received a 15 per cent salary supplement in lieu of pension with effect from 1 January 2012 and 1 April 2012 respectively.

[2]David Paterson retired on 30 April 2013.

[3]Dougie Sutherland received a 15 per cent salary supplement in lieu of pension with effect from 1 May 2013.

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 table.

GOVERNANCE

DIRECTORS' REMUNERATION REPORT CONTINUED

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 £39,680 (2012: £23,542) and £39,680 (2012: £7,700) respectively.

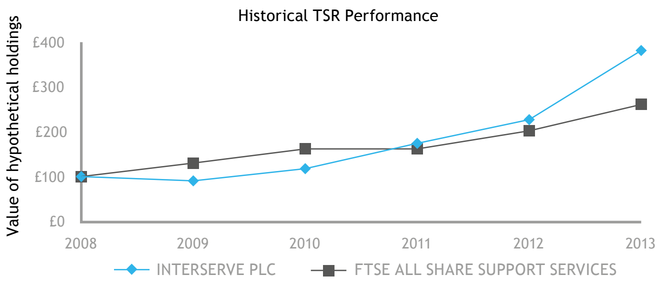
Non-executive directors' fees are not pensionable.

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.

Performance graph

The graph below shows the value, on 31 December 2013, of £100 invested in Interserve Plc on 1 January 2009 compared with the value of £100 invested in the companies comprising the Support Services sector of the FTSE All-Share Index. This was chosen for comparison because it is considered to be the relevant benchmark against which to compare our performance.



Source: Thomson Reuters Datastream

Change in Chief Executive remuneration

The table below provides a summary of the Chief Executive's remuneration over the last five years:

	2009	2010	2011	2012	2013
Total remuneration (£000)	1,087	619	1,318	1,928	1,969
Annual Variable Pay (% of maximum)	98%	30%	100%	100%	59%
PSP vesting (% of maximum)	50%	0%	50%	100%	100%

Percentage change in Chief Executive's remuneration compared to all employees

The table below shows the percentage change in the Chief Executive's salary, benefits and annual bonus between the financial years ending 31 December 2012 and 31 December 2013, compared to the percentage increase in the same for all salaried employees of the Group (on a per capita basis):

	Percentage change %
Salary	
Chief Executive	2.8
All salaried employees	2.3
Benefits	
Chief Executive	1.2
All salaried employees	-6.0
Annual bonus	
Chief Executive	-40.0
All salaried employees[1]	-20.0

[1]This figure includes an estimate only of the 2013 bonus. The actual amount will only be known once the March 2014 payroll has been run.

Relative importance of spend on pay

The table below illustrates the change in expenditure by the Company on remuneration paid to all the employees of the Group against other significant distributions and payments from the financial year ending 31 December 2012 compared to the financial year ending 31 December 2013:

	2013 £million	2012 £million	Percentage change %
Overall expenditure on pay	694.6	624.7	11.2
Dividends paid	27.8[1]	26.0	6.9

[1]Including the final dividend for 2013 of 14.7p per share which is subject to shareholder approval at the AGM

Performance Share Plan

The following grants were made to the executive directors under the PSP during the year:

Executive director	Number of shares	Face value[1] £	End of performance period
S L Dance	85,770	399,774	31 December 2015
T P Haywood	103,761	483,630	31 December 2015
B A Melizan	85,770	399,774	31 December 2015
D J Paterson[2]	–	–	n/a
A M Ringrose	144,094	671,622	31 December 2015
D I Sutherland	85,770	399,774	31 December 2015

[1]Valued using the share price at the date of grant (9 April 2013), being 466.10p per share.
[2]David Paterson retired on 30 April 2013.

Awards were made in the form of nil-cost options equivalent to 150 per cent of base salary, exercisable between 9 April 2016 and 8 April 2018.

The performance conditions attached to these awards are set out on page 92.

Achievement of the minimum performance over the performance period would result in 26.3 per cent of the awards vesting on 9 April 2016 together with the corresponding dividend equivalent.

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

Executive director	Date granted	Balance as at 1 January 2013	Granted during year	Market price at date of award pence	Vested during year	Market price at date of vesting pence	Market price at date of exercise pence	Lapsed during year	Amount realised on vesting# £	Balance as at 31 December 2013	Performance period
S L Dance	19.04.10	104,909	–	236.50	104,909	462.50	462.50	–	558,116	–	01.01.10 – 31.12.12[1]
	20.04.11	99,746	–	261.00	–	n/a	n/a	–	n/a	99,746	01.01.11 – 31.12.13[2]
	11.04.12	143,648	–	275.80	–	n/a	n/a	–	n/a	143,648	01.01.12 - 31.12.14[3]
	09.04.13	–	85,770	466.10	–	n/a	n/a	–	n/a	85,770	01.01.13 – 31.12.15[4]
T P Haywood	20.04.11	120,669	–	261.00	–	n/a	n/a	–	n/a	120,669	01.01.11 – 31.12.13[2]
	11.04.12	173,779	–	275.80	–	n/a	n/a	–	n/a	173,779	01.01.12 – 31.12.14[3]
	09.04.13	–	103,761	466.10	–	n/a	n/a	–	n/a	103,761	01.01.13 – 31.12.15[4]
B A Melizan	19.04.10	104,909	–	236.50	104,909	462.50	462.50	–	558,116	–	01.01.10 – 31.12.12[1]
	20.04.11	99,746	–	261.00	–	n/a	n/a	–	n/a	99,746	01.01.11 – 31.12.13[2]
	11.04.12	143,648	–	275.80	–	n/a	n/a	–	n/a	143,648	01.01.12 – 31.12.14[3]
	09.04.13	–	85,770	466.10	–	n/a	n/a	–	n/a	85,770	01.01.13 – 31.12.15[4]
D J Paterson	19.04.10	88,124	–	236.50	88,124	462.50	462.50	–	468,820	–†	01.01.10 – 31.12.12[1]
	20.04.11	99,746	–	261.00	–	n/a	n/a	–	n/a	99,746†	01.01.11 – 31.12.13[2]
	11.04.12	143,648	–	275.80	–	n/a	n/a	–	n/a	143,648†	01.01.12 – 31.12.14[3]
A M Ringrose	19.04.10	176,248	–	236.50	176,248	462.50	462.50	–	937,639	–	01.01.10 – 31.12.12[1]
	20.04.11	167,574	–	261.00	–	n/a	n/a	–	n/a	167,574	01.01.11 – 31.12.13[2]
	11.04.12	241,329	–	275.80	–	n/a	n/a	–	n/a	241,329	01.01.12 – 31.12.14[3]
	09.04.13	–	144,094	466.10	–	n/a	n/a	–	n/a	144,094	01.01.13 – 31.12.15[4]
D I Sutherland	19.04.10	77,180	–	236.50	77,180	462.50	462.50	–	410,598	–	01.01.10 – 31.12.12[1]
	20.04.11	89,528	–	261.00	–	n/a	n/a	–	n/a	89,528	01.01.11 – 31.12.13[2]
	11.04.12	128,933	–	275.80	–	n/a	n/a	–	n/a	128,933	01.01.12 – 31.12.14[3]
	09.04.13	–	85,770	466.10	–	–	–	–	n/a	85,770	01.01.13 – 31.12.15[4]

#Includes dividend equivalent payment of 69.5p per vested share.

†As at 30 April 2013, when Mr Paterson retired from the Board.

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

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GOVERNANCE

DIRECTORS' REMUNERATION REPORT CONTINUED

[1]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%

[2]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.

[3]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.

[4]The EPS Performance Condition for the 2013 Awards

Normalised EPS 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% (pro-rated)
58% to 75%	50% to 100% (pro-rated)
Greater than 75%	100%

The 2013 PSP awards were granted in the form of nil-cost options, exercisable between 9 April 2016 and 8 April 2018.

[1234]The TSR Performance Condition

This condition is determined by comparing the Company's TSR performance to the TSR of each of a defined list of comparator companies drawn from the Construction and Materials, and Support Services sectors comprising Atkins (WS), Babcock International, Balfour Beatty, Capita Group, Carillion, Costain Group, Kier Group, May Gurney Integrated Services (not after 2013), MITIE Group, Morgan Sindall, Mouchel Group (not after 2012), Rentokil Initial, Rok (not after 2011), RPS Group, Serco, Spice (not after 2011) and WSP Group (not after 2012).

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 per cent was replaced by one-third for the 2012 and 2013 PSP awards.

The awards made in 2010 (measuring performance over the three years to 31 December 2012) vested 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 was greater than 30 per cent over the performance period (actual growth 149.7 per cent, including credit for the realised value from PFI investments).

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 in previous financial periods. No further grants will be made under this Scheme.

Executive director	Date granted	Balance as at 1 January 2013	Granted during year	Market price at date of award pence	Exercise price pence	Exercised during year	Market price at date of exercise pence	Lapsed during year	Amount realised on exercise £	Balance as at 31 December 2013	Exercise period
S L Dance	09.12.04	50,000	–	320.00	324.00	50,000	501.00	–	88,500	–	09.12.07 – 08.12.14
	14.03.05	83,489	–	358.25	359.33	83,489	576.00	–	180,896	–	14.03.08 – 13.03.15
T P Haywood	n/a	–	–	n/a	n/a	–	n/a	–	n/a	–	n/a
B A Melizan	14.03.05	75,140	–	358.25	359.33	–	n/a	–	–	75,140	14.03.08 – 13.03.15
D J Paterson	14.03.05	32,561	–	358.25	359.33	32,561[1]	511.00	–	49,385	–	14.03.08 – 13.03.15
A M Ringrose	23.04.03	133,333	–	205.00	205.83	133,333	500.50	–	392,892	–	23.04.06 – 22.04.13
	14.03.05	150,280	–	358.25	359.33	–	n/a	–	n/a	150,280	14.03.08 – 13.03.15
D I Sutherland	n/a	–	–	n/a	n/a	–	n/a	–	n/a	–	n/a

[1]Mr Paterson retired from the Board on 30 April 2013. These options were exercised on 16 May 2013.

No options were granted during the year (2012: nil). The aggregate gain made on the exercise of options was £711,673 (2012: £nil). The market price of the shares as at 31 December 2013 was 623.00p. The highest and lowest market prices of the shares during the financial year were 677.00p and 391.10p respectively.

Sharesave Scheme

The following grants were made to the executive directors under the Interserve Sharesave Scheme 2009 during the year:

Executive director	Number of shares	Exercise price pence	Face value[1] £	Exercise period
S L Dance	226	398.00	1,061	01.06.16 – 30.11.16
T P Haywood	226	398.00	1,061	01.06.16 – 30.11.16
B A Melizan	226	398.00	1,061	01.06.16 – 30.11.16
D J Paterson[2]	–	n/a	–	n/a
A M Ringrose	–	n/a	–	n/a
D I Sutherland	226	398.00	1,061	01.06.16 – 30.11.16

[1]Valued using the share price at the date of grant (4 April 2013), being 469.50p per share.
[2]David Paterson retired on 30 April 2013.

All eligible employees are entitled to apply for options under the Sharesave Scheme. The maximum monthly savings amount is set annually by the Remuneration Committee within HMRC limits. There are no performance conditions attached to these options.

The difference between the market price on the grant date and the exercise price is that, under the Scheme rules, the exercise price is calculated by taking the average of the mid-market closing share price for the five dealing days immediately preceding the invitation date less a discount set by the Remuneration Committee of up to a maximum of 20 per cent.

GOVERNANCE

DIRECTORS' REMUNERATION REPORT CONTINUED

The number of options over 10p ordinary shares in the Company (pursuant to the Sharesave Scheme) held by each person who served as an executive director of the Company during the financial year, is shown below:

Executive director	Date granted	Balance as at 1 January 2013	Granted during year	Market price at date of award pence	Exercise price pence	Exercised during year	Market price at date of exercise pence	Lapsed during year	Amount realised on exercise £	Balance as at 31 December 2013	Exercise period
S L Dance	07.08.09	595	–	218.70	152.50	595	497.00	–	2,050	–	01.10.12 – 31.03.13
	14.05.10	423	–	215.25	214.50	423	506.00	–	1,233	–	01.07.13 – 31.12.13
	15.04.11	390	–	260.50	231.00	–	n/a	–	n/a	390	01.07.14 – 31.12.14
	05.04.12	378	–	276.40	238.00	–	n/a	–	n/a	378	01.07.15 – 31.12.15
	04.04.13	–	226	469.50	398.00	–	n/a	–	n/a	226	01.06.16 – 30.11.16
T P Haywood	15.04.11	390	–	260.50	231.00	–	n/a	–	n/a	390	01.07.14 – 31.12.14
	05.04.12	378	–	276.40	238.00	–	n/a	–	n/a	378	01.07.15 – 31.12.15
	04.04.13	–	226	469.50	398.00	–	n/a	–	n/a	226	01.06.16 – 30.11.16
B A Melizan	15.04.11	390	–	260.50	231.00	–	n/a	–	n/a	390	01.07.14 – 31.12.14
	05.04.12	378	–	276.40	238.00	–	n/a	–	n/a	378	01.07.15 – 31.12.15
	04.04.13	–	226	469.50	398.00	–	n/a	–	n/a	226	01.06.16 – 30.11.16
D J Paterson	n/a	–	–	n/a	n/a	–	n/a	–	n/a	–[1]	n/a
A M Ringrose	07.08.09	595	–	218.70	152.50	595	497.00	–	2,050	–	01.10.12 – 31.03.13
	14.05.10	423	–	215.25	214.50	423	506.00	–	1,233	–	01.07.13 – 31.12.13
	05.04.12	378	–	276.40	238.00	–	n/a	–	n/a	378	01.07.15 – 31.12.15
D I Sutherland	07.08.09	595	–	218.70	152.50	595	497.00	–	2,050	–	01.10.12 – 31.03.13
	14.05.10	423	–	215.25	214.50	423	506.00	–	1,233	–	01.07.13 – 31.12.13
	05.04.12	378	–	276.40	238.00	–	n/a	–	n/a	378	01.07.15 – 31.12.15
	04.04.13	–	226	469.50	398.00	–	n/a	–	n/a	226	01.06.16 – 30.11.16

[1]As at 30 April 2013, when Mr Paterson retired from the Board.

Shareholding Guidelines

Executive directors are expected to build up a holding equivalent to 100 per cent of their base salary over time.

A percentage of the Annual Variable Pay is required to be invested in Company shares and no fewer than 100 per cent of shares net of taxes following an option exercise or award vesting must be retained until such time as the shareholding guidelines have been met.

Shares purchased under the Annual Variable Pay arrangements, Sharesave Scheme and SIP count toward this limit. Share options and vested, but unexercised, PSP awards do not count towards satisfying the shareholding guidelines.

Shareholdings of directors

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, together with details of the extent to which the executive directors have met the requirement to hold shares to the value of 100 per cent of salary:

Director	31 December 2013 Beneficially owned	31 December 2012 Beneficially owned	31 December 2013 Outstanding ESOS awards (vested)	Outstanding PSP awards (unvested)	Outstanding Sharesave awards (unvested)	% shareholding requirement (% of salary/fee)	% actual shareholding (% of salary/fee)[4]
Executive directors							
S L Dance	101,383	99,988	–	Not counted	Not counted	100%	227%
T P Haywood	29,390	17,960	–	Not counted	Not counted	100%	54%
B A Melizan	101,183	101,112	Not counted	Not counted	Not counted	100%	227%
D J Paterson	37,500[1]	47,391	–	n/a	–	n/a	n/a
A M Ringrose	400,809	263,514	Not counted	Not counted	Not counted	100%	535%
D I Sutherland	98,868	51,862	–	Not counted	Not counted	100%	222%
Non-executive directors							
Lord Blackwell	10,000	10,000	–	–	–	n/a	n/a
L G Cullen	10,000	10,000	–	–	–	n/a	n/a
A K Fahy	–	–[2]	–	–	–	n/a	n/a
K L Ludeman	3,000	3,000	–	–	–	n/a	n/a
D A Thorpe	12,793	12,793	–	–	–	n/a	n/a
D A Trapnell	4,500[3]	4,500	–	–	–	n/a	n/a

[1]As at 30 April 2013, when David Paterson retired from the Board.
[2]As at 1 January 2013 when Anne Fahy was appointed to the Board.
[3]As at 13 May 2013, when David Trapnell retired from the Board.
[4]Using a share price of 621.37p, being the three-month average to 31 December 2013.

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

Between the year end and the date of this report Steven Dance, Adrian Ringrose and Dougie Sutherland have purchased an additional 39 shares each pursuant to the Interserve Share Incentive Plan 2009. The shares were purchased on 10 January 2014 (18 shares each at 693.50p per share) and 10 February 2014 (21 shares each at 584.00p per share). There have been no further changes in the shareholdings of the directors who held office at the year end.

OTHER INFORMATION

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 (12,910,681 shares) under all its share schemes. At 31 December 2013 there remained headroom equivalent to 1,127,984 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 the 2002 Executive Share Option Scheme and the Performance Share Plan will be satisfied by newly issued shares.

GOVERNANCE

DIRECTORS' REMUNERATION REPORT CONTINUED

GOVERNANCE AND OPERATION OF THE REMUNERATION COMMITTEE

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 (Committee Chairman)	6 out of 6
Lord Blackwell	6 out of 6
L G Cullen	6 out of 6
A K Fahy	6 out of 6
K L Ludeman	6 out of 6
D A Trapnell[1]	2 out of 2

[1]Mr Trapnell retired from the Board on 13 May 2013.

The Committee meets as often as is necessary to discharge its duties and met six times during the year ended 31 December 2013. 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.

Advisers

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 Hewitt (a subsidiary of Aon plc), and Trevor Bradbury, the Company Secretary, which materially assisted the Committee in relation to the 2013 financial year. Executives are not present when matters affecting their own remuneration arrangements are decided.

Aon plc also provides insurance broking services to the Company though a separate business division to Aon Hewitt. The Committee has been advised that NBS operates as a distinct business within the Aon Group and that there is a robust separation between the business activities and management of NBS and all other parts of Aon Hewitt and the wider Aon Group. The Committee is satisfied that these additional services in no way compromised the objectivity and independence of advice provided by NBS.

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

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 was £21,505. These fees relate 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:

- performance monitoring of the TSR element of the Performance Share Plan;
- review of vesting documentation for the Performance Share Plan;
- IFRS 2 option valuation;
- assistance with the drafting of the Directors' Remuneration Report; and
- updates on developments in remuneration practice.

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 and has confirmed its compliance with the Code.

Statement of shareholder voting at AGM

At the AGM held on 13 May 2013, the Directors' Remuneration Report received the following votes from shareholders:

Resolution text	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
To approve the directors' remuneration report for the year ended 31 December 2012	78,813,187	97.04	2,398,957	2.95	81,219,568	7,424

Shareholder engagement

During the year the Committee engaged with a shareholder on the outturn of the Annual Variable Pay scheme (noting the wish for more detail to be disclosed retrospectively) and the strategic reasoning behind the decision to weight the performance targets two-thirds one-third in favour of EPS over TSR in support of the Board's aspiration of doubling EPS over five years from a 2010 base.

APPROVAL

This report was approved by the Board of Directors on 28 February 2014 and signed on its behalf by:

David Thorpe
Chairman of the Remuneration Committee
28 February 2014

GOVERNANCE

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;

(b) the Strategic 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; and

(c) the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

A M Ringrose
Chief Executive

T P Haywood
Group Finance Director

28 February 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTERSERVE PLC

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 34 and the related notes to the Company financial statements A to Q. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

GOING CONCERN

As required by the Listing Rules we have reviewed the directors' statement on page 50 that the Group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

The assessed risks of material misstatement described overleaf are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTERSERVE PLC CONTINUED

Risk	How the scope of our audit responded to the risk
Revenue and margin recognition The recognition of revenue and margin on long-term and service contracts, including the related receivables and payables, is an area of management judgement including in respect of the recovery of pre-contract costs, the impact of any changes in scope of work, the expected costs of completion and assessment of any other liabilities arising.	Our response to the risk in this area, with a focus on those key contracts in progress at the year end, included: • testing of selected key controls surrounding the recognition of revenue and margin on contracts; • review of management's assessment of the existence and valuation of claims and variations within contract revenue and contract costs. This testing included, as appropriate, obtaining the breakdown of variations and claims and assessing these against the terms of the contract, obtaining the approved variation orders and checking the recognition of any such amounts was in line with the Group's accounting policy; • review of management's assessment of the costs to complete on a contract where significant, as part of our overall review of the cost-value reconciliation process. This included assessment of the latest forecast against the initial tender and obtaining explanations for any significant changes between these; and • assessment of the recoverability of related receivables including work-in-progress and pre-contract costs. This was tested on a sample basis through agreement to post period end invoicing, post period end cash receipt or agreement to the terms of the contract in place, as appropriate.
Measurement of impairment of goodwill Management judgement must be applied in estimating the value in use of a cash generating unit including the amount and timing of future cash flows forecasted from the cash generating unit and the discount rate to be applied.	Our response to the risk in this area included evaluating management's assumptions used in the impairment testing model, as described in note 13 to the financial statements, including specifically the cash flow projections from the latest budgets and the discount rate applied to those cash flows. In respect of the discount rate we benchmarked the rate against other companies which were considered to be comparable with the Company as well as reviewed management's sensitivity analysis performed in respect of changes in this rate. As part of our review of the cash flow projections we gained an understanding of management's processes and key controls within this area as well as their ability to construct accurate projections through consideration of the historical forecasting accuracy. We reviewed management's sensitivity analysis performed in respect of changes in the growth rate which impacts these projections.
Retirement benefit obligations Calculation of the retirement benefit obligation requires that management makes a number of assumptions including around the discount rate to be applied and mortality.	Our response to the risk in this area included consideration of management's assumptions in calculating the retirement benefit obligation, as set out in note 30 to the financial statements, including through the use of benchmarking of key assumptions such as the discount rate and mortality rates to those used by other companies. We utilised our in-house actuarial specialists in this area.

Risk	How the scope of our audit responded to the risk
Measurement of impairment of the fleet within Equipment Services The carrying value of the fleet in Equipment Services is £101.3 million (2012: £102.1 million) and a number of factors including technological changes, prospective utilisation and the physical condition of the assets must be taken into account when assessing whether the useful economic lives of the fleet remain appropriate.	Our response to the risk in this area included evaluating management's assumptions used in the impairment testing model including specifically the cash flow projections from the latest budgets, the discount rate applied to those cash flows and the sensitivities applied to these key assumptions. In respect of the discount rate we compared this to the rate used by the Group in other areas and considered the sensitivity of the impairment calculation to changes in this rate. In respect of the cash flow projections we gained an understanding of management's processes and key controls within this area as well as their ability to construct accurate projections through consideration of the historical forecasting accuracy. Growth assumptions within the projections were compared to long-term rates published externally and the sensitivity of the impairment calculation to changes in these rates considered.

The Audit Committee's consideration of these risks is set out on pages 74 and 75.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £3.9 million, which is approximately 5 per cent of adjusted profit before tax and approximately 1 per cent of equity. We use adjusted profit before tax to exclude the effect of volatility (for example exceptional items and amortisation of acquired intangible assets) from our determination and as it represents a key performance measure for the Group.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £78,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit scope focused primarily on the Group's operations within the UK, the United Arab Emirates and Qatar, which were subject to a full scope audit. These were subject to a full scope audit due to their financial significance to the Group as a whole or based upon our assessment of the risks of material misstatement or a combination of both.

The Group's operations subject to a full scope audit account for 83 per cent of the Group's operating profit and 94 per cent of revenue.

The remaining operations of the Group, in a number of different geographical locations, were subject to analytical review, the selection of which was based on our assessment of the risks of material misstatement and of the materiality of the Group's business operations at those locations.

The Group audit team continued to follow a programme of planned visits to the significant operations of the Group. A senior member of the Group audit team has visited the United Arab Emirates and Qatar in the year.

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF INTERSERVE PLC CONTINUED

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 Strategic Report and the Directors’ Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors’ remuneration

Under the Companies Act 2006 we are also required to report if, in our opinion, certain disclosures of directors’ remuneration have not been made or the part of the Directors’ Remuneration Report to be audited is not in agreement with the accounting records and returns. Under the Listing Rules we are required to review certain elements of the Directors’ Remuneration Report. We have nothing to report arising from these matters or our review.

Corporate Governance statement

Under the Listing Rules we are also required to review the part of the Corporate Governance statement relating to the Company’s compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors’ statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

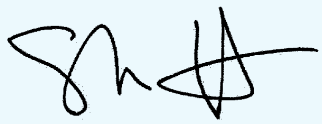
RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors’ Responsibility Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors. We also comply with the International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews.

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.

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 and 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Stephen Griggs (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
28 February 2014

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2013

	Notes	Year ended 31 December 2013 Before exceptional items and amortisation of acquired intangible assets £million	Year ended 31 December 2013 Exceptional items and amortisation of acquired intangible assets £million	Year ended 31 December 2013 Total £million	Year ended 31 December 2012 Before exceptional items and amortisation of acquired intangible assets £million restated (note 1)	Year ended 31 December 2012 Exceptional items and amortisation of acquired intangible assets £million	Year ended 31 December 2012 Total £million restated (note 1)
Continuing operations							
Revenue including share of associates and joint ventures		2,581.9	-	2,581.9	2,369.6	-	2,369.6
Less: Share of associates and joint ventures	16	(389.3)	-	(389.3)	(411.2)	-	(411.2)
Consolidated revenue	2	2,192.6	-	2,192.6	1,958.4	-	1,958.4
Cost of sales		(1,927.0)	-	(1,927.0)	(1,738.4)	-	(1,738.4)
Gross profit		265.6	-	265.6	220.0	-	220.0
Administration expenses		(196.2)	-	(196.2)	(167.0)	-	(167.0)
Amortisation of acquired intangible assets	4	-	(8.8)	(8.8)	-	(6.0)	(6.0)
Other exceptional items	5	-	(2.6)	(2.6)	-	(4.0)	(4.0)
Total administration expenses		(196.2)	(11.4)	(207.6)	(167.0)	(10.0)	(177.0)
Profit/(loss) on disposal of property and investments	5	-	(1.5)	(1.5)	-	114.9	114.9
Operating profit		69.4	(12.9)	56.5	53.0	104.9	157.9
Share of result of associates and joint ventures	16	17.3	-	17.3	25.4	-	25.4
Amortisation of acquired intangible assets	4	-	(0.1)	(0.1)	-	(0.4)	(0.4)
Total share of result of associates and joint ventures		17.3	(0.1)	17.2	25.4	(0.4)	25.0
Total operating profit		86.7	(13.0)	73.7	78.4	104.5	182.9
Investment revenue	7	3.6	-	3.6	8.4	-	8.4
Finance costs	8	(9.2)	-	(9.2)	(11.5)	-	(11.5)
Profit before tax		81.1	(13.0)	68.1	75.3	104.5	179.8
Tax (charge)/credit	9	(15.0)	1.9	(13.1)	(13.3)	2.7	(10.6)
Profit for the year		66.1	(11.1)	55.0	62.0	107.2	169.2
Attributable to:							
Equity holders of the parent		61.3	(11.1)	50.2	57.3	107.2	164.5
Non-controlling interests		4.8	-	4.8	4.7	-	4.7
		66.1	(11.1)	55.0	62.0	107.2	169.2
Earnings per share	11						
Basic				39.1p			130.0p
Diluted				38.2p			127.4p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

	Notes	Year ended 31 December 2013 £million	Year ended 31 December 2012 £million restated (note 1)
Profit for the period		55.0	169.2
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined benefit pension schemes	30	21.3	(71.8)
Deferred tax on above items taken directly to equity	9	(7.3)	15.5
		14.0	(56.3)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(13.0)	(8.4)
Gains/(losses) on cash flow hedges of financial assets (excluding joint ventures)		0.8	(0.1)
Deferred tax on items taken directly to equity	9	1.3	0.6
Net impact of items relating to joint-venture entities		2.3	(12.9)
		(8.6)	(20.8)
Other comprehensive income/(expense) net of tax		5.4	(77.1)
Total comprehensive income/(expense)		60.4	92.1
Attributable to:			
Equity holders of the parent		55.7	87.4
Non-controlling interests		4.7	4.7
		60.4	92.1

CONSOLIDATED BALANCE SHEET

at 31 December 2013

	Notes	31 December 2013 £million	31 December 2012 £million	31 December 2011 £million
Non-current assets				
Goodwill	13	**248.0**	226.3	199.0
Other intangible assets	14	**38.6**	39.5	22.2
Property, plant and equipment	15	**155.9**	137.8	139.7
Interests in joint-venture entities	16/32	**20.6**	7.6	103.3
Interests in associated undertakings	16	**73.9**	76.6	77.2
Deferred tax asset	17	**21.0**	33.5	23.4
		558.0	521.3	564.8
Current assets				
Assets classified as held for sale	16	**-**	51.2	-
Inventories	18	**30.7**	24.6	22.2
Trade and other receivables	20	**486.1**	432.0	380.1
Cash and deposits	21	**79.7**	76.8	46.1
		596.5	584.6	448.4
Total assets		**1,154.5**	1,105.9	1,013.2
Current liabilities				
Bank overdrafts	21	**(27.4)**	(19.8)	(19.3)
Trade and other payables	23	**(592.3)**	(555.5)	(492.7)
Current tax liabilities		**(5.3)**	(4.2)	(5.9)
Short-term provisions	26	**(18.1)**	(24.2)	(28.7)
		(643.1)	(603.7)	(546.6)
Net current liabilities		**(46.6)**	(19.1)	(98.2)
Non-current liabilities				
Bank loans	21	**(90.0)**	(30.0)	(70.0)
Trade and other payables	24	**(13.5)**	(13.2)	(13.3)
Long-term provisions	26	**(29.9)**	(27.1)	(26.3)
Retirement benefit obligation	30	**(7.7)**	(101.1)	(56.2)
		(141.1)	(171.4)	(165.8)
Total liabilities		**(784.2)**	(775.1)	(712.4)
Net assets		**370.3**	330.8	300.8
Equity				
Share capital	27	**12.9**	12.7	12.6
Share premium account		**115.0**	113.1	112.7
Capital redemption reserve		**0.1**	0.1	0.1
Merger reserve		**49.0**	49.0	49.0
Hedging and translation reserves		**24.7**	34.5	96.3
Investment in own shares		**(2.9)**	(1.4)	(2.8)
Retained earnings		**161.6**	116.5	28.7
Equity attributable to equity holders of the parent		**360.4**	324.5	296.6
Non-controlling interests		**9.9**	6.3	4.2
Total equity		**370.3**	330.8	300.8

These financial statements were approved by the Board of Directors on 28 February 2014.
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 2013

	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	Non-controlling interests £million	Total £million
Balance at 1 January 2012	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 (restated - note 1)	-	-	-	-	-	-	(71.8)	(71.8)	-	(71.8)
Profit for the year (restated - note 1)	-	-	-	-	-	-	164.5	164.5	4.7	169.2
Deferred tax on non-joint-venture items taken directly to equity (restated - note 1)	-	-	-	-	-	-	16.1	16.1	-	16.1
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
Net impact of items relating to joint-venture entities	-	-	-	-	2.3	-	-	2.3	-	2.3
Exchange differences on translation of foreign operations	-	-	-	-	(12.9)	-	-	(12.9)	(0.1)	(13.0)
Gain/(loss) on available-for-sale financial assets	-	-	-	-	0.8	-	-	0.8	-	0.8
Actuarial gain/(loss) on defined benefit pension schemes	-	-	-	-	-	-	21.3	21.3	-	21.3
Profit for the year	-	-	-	-	-	-	50.2	50.2	4.8	55.0
Deferred tax on non-joint-venture items taken directly to equity	-	-	-	-	-	-	(6.0)	(6.0)	-	(6.0)
Total comprehensive income	-	-	-	-	(9.8)	-	65.5	55.7	4.7	60.4
Dividends paid	-	-	-	-	-	-	(26.2)	(26.2)	(2.9)	(29.1)
Shares issued	0.2	1.9	-	-	-	-	-	2.1	-	2.1
Acquisition	-	-	-	-	-	-	-	-	1.8	1.8
Purchase of Company shares	-	-	-	-	-	(2.7)	-	(2.7)	-	(2.7)
Company shares used to settle share-based payment obligations	-	-	-	-	-	1.2	(0.5)	0.7	-	0.7
Share-based payments	-	-	-	-	-	-	6.3	6.3	-	6.3
Balance at 31 December 2013	12.9	115.0	0.1	49.0	24.7	(2.9)	161.6	360.4	9.9	370.3

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 2013 was £5.3 million (2012: £2.5 million).

The accumulated balance of translation differences, incorporated within the hedging and translation reserve above, amounts to £22.3 million (2012: £35.2 million).

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2013

	Notes	Year ended 31 December 2013 £million	Year ended 31 December 2012 £million restated (note 1)
Operating activities			
Total operating profit		73.7	182.9
Adjustments for:			
Amortisation of acquired intangible assets	14	8.8	6.0
Amortisation of capitalised software development	14	1.9	1.6
Depreciation of property, plant and equipment	15	31.9	27.7
(Profit)/loss on disposal of property and investments	5	1.5	(114.9)
Other non-cash exceptional items	5	0.5	-
Pension contributions in excess of the income statement charge		(18.5)	(28.8)
Share of results of associates and joint ventures		(17.2)	(25.0)
Charge relating to share-based payments	29	5.5	4.3
Gain on disposal of plant and equipment - hire fleet		(13.4)	(14.1)
Gain on disposal of plant and equipment - other		-	(0.2)
Operating cash flows before movements in working capital		74.7	39.5
Increase in inventories		(4.5)	(3.2)
Increase in receivables		(14.6)	(47.1)
(Decrease)/increase in payables		(0.6)	50.5
Cash generated by operations before changes in hire fleet		55.0	39.7
Capital expenditure - hire fleet	15	(29.8)	(24.4)
Proceeds on disposal of plant and equipment - hire fleet		18.0	18.4
Cash generated by operations		43.2	33.7
Taxes paid		(5.7)	(10.7)
Net cash from operating activities		37.5	23.0
Investing activities			
Interest received		3.5	8.4
Dividends received from associates and joint ventures	16a	13.7	19.8
Proceeds on disposal of plant and equipment - non-hire fleet		0.2	1.8
Capital expenditure - non-hire fleet	14/15	(22.1)	(10.7)
Purchase of businesses	12	(49.1)	(44.7)
Investment in joint-venture entities	16b	(10.6)	(15.7)
Investment in associated undertakings	16c	-	(0.6)
(Costs of)/proceeds on disposal of investments	5	(0.2)	119.3
Receipt of loan repayment - Investments	16b	-	4.7
Net cash from/(used in) investing activities		(64.6)	82.3
Financing activities			
Interest paid		(7.8)	(9.6)
Dividends paid to equity shareholders	10	(26.2)	(24.4)
Dividends paid to minority shareholders		(2.9)	(2.6)
Proceeds from issue of shares and exercise of share options		3.3	1.5
Purchase of own shares		(2.7)	-
Increase in/(repayment) of bank loans		60.0	(40.0)
Movement in obligations under finance leases		(0.3)	0.2
Net cash from/(used in) financing activities		23.4	(74.9)
Net increase/(decrease) in cash and cash equivalents		(3.7)	30.4
Cash and cash equivalents at beginning of period		57.0	26.8
Effect of foreign exchange rate changes		(1.0)	(0.2)
Cash and cash equivalents at end of period		52.3	57.0

	Year ended 31 December 2013 £million	Year ended 31 December 2012 £million restated (note 1)
Cash and cash equivalents comprise		
Cash and deposits	79.7	76.8
Bank overdrafts	(27.4)	(19.8)
	52.3	57.0

Reconciliation of net cash flow to movement in net debt		
Net increase/(decrease) in cash and cash equivalents	(3.7)	30.4
(Increase in)/repayment of bank loans	(60.0)	40.0
Movement in obligations under finance leases	0.3	(0.2)
Change in net debt resulting from cash flows	(63.4)	70.2
Effect of foreign exchange rate changes	(1.0)	(0.2)
Movement in net debt during the period	(64.4)	70.0
Net cash/(debt) - opening	25.8	(44.2)
Net cash/(debt) - closing	(38.6)	25.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2013

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

BASIS OF PREPARATION

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

Adoption of new and revised standards

In the current year, the following new and revised standards and interpretations have been adopted and affected the amounts reported in these financial statements:

Amendments to IAS 1 *Presentation of financial statements*

The amendments to IAS 1 entitled *Presentation of items of other comprehensive income* have increased the required level of disclosure within the statement of comprehensive income, by separating items that will not be reclassified subsequently to profit or loss from those that could be reclassified. The presentation of items of other comprehensive income has been restated. There is no impact on profit or loss and total comprehensive income.

IAS 19 (Revised) *Employee benefits*

The key impact of IAS 19 (Revised) is the removal of the separate assumptions for expected return on plan assets and discounting of scheme liabilities, replacing them with one single discount rate for the net deficit.

These financial statements are the first in which the Group has adopted IAS 19 (Revised), which has been applied retrospectively. As the Group has always recognised actuarial gains and losses immediately, there is no effect on prior periods' defined benefit obligation and balance sheet disclosure. For the year ended 31 December 2013, the consolidated income statement is £4.1 million lower and the statement of comprehensive income is £4.1 million higher than it would have been prior to the adoption of IAS 19 (Revised), and for the year ended 31 December 2012, the consolidated income statement is £2.5 million lower and the statement of comprehensive income is £2.5 million higher than it would have been prior to the adoption of IAS 19 (Revised). Earnings per share for 2013 and 2012 are 3.1p lower and 1.9p lower, respectively, than they would have been prior to adoption.

The following standards do not materially impact the Group:

IFRS 7 (amended) *Financial instruments: disclosures*
IFRS 13 *Fair value measurement*
IAS 12 (amended) *Deferred tax: recovery of underlying assets*
IFRS 1 (amended) *Government loans*
IAS 36 (amended) *Recoverable amount disclosures for non-financial assets*

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*
IAS 27 (revised) *Separate financial statements*
IAS 28 (revised) *Investments in associates and joint ventures*
IAS 32 (amended) *Offsetting financial assets and financial liabilities*
IFRS 10, IFRS 12 and IAS 27 (amended) *Investment entities*
IFRS 10, IFRS 11 and IFRS 12 (amended) *Consolidated financial statements, Joint arrangements and Disclosure of interests in other entities*
IAS 39 (amended) *Novation of derivatives and continuation of hedge accounting*

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".

Except for IFRS 9 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 £101.3 million (2012: £102.1 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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 50 the directors believe that the Group has adequate resources to continue in operational existence for the foreseeable future.

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

(a) Basis of consolidation

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

Minority interests in the net assets of the consolidated subsidiaries are identified separately from the Group's equity interest therein. Minority interests consist of those interests at the date of the original business combination and the minority's share of the changes in equity since the date of the combination.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

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

(b) Business combinations

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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.

(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	
	2013 £million	2012 £million	2013 £million	2012 £million
Continuing operations				
Provision of services	**1,395.3**	1,292.2	**1,248.8**	1,109.1
Revenue from construction contracts	**1,002.2**	895.7	**759.4**	667.6
Equipment sales and leasing income	**184.4**	181.7	**184.4**	181.7
	2,581.9	2,369.6	**2,192.6**	1,958.4

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 the Middle East.

- **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".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

	Revenue including share of associates and joint ventures		Consolidated revenue		Result	
	2013 £million	2012 £million	2013 £million	2012 £million	2013 £million	2012 £million restated (note 1)
Support Services - UK	1,292.5	1,215.4	1,196.6	1,118.1	56.0	44.3
Support Services - International	100.5	31.3	57.5	-	4.1	3.7
Support Services	1,393.0	1,246.7	1,254.1	1,118.1	60.1	48.0
Construction - UK	802.2	737.2	802.2	737.2	14.7	14.6
Construction - International	215.9	201.6	-	-	13.1	14.3
Construction	1,018.1	938.8	802.2	737.2	27.8	28.9
Equipment Services	169.6	167.5	169.6	167.5	20.1	16.0
Investments	34.5	81.0	-	-	0.8	6.6
Group Services	7.1	-	7.1	-	(22.1)	(21.1)
Inter-segment elimination	(40.4)	(64.4)	(40.4)	(64.4)	-	-
	2,581.9	2,369.6	2,192.6	1,958.4	86.7	78.4
Amortisation of acquired intangible assets					(8.9)	(6.4)
Exceptional items (note 5)					(4.1)	110.9
Total operating profit					73.7	182.9
Investment revenue					3.6	8.4
Finance costs					(9.2)	(11.5)
Profit before tax					68.1	179.8
Tax					(13.1)	(10.6)
Profit for the year					55.0	169.2

	Segment assets		Segment liabilities		Net assets/(liabilities)	
	2013 £million	2012 £million	2013 £million	2012 £million	2013 £million	2012 £million
Support Services - UK	252.7	255.8	(242.2)	(304.3)	10.5	(48.5)
Support Services - International	71.6	25.0	(20.7)	-	50.9	25.0
Support Services	324.3	280.8	(262.9)	(304.3)	61.4	(23.5)
Construction - UK	172.0	165.9	(302.5)	(313.8)	(130.5)	(147.9)
Construction - International	48.7	51.1	-	-	48.7	51.1
Construction	220.7	217.0	(302.5)	(313.8)	(81.8)	(96.8)
Equipment Services	188.9	194.2	(37.2)	(38.7)	151.7	155.5
Investments	20.6	58.8	-	-	20.6	58.8
	754.5	750.8	(602.6)	(656.8)	151.9	94.0
Group Services, goodwill and acquired intangible assets	316.6	278.8	(69.5)	(74.1)	247.1	204.7
	1,071.1	1,029.6	(672.1)	(730.9)	399.0	298.7
Net cash/(debt)					(38.6)	25.8
Net assets (excluding non-controlling interests)					360.4	324.5

	Depreciation and amortisation		Additions to property, plant and equipment and intangible assets	
	2013 £million	2012 £million	2013 £million	2012 £million
Support Services - UK	10.6	7.7	14.0	7.5
Support Services - International	-	0.3	6.7	-
Support Services	10.6	8.0	20.7	7.5
Construction - UK	3.3	2.4	1.6	2.7
Construction - International	0.1	0.1	-	-
Construction	3.4	2.5	1.6	2.7
Equipment Services	19.4	18.8	28.4	24.6
Investments	-	-	-	-
	33.4	29.3	50.7	34.8
Group Services	9.3	6.4	1.6	0.3
	42.7	35.7	52.3	35.1

(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	
	2013 £million	2012 £million	2013 £million	2012 £million	2013 £million	2012 £million restated (note 1)
United Kingdom	2,145.4	2,048.7	2,015.0	1,870.4	73.5	66.1
Rest of Europe	8.1	7.8	8.1	7.8	(2.7)	(3.3)
Middle East & Africa	381.4	296.1	122.5	63.2	25.5	22.3
Australasia	40.0	45.9	40.0	45.9	10.8	12.9
Far East	15.8	14.6	15.8	14.6	2.8	3.4
Americas	24.5	20.9	24.5	20.9	(1.1)	(1.9)
Group Services	7.1	-	7.1	-	(22.1)	(21.1)
Inter-segment elimination	(40.4)	(64.4)	(40.4)	(64.4)	-	-
	2,581.9	2,369.6	2,192.6	1,958.4	86.7	78.4
Amortisation of acquired intangible assets					(8.9)	(6.4)
Exceptional items (note 5)					(4.1)	110.9
					73.7	182.9

Included in consolidated revenue above are revenues of approximately £126 million (2012: £145 million) which arose from sales to the Group's largest contract customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

	Non-current assets 2013 £million	Non-current assets 2012 £million
United Kingdom	**62.7**	34.9
Rest of Europe	**4.7**	6.5
Middle East & Africa	**134.9**	132.8
Australasia	**13.6**	17.0
Far East	**9.5**	9.9
Americas	**20.7**	21.2
Group Services, goodwill and acquired intangible assets	**290.9**	265.5
	537.0	487.8
Deferred tax asset	**21.0**	33.5
	558.0	521.3

4. PROFIT FOR THE YEAR

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

	Notes	2013 £million	2012 £million
Depreciation of property, plant and equipment:			
On owned assets	15	**31.4**	27.2
On assets held under finance leases	15	**0.5**	0.5
Amortisation of capitalised software development	14	**1.9**	1.6
Gain on disposal of plant and equipment - hire fleet		**(13.4)**	(14.1)
Gain on disposal of plant and equipment - other		**-**	(0.2)
Amortisation of acquired intangible assets (subsidiary undertakings)	14	**8.8**	6.0
Amortisation of acquired intangible assets (associated undertakings)	16	**0.1**	0.4
Rentals under operating leases:			
Hire of plant and machinery		**32.0**	26.8
Other lease rentals		**24.0**	21.0
Cost of inventories recognised in cost of sales		**27.9**	32.8
Staff costs	6	**694.6**	624.7
Auditors' remuneration for audit services (see below)		**0.9**	0.9
Loss/(profit) on disposal of property and investments	5	**1.5**	(114.9)
Other exceptional items	5	**2.6**	4.0

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

	2013 £million	2012 £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**	0.7
Total audit fees	**0.9**	0.9
Audit-related assurance services	**0.1**	0.1
Other taxation advisory services	**0.1**	0.1
Total non-audit fees	**0.2**	0.2
Total fees paid to the Company's auditors	**1.1**	1.1

An explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors is set out in the Audit Committee Report on page 75.

5. EXCEPTIONAL ITEMS

	2013 £million	2012 £million
PFI assets transferred as a special contribution to the Interserve Pension Scheme at an agreed valuation in January 2013 (note 16)	55.0	-
Transaction costs	(0.2)	-
Proceeds on disposal of:		
Part of a holding in the University College London Hospitals PFI project in July 2012 (note 16)	-	33.0
A portfolio of PFI investments in October 2012 (note 16)	-	85.5
Other	-	0.8
Disposals (note 16)	(51.2)	(44.8)
Available-for-sale financial assets (joint ventures) and related cash flow hedges recycled from equity	-	40.4
Profit on disposal of PFI assets	3.6	114.9
Write-down of investment in our Indian associate company SSPDL Interserve Private Limited (note 16)	(5.1)	-
(Loss)/profit on disposal of property and investments	(1.5)	114.9
Earnout arrangements on the acquisition of Paragon Management UK Ltd	(0.5)	-
Bonus and share-based payments triggered by the exceptional profits on the disposals of PFI investments above and gains recognised in 2012	(2.1)	(4.0)
Other exceptional items	(2.6)	(4.0)
Exceptional items	(4.1)	110.9

6. STAFF COSTS

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

	2013 Number	2012 Number
Support Services	21,511	18,244
Construction	2,463	2,528
Equipment Services	1,191	1,165
Group Services	218	171
	25,383	22,108

Their aggregate remuneration comprised:

	2013 £million	2012 £million
Wages and salaries	615.4	554.4
Social security costs	47.9	44.4
Share-based payments	7.8	5.7
Other pension costs (see below)	23.5	20.2
	694.6	624.7
Defined benefit scheme current service costs (note 30)	7.4	5.8
Other UK - defined contribution	14.9	13.3
Other overseas - defined contribution	1.2	1.1
Pension costs	23.5	20.2

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 87 to 97 and should be regarded as an integral part of this note.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7. INVESTMENT REVENUE

	2013 £million	2012 £million restated (note 1)
Bank interest	2.8	2.4
Interest income from joint-venture investments	0.6	5.4
Other interest	0.2	0.6
	3.6	8.4

8. FINANCE COSTS

	2013 £million	2012 £million restated (note 1)
Bank loans and overdrafts and other loans repayable	(7.8)	(9.6)
Net interest cost on pension obligations (note 30)	(1.4)	(1.9)
	(9.2)	(11.5)

9. TAX

		2013 £million	2012 £million restated (note 1)
Current tax - UK		2.2	5.7
Current tax - overseas		5.0	4.0
Deferred tax (note 17)		5.9	0.9
Tax charge for the year	A	13.1	10.6
Tax charge before prior period adjustments		14.0	12.9
Prior period adjustments - (credits)/charges		(0.9)	(2.3)
	A	13.1	10.6
Profit before tax			
Subsidiary undertakings' profit before tax	B	52.4	39.9
Profit on disposal of property and investments		(1.5)	114.9
Group share of profit after tax of associates and joint ventures		17.2	25.0
		68.1	179.8
Effective tax, excluding one-offs, on subsidiary profits before tax	A/B	25.0%	26.6%

UK corporation tax is calculated at 23.2% (2012: 24.5%) 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:

	2013		2012	
	£million	%	£million restated (note 1)	%
Profit before tax	68.1		179.8	
Tax at the UK income tax rate of 23.2% (2012: 24.5%)	15.8	23.2%	44.1	24.5%
Tax effect of expenses not deductible in determining taxable profit	0.7	1.0%	1.8	1.0%
Non-taxable exceptional items	0.5	0.7%	(28.2)	(15.7%)
Tax effect of share of results of associates	(4.0)	(5.9%)	(6.2)	(3.4%)
Effect of overseas losses unrelieved	1.0	1.5%	1.4	0.8%
Prior period adjustments	(0.9)	(1.3%)	(2.3)	(1.3%)
Tax charge and effective tax rate for the year	13.1	19.2%	10.6	5.9%

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:

	2013 £million	2012 £million restated (note 1)
Tax on actuarial losses on pension liability	4.3	(16.6)
Impact of change in corporation tax rate on pension liability	3.0	1.1
Tax on fair value adjustment on available-for-sale financial assets	0.2	0.1
Tax on the intrinsic value of share-based payments	(1.5)	(0.7)
Total	6.0	(16.1)

10. DIVIDENDS

	Dividend per share pence	2013 £million	2012 £million
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
Final dividend for the year ended 31 December 2012	14.1	17.6	-
Interim dividend for the year ended 31 December 2013	6.8	8.6	-
Amount recognised as distribution to equity holders in the period		26.2	24.4

Proposed final dividend for the year ended 31 December 2013	14.7	19.0

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

	2013 £million	2012 £million restated (note 1)
Net profit attributable to equity holders of the parent (for basic and diluted basic earnings per share)	50.2	164.5
Adjustments:		
Exceptional items	4.1	(110.9)
Amortisation of acquired intangible assets	8.9	6.4
Tax effect of above adjustments	(1.9)	(2.7)
Headline earnings (for headline and diluted headline earnings per share)	61.3	57.3

Number of shares

	2013 Number	2012 Number
Weighted average number of ordinary shares for the purposes of basic and headline earnings per share	128,386,396	126,563,696
Effect of dilutive potential ordinary shares:		
Share options and awards	3,154,762	2,607,511
Weighted average number of ordinary shares for the purposes of diluted basic and diluted headline earnings per share	131,541,158	129,171,207

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

11. EARNINGS PER SHARE (CONTINUED)

Earnings per share

	2013 pence	2012 pence restsated (note 1)
Basic earnings per share	39.1	130.0
Diluted basic earnings per share	38.2	127.4
Headline earnings per share	47.7	45.3
Diluted headline earnings per share	46.6	44.4

12. ACQUISITIONS

The Group made the following acquisitions in the year:

On 7 January 2013, the Group acquired 100% of the share capital of Willbros Middle East Limited (now renamed "Interserve Engineering & Construction Ltd"), which owns 85% of two oil and gas services businesses, the foremost of which is The Oman Construction Company LLC ("TOCO"). The acquisition expands Interserve's service offering in Oman. The total consideration was £25.7 million.

On 23 May 2013, the Group acquired 100% of the share capital of Paragon Management UK Ltd ("Paragon"), a specialist interiors and property refurbishment business, to expand Interserve's interior fit-out proposition in London. The total consideration was £3.0 million.

On 17 September 2013, the Group acquired 100% of the share capital of Topaz Oil and Gas Limited and its various subsidiaries (together "Topaz", now known as Adyard), which provide oilfield maintenance, fabrication and construction services, and further expands our operational footprint in the Middle East oil and gas services market. The total consideration was £27.6 million, of which £2.0 million was paid after the year end.

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

Assets acquired	TOCO £million	Paragon £million	Topaz £million	Total £million
Property, plant and equipment	0.5	0.1	9.2	9.8
Intangible assets	4.9	0.4	4.4	9.7
Cash balances	3.2	1.2	0.8	5.2
Trade and other receivables	10.9	15.1	16.9	42.9
Trade and other payables	(6.6)	(14.1)	(10.8)	(31.5)
Other liabilities	(1.1)	(0.1)	(2.8)	(4.0)
Net assets	11.8	2.6	17.7	32.1
Goodwill	11.8	0.4	9.9	22.1
Less: non-controlling interests	(1.8)	-	-	(1.8)
Consideration	21.8	3.0	27.6	52.4
Net cash outflow on acquisitions	22.5	1.8	24.8	49.1

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 £0.2 million.

Since acquisition on 7 January 2013, TOCO has contributed £43.9 million to revenue and £1.2 million in operating profit, before amortisation of acquired intangible assets. These amounts represent the company's performance in the 12 months to 31 December 2013.

Since acquisition Paragon has contributed to the Group £32.7 million in revenue and £1.2 million in operating profit, before amortisation of acquired intangible assets. In the 12 months to 31 December 2013, the company's revenues were £58.9 million and its operating profit was £1.5 million.

Since acquisition Topaz (now known as Adyard) has contributed to the Group £13.6 million in revenue and £0.3 million in operating profit, before amortisation of acquired intangible assets. In the 12 months to 31 December 2013, the company's revenues were £44.5 million and its operating loss was £2.1 million.

13. GOODWILL

	2013 £million	2012 £million
Cost		
At 1 January	286.3	259.0
Additions (note 12)	22.1	27.3
Exchange movements	(0.4)	-
At 31 December	308.0	286.3
Accumulated impairment		
At 1 January and 31 December	60.0	60.0
Carrying amount		
At 31 December	248.0	226.3

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:

	Construction £million	Support Services £million	Equipment Services £million	Total £million
At 1 January 2012	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
Additions	0.4	21.7	-	22.1
Exchange movements	-	(0.4)	-	(0.4)
At 31 December 2013	11.9	235.2	0.9	248.0

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

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

The rate used to discount the future cash flows is 8.5% (2012: 11.3%) 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%. No impairment in the carrying value of the goodwill in Support Services, Equipment Services or Construction would occur as a result of adopting this sensitivity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

14. OTHER INTANGIBLE ASSETS

		Acquired		
	Computer software £million	Customer relationships £million	Other £million	Total £million
Cost				
At 1 January 2012	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
Acquisitions (note 12)	**-**	**8.0**	**1.7**	**9.7**
Additions	**0.2**	**-**	**-**	**0.2**
Exchange movements	**-**	**(0.2)**	**(0.1)**	**(0.3)**
At 31 December 2013	**8.6**	**75.0**	**3.0**	**86.6**
Accumulated amortisation				
At 1 January 2012	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
Charge for the year	**1.9**	**8.6**	**0.2**	**10.7**
Exchange movements	**-**	**(0.2)**	**-**	**(0.2)**
At 31 December 2013	**6.3**	**40.2**	**1.5**	**48.0**
Carrying amount				
At 31 December 2013	**2.3**	**34.8**	**1.5**	**38.6**
At 31 December 2012	4.0	35.4	0.1	39.5
At 1 January 2012	4.9	17.2	0.1	22.2
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 2012	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
Additions	**2.4**	**29.8**	**19.9**	**52.1**
Acquisition of subsidiaries	**4.5**	**-**	**5.3**	**9.8**
Disposals	**(0.5)**	**(24.0)**	**(5.9)**	**(30.4)**
Exchange differences	**(0.9)**	**(10.7)**	**(3.2)**	**(14.8)**
At 31 December 2013	**23.8**	**219.9**	**91.1**	**334.8**
Accumulated depreciation				
At 1 January 2012	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
Charge for the year	**1.2**	**18.4**	**12.3**	**31.9**
Eliminated on disposals	**(0.4)**	**(19.3)**	**(5.4)**	**(25.1)**
Exchange differences	**(0.6)**	**(5.0)**	**(2.6)**	**(8.2)**
At 31 December 2013	**10.0**	**110.2**	**58.7**	**178.9**
Carrying amount				
At 31 December 2013	**13.8**	**109.7**	**32.4**	**155.9**
At 31 December 2012	8.5	108.7	20.6	137.8
At 1 January 2012	9.8	109.9	20.0	139.7

The carrying amount of the Group's plant and equipment includes an amount of £1.0 million (2012: £1.4 million) in respect of assets held under finance leases. Details of property, plant and equipment held under finance leases are shown in note 25.

(b) Carrying amount of land and buildings

	31 December 2013 £million	31 December 2012 £million
Freehold:		
Land at cost	**2.7**	2.3
Buildings at cost less depreciation	**6.4**	2.7
	9.1	5.0
Leaseholds under 50 years at cost less depreciation	**4.7**	3.5
Total	**13.8**	8.5

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

	31 December 2013 £million	31 December 2012 £million
Committed	**1.8**	0.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 2013				Year ended 31 December 2012			
	Construction £million	Support Services £million	Investments £million	Total £million	Construction £million	Support Services £million	Investments £million	Total £million
Revenues	215.9	138.9	34.5	389.3	201.6	128.6	81.0	411.2
Operating profit	11.0	4.7	1.0	16.7	13.1	5.1	8.8	27.0
Net interest receivable	0.2	-	0.1	0.3	0.5	0.1	0.9	1.5
Taxation	1.2	(0.6)	(0.3)	0.3	0.7	(0.7)	(3.1)	(3.1)
Group share of profit after tax	12.4	4.1	0.8	17.3	14.3	4.5	6.6	25.4
Amortisation of acquired intangible assets	(0.1)	-	-	(0.1)	(0.1)	(0.3)	-	(0.4)
Contribution to total operating profit	12.3	4.1	0.8	17.2	14.2	4.2	6.6	25.0
Dividends	(9.4)	(3.8)	(0.5)	(13.7)	(12.2)	(3.1)	(4.5)	(19.8)
Retained result for the period	2.9	0.3	0.3	3.5	2.0	1.1	2.1	5.2

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

	Year ended 31 December 2013				Year ended 31 December 2012			
	Construction £million	Support Services £million	Investments £million	Total £million	Construction £million	Support Services £million	Investments £million	Total £million
Non-current assets	17.7	13.1	74.4	105.2	25.1	13.2	40.1	78.4
Current assets	167.0	28.2	42.4	237.6	146.5	23.0	15.1	184.6
Current liabilities	(120.2)	(18.8)	(6.5)	(145.5)	(107.7)	(13.4)	(5.5)	(126.6)
Non-current liabilities	(17.0)	(1.3)	(89.5)	(107.8)	(17.6)	(1.1)	(42.1)	(60.8)
	47.5	21.2	20.8	89.5	46.3	21.7	7.6	75.6
Goodwill	1.2	3.5	-	4.7	4.3	3.5	-	7.8
Acquired intangible assets	-	0.3	-	0.3	0.6	0.2	-	0.8
Carrying value of net assets and goodwill	48.7	25.0	20.8	94.5	51.2	25.4	7.6	84.2

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 £34.6 million (2012: £34.8 million), current liabilities £1.8 million (2012: £2.0 million) and liabilities falling due after more than one year £32.5 million (£32.9 million).

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

At 31 December 2013 the Group had a commitment for additional investment in joint-venture entities of £13.5 million (2012: £nil).

(b) Joint ventures

	Shares £million	Loans £million	Share of reserves £million	Total £million
At 1 January 2012	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
Acquisitions and advances	-	**10.6**	-	**10.6**
Fair value adjustment to financial instruments and derivatives	-	-	**2.4**	**2.4**
Share of retained profits	-	-	-	-
At 31 December 2013	-	**17.9**	**2.7**	**20.6**
Assets held for sale				
At 1 January 2012	-	-	-	-
Investments in joint-venture entities	-	51.2	-	51.2
At 31 December 2012	-	51.2	-	51.2
Disposals	-	**(51.2)**	-	**(51.2)**
At 31 December 2013	-	-	-	-

The disposals in the prior year comprised the sale of a net 16.67% interest in the University College London Hospital PFI project ("UCLH") to CFIG Unicorn Holdings SPV LLC, and the sale of minority stakes in two group subsidiaries that together held interests in 19 PFI investments, including UCLH, to the Dalmore Capital Fund. 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 were 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 5 "Exceptional items".

(c) Associated undertakings

	Shares £million	Loans £million	Share of reserves £million	Total £million
At 1 January 2012	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
Write-down of investment	**(4.8)**	**(0.5)**	**0.2**	**(5.1)**
Share of retained profits net of amortisation	-	-	**3.5**	**3.5**
Exchange differences	-	-	**(1.1)**	**(1.1)**
At 31 December 2013	**5.9**	**8.9**	**59.1**	**73.9**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 2012	18.2	(4.1)	2.4	0.4	6.5	23.4
(Charge)/credit to income (restated – note 1)	(10.1)	1.7	0.9	5.6	1.0	(0.9)
Acquisition of subsidiaries	–	(5.6)	(0.1)	–	0.6	(5.1)
(Charge)/credit to equity (restated – note 1)	15.5	–	–	–	0.6	16.1
Exchange differences	–	–	–	–	–	–
At 31 December 2012	23.6	(8.0)	3.2	6.0	8.7	33.5
(Charge)/credit to income	**(6.0)**	**2.5**	**1.4**	**(3.9)**	**0.1**	**(5.9)**
Acquisition of subsidiaries	**–**	**(0.7)**	**–**	**–**	**–**	**(0.7)**
(Charge)/credit to equity	**(7.3)**	**–**	**–**	**–**	**1.3**	**(6.0)**
Exchange differences	**–**	**–**	**0.4**	**–**	**(0.3)**	**0.1**
At 31 December 2013	**10.3**	**(6.2)**	**5.0**	**2.1**	**9.8**	**21.0**

Included in the movements in the year ended 31 December 2013 are amounts reflecting the change in corporation tax that was enacted during the year, amounting to £3.0 million charged to equity and £0.4 million charged to the income statement.

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

	31 December 2013 £million	31 December 2012 £million
Deferred tax liabilities	**(6.2)**	(8.0)
Deferred tax assets	**27.2**	41.5
	21.0	33.5

No deferred tax asset has been recognised in respect of certain unused tax losses available for offset against future profits due to the unpredictability of future profit streams in those businesses. The accumulated tax value of these losses is £8.3 million (2012: £8.1 million) on gross losses of £41.4 million (2012: £35.4 million).

18. INVENTORIES

	31 December 2013 £million	31 December 2012 £million	31 December 2011 £million
Goods held for resale	**27.5**	24.0	21.4
Materials	**3.2**	0.6	0.8
	30.7	24.6	22.2

19. CONSTRUCTION CONTRACTS

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

	31 December 2013 £million	31 December 2012 £million	31 December 2011 £million
Amounts due from contract customers included in trade and other receivables	**58.2**	50.9	32.0
Amounts due to contract customers included in trade and other payables	**(35.2)**	(20.6)	(25.9)
	23.0	30.3	6.1

Contract costs incurred plus recognised profits less recognised losses to date	**4,938.6**	4,698.0	4,456.8
Less: progress billings	**(4,915.6)**	(4,667.7)	(4,450.7)
	23.0	30.3	6.1

At 31 December 2013, retentions held by customers for contract work amounted to £32.6 million (2012: £26.0 million) of which £7.0 million (2012: £4.5 million) is receivable after one year. Advances received were £35.2 million (2012: £20.6 million) of which £nil is repayable after one year (2012: £nil).

20. TRADE AND OTHER RECEIVABLES

	31 December 2013 £million	31 December 2012 £million	31 December 2011 £million
Amounts recoverable from the sale of goods and services	290.8	270.1	261.3
Allowances for doubtful debts	(41.8)	(30.5)	(33.8)
	249.0	239.6	227.5
Amounts due from construction contract customers	58.2	50.9	32.0
Retentions	32.6	26.0	23.3
Other receivables	20.1	12.4	8.2
Prepayments and accrued income	126.2	103.1	89.1
	486.1	432.0	380.1

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

	31 December 2013 £million	31 December 2012 £million	31 December 2011 £million
Retentions	7.0	4.5	3.6

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 35 days (2012: 37 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 2013 £million	31 December 2012 £million	31 December 2011 £million
Not more than one month past due	30.8	36.0	26.8
Between one and three months past due	16.6	14.3	14.7
Between three and six months past due	14.9	16.6	14.0
Greater than six months	6.3	10.4	9.7
Total past due but not impaired	68.6	77.3	65.2
Not past due	180.4	162.3	162.3
Total net receivables	249.0	239.6	227.5

The average age of the receivables past due but not impaired is 75 days (2012: 83 days).

Movement in allowance for doubtful debt is as follows:

	2013 £million	2012 £million
Balance at 1 January	30.5	33.8
Acquisition of new subsidiaries	1.2	-
Amounts written off as uncollectable	(9.7)	(13.7)
Impairment losses recognised in the year	25.3	19.3
Amounts recovered during the year	(3.8)	(8.2)
Exchange differences	(1.7)	(0.7)
Balance at 31 December	41.8	30.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 2013 £million	31 December 2012 £million	31 December 2011 £million
Cash and deposits	79.7	76.8	46.1
Bank overdrafts	(27.4)	(19.8)	(19.3)
Bank loans	(90.0)	(30.0)	(70.0)
	(117.4)	(49.8)	(89.3)
Finance leases (note 25)	(0.9)	(1.2)	(1.0)
Total borrowings	(118.3)	(51.0)	(90.3)
Net cash/(debt)	(38.6)	25.8	(44.2)

Included within cash and deposits is £21.8 million (2012: £31.0 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 2013 £million	31 December 2012 £million	31 December 2011 £million
On demand or within one year	27.7	20.3	19.8
In the second year	0.3	0.3	70.3
In the third to fifth years inclusive	90.3	30.4	0.2
	118.3	51.0	90.3
Less: Amount due for settlement within 12 months	(27.7)	(20.3)	(19.8)
Amount due for settlement after 12 months	90.6	30.7	70.5

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

	31 December 2013 £million	31 December 2012 £million	31 December 2011 £million
Drawn facilities	90.0	30.0	70.0
Undrawn facilities within one to two years	-	-	180.0
Undrawn facilities within more than two years but not more than five years remaining	160.0	215.0	-
Total facilities	250.0	245.0	250.0

During February 2012 the Group entered into a series of committed bank facilities of £245 million. In 2013, the Group has marginally increased its facilities, leaving it with a combined total facility of £250 million, maturing in 2016 and 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 £0.1 million and is all due for payment within one year (2012: £0.4 million within one year).

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 2013 £million	31 December 2012 £million
Loans and receivables		
Cash and deposits	79.7	76.8
Trade and other receivables (excluding construction contracts, prepaid and accrued income)	269.1	252.0
Total financial assets	348.8	328.8

	31 December 2013			31 December 2012		
	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	118.3	-	118.3	51.0	-	51.0
Trade and other payables (excluding construction contracts, accruals, deferred income and other tax and social security)	297.8	-	297.8	253.4	-	253.4
Interest rate hedge (non-PFI investments)	-	0.3	0.3	-	1.2	1.2
Total financial liabilities	416.1	0.3	416.4	304.4	1.2	305.6

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 13:

- 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 13:

	31 December 2013 £million	31 December 2012 £million
Level 2	(0.3)	(1.2)

Derivatives used for hedging financial liabilities are considered to be within the grouping referred to as "Level 2". Their fair values are calculated based on the valuation models operated by the relevant counterparty bank, based on market interest rates in force on the date of valuation.

No financial instruments have been transferred between Levels during the year.

Exposure to credit risk on liquid funds and derivative financial instruments is managed by the Group's requirement to trade with counterparties with strong credit ratings as determined by international credit rating agencies. The transactional banking requirements are met by local banks in each location with significant cash balances being remitted to Group treasury where short-term cash surpluses or cash not available for use by the Group is deposited with investment grade rated banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Currency exposures

Where material trade is transacted in non-local currency, the Company hedges the currency exposure and ordinarily this will be achieved with forward contracts.

Analysis of financial assets, by currency:

	31 December 2013				31 December 2012			
	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	50.6	-	203.5	254.1	59.7	-	196.7	256.4
US dollar	7.1	-	20.6	27.7	1.1	-	4.5	5.6
Euro	10.8	-	1.2	12.0	6.7	-	2.4	9.1
Australian dollar	2.1	-	7.7	9.8	2.1	-	8.8	10.9
Dirham	0.9	-	11.5	12.4	0.6	-	18.7	19.3
Other	8.2	-	24.6	32.8	6.6	-	20.9	27.5
	79.7	-	269.1	348.8	76.8	-	252.0	328.8

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

	31 December 2013				31 December 2012			
	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	85.1	30.9	265.3	381.3	16.3	31.2	238.4	285.9
US dollar	-	-	17.2	17.2	-	-	0.7	0.7
Euro	-	-	1.1	1.1	-	-	1.7	1.7
Australian dollar	-	-	1.3	1.3	-	-	1.1	1.1
Dirham	1.2	-	10.6	11.8	3.1	-	9.9	13.0
Other	1.1	-	2.3	3.4	0.4	-	1.6	2.0
	87.4	30.9	297.8	416.1	19.8	31.2	253.4	304.4
Weighted average interest rates excluding amortisation of arrangement fees and bank margin	0.5%	1.6%				0.8%	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 2013.

The Group does not hedge anticipated future sales and purchases.

Gains and losses arising on the retranslation of foreign operations' net assets into the consolidation currency are recognised directly in equity. The Group does not hedge these translation differences.

The Group's exposure to fluctuations in exchange rates is shown below where a change in value of foreign currencies against sterling would have the following impact on the results of the Group:

A 1% change in exchange rates results in:	31 December 2013 £million	31 December 2012 £million
Change in profit	0.2	0.2
Change in reserves/net assets	1.4	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 2013				31 December 2012			
		Nominal value £million	Maturity	Strike price		Nominal value £million	Maturity	Strike price
Interest rate swaps	Current	20.0	2015	1.50%	Current	30.0	2013	3.56%
	Current	10.0	2015	1.58%	Deferred	20.0	2015	1.50%
					Deferred	10.0	2015	1.58%

The fair value of interest rate hedges at 31 December 2013 is estimated at (£0.3) million (2012: (£1.2) million). The contracts are designated as cash flow hedges and to the extent that the hedges are effective hedges, changes in their fair value are recognised directly in equity. The fair values of the hedge instruments are calculated using computer valuation models operated by counterparty banks. No charges have gone through the income statement in the year (2012: £nil) in respect of changes in the fair value of the hedges. A gain of £0.8 million (2012: loss of £0.1 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 2013 £million	31 December 2012 £million
A 1% change in exchange rates results in:		
Change in profit	0.9	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 take on at serviceable 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 2013 £million	31 December 2012 £million	31 December 2011 £million
Obligations under finance leases (note 25)	0.3	0.5	0.5
Trade payables	252.5	214.0	191.5
Advances received	35.2	20.6	25.9
Other taxation and social security	37.3	33.8	30.4
Other payables	31.5	34.9	30.8
Accruals and deferred income	235.5	251.7	213.6
	592.3	555.5	492.7

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

	31 December 2013 £million	31 December 2012 £million	31 December 2011 £million
Obligations under finance leases (note 25)	0.6	0.7	0.5
Trade payables	0.4	0.6	0.3
Other payables	12.5	11.9	12.5
	13.5	13.2	13.3

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

The average credit period taken for trade purchases is 61 days (2012: 63 days).

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

	31 December 2013 £million	31 December 2012 £million	31 December 2011 £million
Less than one year	321.3	282.7	252.7
Between one and two years	12.9	12.5	12.8
	334.2	295.2	265.5

25. OBLIGATIONS UNDER FINANCE AND OPERATING LEASES

(a) Finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2013 £million	2012 £million	2013 £million	2012 £million
Amounts payable under finance leases:				
Within one year	0.3	0.5	0.3	0.5
In the second to fifth years inclusive	0.7	0.8	0.6	0.7
	1.0	1.3	0.9	1.2
Less: future finance charges	(0.1)	(0.1)	n/a	n/a
Present value of lease obligations	0.9	1.2	0.9	1.2

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 2013, the average effective borrowing rate was 3.2% (2012: 3.3%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All finance lease obligations are denominated in sterling.

The carrying amount of the Group's finance lease obligations approximate their fair value.

The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

(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:

	31 December 2013			31 December 2012		
	Land and buildings £million	Other £million	Total £million	Land and buildings £million	Other £million	Total £million
Within one year	12.9	10.6	23.5	12.5	9.4	21.9
In the second to fifth years inclusive	27.7	12.9	40.6	28.8	13.8	42.6
After five years	12.6	0.3	12.9	14.7	0.1	14.8
	53.2	23.8	77.0	56.0	23.3	79.3

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26. PROVISIONS

	Contract provisions £million	Other £million	Total £million
At 1 January 2012	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
Additional provision in the year	**10.3**	**2.8**	**13.1**
Acquisitions (note 12)	**-**	**3.3**	**3.3**
Release	**(10.8)**	**(0.1)**	**(10.9)**
Utilisation of provision	**(5.8)**	**(2.5)**	**(8.3)**
Exchange differences	**-**	**(0.5)**	**(0.5)**
At 31 December 2013	**34.2**	**13.8**	**48.0**

	31 December 2013 £million	31 December 2012 £million	31 December 2011 £million
Included in current liabilities	**18.1**	24.2	28.7
Included in non-current liabilities	**29.9**	27.1	26.3
	48.0	51.3	55.0

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.

27. SHARE CAPITAL

	31 December 2013 £million	31 December 2012 £million	31 December 2011 £million
Issued and fully paid:			
129,053,768 ordinary shares of 10p each (2012: 126,846,939 ordinary shares of 10p each)	12.9	12.7	12.6

	Shares thousands	Share capital £million
At 1 January 2012	125,804.4	12.6
Share awards issued in 2012	1,042.5	0.1
At 31 December 2012	126,846.9	12.7
Share awards issued in 2013	2,206.8	0.2
At 31 December 2013	129,053.7	12.9

Awards were granted during the year as indicated below. Exercise and vesting details are stated in the Directors' Remuneration Report on pages 90 to 94. Outstanding options and awards over shares in the Company at 31 December 2013 were as follows:

			31 December 2013		31 December 2012	
	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						
	23 April 2003	205.83p	-	-	1	133,333
	26 May 2004	253.25p	3	71,000	8	240,000
	9 December 2004	324.00p	-	-	1	50,000
	14 March 2005	359.33p	10	375,744	21	681,394
				446,744		1,104,727
(b) Performance Share Plan						
	19 April 2010	Nil	-	-	57	1,576,702
	27 April 2010	Nil	-	-	1	10,386
	20 April 2011	Nil	59	1,957,437	61	1,982,454
	11 April 2012	Nil	100	2,547,448	102	2,570,881
	9 April 2013	Nil	100	1,541,431	-	-
				6,046,316		6,140,423
(c) Sharesave Scheme	7 August 2009	152.50p	-	-	145	81,396
	14 May 2010	214.50p	5	2,030	754	312,308
	15 April 2011	231.00p	717	273,468	816	310,284
	5 April 2012	238.00p	1,088	399,058	1,235	451,925
	4 April 2013	398.00p	1,572	345,945	-	-
				1,020,501		1,155,913

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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	
	2013 £million	2012 £million	2013 £million	2012 £million
Associated undertakings' borrowings	13.6	16.1	0.3	0.2
Joint venture and associated undertakings' bonds and guarantees	177.0	185.2	102.0	101.9
	190.6	201.3	102.3	102.1

29. SHARE-BASED PAYMENTS

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

	2013 £million	2012 £million
Performance Share Plan	5.4	4.1
Sharesave Scheme	0.1	0.2
Total charge	5.5	4.3
Cash settled	0.6	1.1
Equity settled	4.9	3.2
Total charge	5.5	4.3

(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.

	2013		2012	
	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
Lapsed during the period	-	-	(21,180)	5.67
Outstanding and exercisable at the end of the period	-	-	-	-
Options granted since 7 November 2002:				
Outstanding at beginning of period	1,104,727	3.16	1,247,056	3.20
Exercised during the period	(642,429)	2.97	(112,710)	3.59
Lapsed during the period	(15,554)	3.59	(29,619)	3.06
Outstanding and exercisable at the end of the period	446,744	3.42	1,104,727	3.16

The average share price during the year was £5.29. 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 1.1 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.

(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 page 92. Awards are normally forfeited if the employee leaves the Group before the awards vest.

	2013 Awards number	2012 Awards number
Outstanding at beginning of period	6,140,423	5,542,655
Granted during the period	1,546,315	2,578,537
Vested during the period	(1,564,400)	(929,883)
Lapsed during the period	(76,022)	(1,050,886)
Outstanding at the end of the period	6,046,316	6,140,423
Exercisable at the end of the period	-	-

The remaining weighted average contractual life is 1.5 years (2012: 1.5 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

29. SHARE-BASED PAYMENTS (CONTINUED)

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:

	2013 grants	2012 grants	2011 grants	2010 grants
Weighted average share price	466.1p	275.8p	261.0p	236.5p
Weighted average exercise price	0p	0p	0p	0p
Expected volatility	26.4%	33.0%	49.0%	48.5%
Expected life	3 years	3 years	3 years	3 years
Risk-free rate	0.3%	0.5%	1.6%	1.8%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Average fair value of award per share	348.6p	220.0p	231.9p	195.7p

(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 and 2013 grants 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 previous years used a 10% discount.

	2013		2012	
	Options number	Weighted average exercise price £	Options number	Weighted average exercise price £
Outstanding at beginning of period	1,155,913	2.24	1,471,717	1.86
Granted during the period	363,839	3.98	466,815	2.38
Exercised during the period	(344,377)	2.08	(665,181)	1.53
Lapsed during the period	(154,874)	2.29	(117,438)	2.00
Outstanding at the end of the period	1,020,501	2.90	1,155,913	2.24
Exercisable at the end of the period	2,030	2.14	81,396	1.53

The outstanding options at the end of the period had a weighted average exercise price of £2.90 (2012: £2.24) and had a remaining weighted average contractual life of 1.5 years (2012: 1.5 years).

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

	2013 grants	2012 grants	2011 grants
Share price at date of grant	469.5p	276.4p	260.5p
Exercise price	398.0p	238.0p	231.0p
Expected volatility	27.2%	32.4%	27.4%
Expected life	3 years	3 years	3 years
Risk-free rate	0.9%	1.3%	1.7%
Expected dividend yield	6.3%	7.6%	8.1%
Fair value of award per share	72.5p	45.5p	32.5p

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.

30. DEFINED BENEFIT RETIREMENT SCHEMES

The principal pension schemes within the Group have been valued for the purposes of IAS 19 (Revised) *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 (Revised) in order to assess the liabilities of the various schemes as at 31 December 2013.

Actuarial gains and losses are recognised in full in the period in which they occur. As permitted by IAS 19 (Revised), 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 Group contributes to various defined benefit pension schemes in the UK and overseas. By far the most significant arrangement is the Interserve Pension Scheme in the UK, where benefits are generally related to service and final salary. The Group operates a defined contribution plan for new hires, with membership of the defined benefit arrangements only permitted when specific contract terms require defined benefit provision. Contributions to the defined contribution arrangements are in addition to those set out below and are charged directly to profit and loss.

The current funding target for the Group's defined benefit schemes is to maintain assets equal to the value of the accrued benefits based on projected salaries (where relevant). The regulatory framework in the UK requires the Trustees and Group to agree upon the assumptions underlying the funding target, and then to agree upon the necessary contributions required to recover any deficit at the valuation date. There is a risk to the Group that adverse experience could lead to a requirement for the Group to make considerable contributions to recover any deficit.

The following table sets out the key IAS 19 (Revised) assumptions used to assess the present value of the defined benefit obligation. The assumptions shown are in relation to the Interserve Pension Scheme, which represents 92% of the total defined benefit obligation. The life expectancy assumptions shown relate to the vast majority of the membership of that scheme. Alternative assumptions have been used for the less material arrangements where the specific nature of those schemes deems it appropriate to do so. The weighted average duration of the expected benefit payments for the schemes is around 18 years.

	2013	2012	2011
Significant actuarial assumptions			
Retail price inflation	3.40% pa	3.00% pa	3.10% pa
Discount rate	4.50% pa	4.40% pa	4.80% pa
Post-retirement mortality (expectancy of life in years):			
Male currently aged 65	87.4	87.3	86.0
Female currently aged 65	89.4	89.3	87.9
Male aged 65 in 20 years' time	89.2	89.1	87.8
Female aged 65 in 20 years' time	90.9	90.9	89.1
Other related actuarial assumptions			
Consumer price index	2.40% pa	2.30% pa	2.10% pa
Pension increases in payment:			
LPI/RPI	3.30%/3.40% pa	2.90%/3.00% pa	3.00%/3.10% pa
Fixed 5%	5.00% pa	5.00% pa	5.00% pa
3% or RPI if higher (capped at 5%)	3.70% pa	3.50% pa	3.60% pa
General salary increases	2.40-2.90% pa	2.30-2.80% pa	3.85-4.60% pa

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

30. DEFINED BENEFIT RETIREMENT SCHEMES (CONTINUED)

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

	2013 £million	2012 £million	2011 £million	2010 £million	2009 £million
Present value of defined benefit obligation	**826.9**	799.3	695.0	642.3	627.4
Fair value of schemes' assets	**(819.2)**	(698.2)	(638.8)	(590.8)	(532.1)
Liability recognised in the balance sheet	**7.7**	101.1	56.2	51.5	95.3

The change in the net liabilities recognised in the balance sheet is comprised as follows:

	2013 £million	2012 £million restated (note 1)
Opening net liability	**101.1**	56.2
Expense charges to profit and loss	**10.7**	9.7
Amount recognised outside profit and loss	**(21.3)**	71.8
Employer contributions	**(82.8)**	(36.6)
Closing net liability	**7.7**	101.1

		Indicative change in defined benefit obligation	
	Sensitivity	2013 £million	2012 £million
Sensitivity to significant actuarial assumptions			
Price inflation	+/0.5% pa	**+/-50**	+/-47
Discount rate	+/0.5% pa	**+/-67**	+/-64
Post retirement mortality (expectancy of life in years)	1 year increase	**+25**	+24

The sensitivities shown above reflect only the change in the assessed defined benefit obligation. In practice any movement in assumptions is likely to be accompanied by a partially offsetting change in asset values, and the corresponding overall impact on the net liability is therefore likely to be lower than the amounts above.

The amounts recognised in the income statement are as follows:

	2013 £million	2012 £million restated (note 1)
Employer's part of current service cost	**7.4**	5.8
Administration costs	**1.9**	1.9
Net interest expense	**1.4**	2.0
Total expense recognised in the income statement	**10.7**	9.7

The current service cost and administration costs are included within operating profit. The interest cost is included within financing costs.

The 2012 figures have been restated under IAS 19 (Revised). There has been no impact on the disclosed benefit obligation, fair value of assets or net liabilities. However, the net charge to the income statement has increased by £3.1 million (relative to that previously disclosed for 2012), and the actuarial losses recognised for 2012 have decreased correspondingly by £3.1 million.

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

	31 December 2013		31 December 2012		31 December 2011	
	Current allocation	Fair value £million	Current allocation	Fair value £million	Current allocation	Fair value £million
Equities (quoted)	17%	140.8	17%	115.5	19%	123.3
Alternative investments (primarily unquoted)	14%	114.1	14%	94.6	11%	73.1
Property (unquoted)	3%	25.5	3%	23.5	2%	10.4
Insurance policies (unquoted)	1%	10.1	1%	9.4	0%	-
Government bonds (quoted)	22%	179.6	24%	169.6	29%	184.3
Corporate bonds (quoted)	21%	171.9	25%	175.0	24%	150.6
Infrastructure (unquoted)	15%	122.5	9%	64.5	9%	60.4
Cash and other (primarily unquoted)	7%	54.7	7%	46.1	6%	36.7
Total actuarial gains and (losses) recognised directly in equity in the year	100%	819.2	100%	698.2	100%	638.8

The cash item includes the profit or loss on the Interserve Pension Scheme's investment in equity futures. As a result of this investment the Group has additional exposure to £99.5 million of equity performance as at 31 December 2013 (2012: £79.3 million). Around 81% of the Group's direct equity investments are in relation to UK equities (2012: 79%). Holdings in government bonds are predominantly index-linked. Alternative investments include diversified growth funds, fund of hedge funds and emerging market multi-asset funds (primarily unquoted).

The infrastructure holding is the portfolio of 13 PFI investments transferred by Interserve to the Interserve Pension Scheme at the end of November 2009 and the 19 additional PFI investments transferred in January 2013. The schemes have not directly invested in any of the Group's other financial instruments nor in other assets or properties used by the Group.

A reconciliation of the present value of the defined benefit obligation is as follows:

	2013 £million	2012 £million
Opening defined benefit obligation	799.3	695.0
Employer's part of current service cost	7.4	5.8
Interest cost	34.3	32.8
Contributions by schemes' participants	0.4	0.6
Actuarial loss/(gain) due to:		
Changes in financial assumptions	11.2	48.1
Changes in demographic assumptions	6.9	27.2
Experience on defined benefit obligations	1.2	17.3
Benefits paid	(34.0)	(27.5)
Bulk transfers	0.2	-
Closing defined benefit obligation	826.9	799.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

30. DEFINED BENEFIT RETIREMENT SCHEMES (CONTINUED)

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

	2013 £million	2012 £million restated (note 1)
Opening fair value of the schemes' assets	698.2	638.8
Interest on schemes' assets	32.9	30.8
Actual return on schemes' assets less interest on schemes' assets	40.6	20.8
Contributions by the employer	82.8	36.6
Contributions by schemes' participants	0.4	0.6
Benefits paid	(34.0)	(27.5)
Administration costs	(1.9)	(1.9)
Bulk transfers	0.2	-
Closing fair value of the schemes' assets	819.2	698.2

Based on current contribution rates and payroll, the Group expects to contribute £28.6 million to the various defined benefit arrangements during 2014. This includes deficit contributions of £12.5 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 and services		Amounts due from related parties		Amounts owed to related parties	
	2013 £million	2012 £million	2013 £million	2012 £million	2013 £million	2012 £million	2013 £million	2012 £million
Joint-venture entities	1.2	229.7	-	-	0.1	21.2	-	-
Associates	127.6	145.5	1.0	0.9	32.2	21.4	16.2	-

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 (2012: £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 87 to 97.

32. INVESTMENTS IN JOINT VENTURES – ARRANGEMENTS

The composition of investment in joint ventures can be summarised as follows:

(a) PFI/PPP arrangement that have reached financial close at 31 December 2013 include:

	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	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
Health										
Alder Hey Hospital	yes	yes	100	construction	Q2 2013	mid 2015	2045	20	3.3	200.0
									10.6	

Invested to date	
Shares	-
Loans	7.3
Remaining commitment	3.3
	10.6

Interserve's share of the capital commitments of the joint ventures above amounts to £26.4 million (2012: £42.1 million).

(b) Non-PFI/PPP arrangements:

		Share of equity/ sub-debt	
Contract	Description	%	£million
Haymarket	Property development venture in central Edinburgh	50/100	20.8
Jobfit	Providing employment-related support services to the Department for Work and Pensions	49/n/a	-
			20.8

Invested to date	
Shares	-
Loans	10.6
Remaining commitment	10.2
	20.8

Interserve's share of the capital commitments of the joint ventures above amounts to £7.9 million (2012: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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

	2013 £million	2012 £million restated (note 1)	2011 £million restated (note 1)
Profit before tax	**68.1**	179.8	61.6
Adjusted for:			
Amortisation of acquired intangible assets	**8.8**	6.0	5.2
Share of associates amortisation of acquired intangible assets	**0.1**	0.4	0.5
Exceptional items	**4.1**	(110.9)	-
Headline pre-tax profit	**81.1**	75.3	67.3

(b) Operating cash flow

	2013 £million	2012 £million restated (note 1)	2011 £million restated (note 1)
Cash generated by operations	**43.2**	33.7	48.1
Adjusted for:			
Pension contributions in excess of income statement charge	**18.5**	28.8	24.5
Proceeds on disposal of plant and equipment - non-hire fleet	**0.2**	1.8	0.5
Capital expenditure - non-hire fleet	**(22.1)**	(10.7)	(9.0)
Operating cash flow	**39.8**	53.6	64.1

(c) Free cash flow

	2013 £million	2012 £million restated (note 1)	2011 £million restated (note 1)
Operating cash flow	**39.8**	53.6	64.1
Adjusted for:			
Pension contributions in excess of income statement charge	**(18.5)**	(28.8)	(24.5)
Taxes paid	**(5.7)**	(10.7)	(3.2)
Dividends received from associates and joint ventures	**13.7**	19.8	20.6
Interest received	**3.5**	8.4	4.4
Interest paid	**(7.8)**	(9.6)	(6.7)
Effect of foreign exchange rate change	**(1.0)**	(0.2)	(0.3)
Free cash flow	**24.0**	32.5	54.4

(d) Operating cash conversion

	2013 £million	2012 £million restated (note 1)	2011 £million restated (note 1)
Operating cash flow	**39.8**	53.6	64.1
Operating profit, before exceptional items and amortisation of acquired intangible assets	**69.4**	53.0	43.4
Full-year operating cash conversion	**57.3%**	101.1%	147.7%
Three-year rolling operating cash flow	**157.5**	161.8	220.0
Three-year rolling operating profit, before exceptional items and amortisation of acquired intangible assets	**165.8**	137.6	139.3
Operating cash conversion, three-year rolling average	**95.0%**	117.6%	157.9%

(e) Gross operating cash conversion

	2013 £million	2012 £million restated (note 1)	2011 £million restated (note 1)
Operating cash flow	39.8	53.6	64.1
Dividends received from associates and joint ventures	13.7	19.8	20.6
Gross operating cash flow	53.5	73.4	84.7
Operating profit, before exceptional items and amortisation of acquired intangible assets	69.4	53.0	43.4
Share of results of associates and joint ventures, before exceptional items and amortisation of acquired intangible assets	17.3	25.4	27.9
Total operating profit, before exceptional items and amortisation of acquired intangible assets	86.7	78.4	71.3
Full-year gross operating cash conversion	61.7%	93.6%	118.8%
Three-year rolling gross operating cashflow	211.6	234.3	290.3
Three-year rolling total operating profit before exceptional items and amortisation of acquired intangible assets	236.4	221.9	227.3
Gross operating cash conversion, three-year rolling average	89.5%	105.6%	127.7%

(f) Gross revenue

	2013 £million	2012 £million	2011 £million
Consolidated revenue	2,192.6	1,958.4	1,847.5
Share of revenues of associates and joint ventures	389.3	411.2	472.1
Gross revenue	2,581.9	2,369.6	2,319.6

(g) Operating margins

	2013 £million	2012 £million restated (note 1)	2011 £million restated (note 1)
Total operating profit before exceptional items and amortisation of acquired intangible assets	86.7	78.4	71.3
Gross revenue	2,581.9	2,369.6	2,319.6
Total operating margin	3.4%	3.3%	3.1%

34. EVENTS AFTER THE BALANCE SHEET DATE

On 28 February 2014, the Group announced the proposed acquisition and associated financing, including an equity placing of 9.99% of issued share capital, of Initial Facilities Services for £250 million. The acquisition is conditional upon shareholder approval at a General Meeting for shareholders on 17 March 2014.

COMPANY BALANCE SHEET

at 31 December 2013

	Notes	2013 £million	2012 £million
Fixed assets			
Tangible fixed assets	E	3.7	2.8
Interests in associated undertakings	F	2.7	2.7
Investments	G	0.3	-
Investments in subsidiary undertakings	H	463.9	463.9
		470.6	469.4
Current assets			
Debtors:			
Due within one year	I	127.1	107.2
Due after one year	I	5.8	4.3
Cash at bank and in hand		23.7	8.0
		156.6	119.5
Creditors: amounts falling due within one year			
Bank overdrafts and loans		(136.3)	(113.6)
Trade creditors		(0.3)	(0.4)
Other creditors	J	(95.4)	(73.6)
Short-term provisions	K	(0.1)	(0.1)
		(232.1)	(187.7)
Net current liabilities		(75.5)	(68.2)
Total assets less current liabilities		395.1	401.2
Creditors: amounts falling due after more than one year			
Other creditors	L	(6.5)	(6.5)
Long-term provisions	K	-	(0.1)
Net assets		388.6	394.6
Capital and reserves			
Called-up share capital	N	12.9	12.7
Share premium account	O	115.0	113.1
Capital redemption reserve	O	0.1	0.1
Acquisition reserve	O	108.5	108.5
Profit and loss account	O	152.1	160.2
Shareholders' funds	P	388.6	394.6

These financial statements were approved by the Board of Directors on 28 February 2014.

Signed on behalf of the Board of Directors

A M Ringrose
Director

T P Haywood
Director

Company number: 00088456

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2013

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 £7.7 million for the Company (2012: £101.1 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 CONTINUED

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, 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 2013. 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 2013 contain financial instrument disclosures which comply with FRS 29 *Financial instruments: disclosures*. The Company has therefore 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 2013 of £12.1 million (2012: £42.7 million).

The auditors' remuneration for audit services to the Company was £0.1 million (2012: £0.2 million).

C) EMPLOYEES

The average number of persons employed, being full-time equivalents, by the Company during the year, including directors, was 130 (2012: 91).

The costs incurred in respect of these employees were:

	2013 £million	2012 £million
Wages and salaries	9.4	9.2
Social security costs	0.8	0.7
Share-based payments	3.0	1.8
Pension costs	0.7	0.7
	13.9	12.4

	2013 £million	2012 £million
Share-based payments to employees of the Company	2.8	1.8
Share-based payments to employees of subsidiaries	2.7	2.5
Group share-based payment charge	5.5	4.3
Cash settled	0.6	1.1
Equity settled	4.9	3.2
Group share-based payment charge	5.5	4.3

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 87 to 97 and should be regarded as an integral part of this note.

D) DIVIDENDS

	2013 £million	2012 £million
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2012 of 14.1p (2011: 13.0p) per share	17.9	16.3
Interim dividend for the year ended 31 December 2013 of 6.8p (2012: 6.4p) per share	8.7	8.1
	26.6	24.4
Proposed final dividend for the year ended 31 December 2013 of 14.7p per share	19.0	

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.

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NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

E) TANGIBLE FIXED ASSETS

(a) Movement during the year

	Land and buildings £million	Other £million	Total £million
Cost			
At 1 January 2013	4.4	3.2	7.6
Additions	-	1.7	1.7
At 31 December 2013	4.4	4.9	9.3
Depreciation			
At 1 January 2013	2.1	2.7	4.8
Provided in year	0.1	0.7	0.8
At 31 December 2013	2.2	3.4	5.6
Net book value			
At 31 December 2013	2.2	1.5	3.7
At 31 December 2012	2.3	0.5	2.8

(b) Land and buildings

	2013 £million	2012 £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	1.2	1.3
Total	2.2	2.3

(c) Operating leases

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

	Land and buildings		Other	
	2013 £million	2012 £million	2013 £million	2012 £million
Within one year	0.3	-	0.1	-
Within two to five years	-	0.3	0.1	0.1
After five years	1.1	1.1	-	-
	1.4	1.4	0.2	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

	2013 £million	2012 £million
Investment	2.7	2.7

G) INVESTMENTS

	2013 £million	2012 £million
Bonds	0.3	-

The Company invested £250,000 in Allia bonds during the year ended 31 December 2013.

H) INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	Shares at cost £million
Cost	
At 1 January 2013	484.5
Disposals	(0.7)
At 31 December 2013	483.8
Provisions	
At 1 January 2013	20.6
Disposals	(0.7)
At 31 December 2013	19.9
Net book value	
At 31 December 2013	463.9
At 31 December 2012	463.9

Details of principal group undertakings are given on pages 158 to 163, which form part of these financial statements.

The Company liquidated Tilbury Douglas Developments Ltd, Kwikshor Ltd and Portal Developments Ltd on 9 April 2013, and R M Douglas (Asphalt & Paving) Ltd on 19 June 2013.

I) DEBTORS

	2013 £million	2012 £million
Amounts falling due within one year:		
Trade debtors	0.1	0.1
Amounts owed by subsidiary undertakings	120.6	101.7
Corporation tax	4.2	3.8
Prepayments and accrued income	2.2	1.6
	127.1	107.2
Amounts falling due after more than one year:		
Deferred taxation (note M)	5.8	4.3
	5.8	4.3

J) OTHER CREDITORS

	2013 £million	2012 £million
Amounts owed to subsidiary undertakings	65.2	46.2
Other creditors	22.0	20.0
Accruals and deferred income	8.2	7.4
	95.4	73.6

K) PROVISIONS

	2013 £million	2012 £million
At 1 January	(0.2)	(0.3)
Provision utilisation	0.1	0.1
At 31 December	(0.1)	(0.2)
Included in current liabilities	(0.1)	(0.1)
Included in non-current liabilities	-	(0.1)

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

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

	2013 £million	2012 £million
Other creditors	6.5	6.5

M) DEFERRED TAXATION ASSET

	2013 £million	2012 £million
Movement in year		
At 1 January	4.3	2.6
Provided in the year	1.5	1.7
At 31 December	5.8	4.3
The source of the balance on deferred tax account is as follows:		
Accelerated capital allowances	-	-
Other timing differences	5.8	4.3
At 31 December	5.8	4.3

N) SHARE CAPITAL

	2013 £million	2012 £million
Allotted and fully paid		
129,053,768 ordinary shares of 10p each (2012: 126,846,939 ordinary shares of 10p each)	12.9	12.7

Awards were granted during the year as indicated in note 27 to the Annual Report and Financial Statements of the Group.

O) RESERVES

	Share premium £million	Capital redemption reserve £million	Acquisition reserve £million	Profit and loss reserve £million	Total £million
At 1 January 2013	113.1	0.1	108.5	160.2	381.9
Profit for the financial year (note B)	-	-	-	12.1	12.1
Shares issued	1.9	-	-	-	1.9
Dividends paid (note D)	-	-	-	(26.6)	(26.6)
Fair value adjustment	-	-	-	0.6	0.6
Investment in own shares	-	-	-	(2.7)	(2.7)
Deferred tax on items taken directly to equity	-	-	-	1.5	1.5
Company shares used to settle share-based payments				0.7	0.7
Share-based payments	-	-	-	6.3	6.3
At 31 December 2013	115.0	0.1	108.5	152.1	375.7

Of the balance of £152.1 million in the profit and loss account at 31 December 2013, £nil (2012: £43.1 million) is considered to be unrealised and is therefore not distributable. A gain of £0.6 million (2012: loss of £0.1 million) was recorded in the profit and loss reserve in respect of changes in the fair value of interest rate hedges.

P) RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	£million
Profit for the financial year attributable to the members of Interserve Plc	12.1
Dividends	(26.6)
	(14.5)
Shares issued	2.1
Share-based payments	6.3
Company shares used to settle share-based payments	0.7
Deferred tax on items taken directly to equity	1.5
Investment in own shares	(2.7)
Fair value adjustments on hedging	0.6
Net decrease to shareholders' funds	(6.0)
Shareholders' funds at 31 December 2012	394.6
Shareholders' funds at 31 December 2013	388.6

Q) CONTINGENT LIABILITIES

At 31 December 2013, 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 2013, these amounted to £2.6 million (2012: £3.1 million). The Company has provided a guarantee to the Interserve Pension Scheme for future contributions due from subsidiary undertakings amounting to £250.0 million (2012: £250.0 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 £11.3 million (2012: £13.7 million) in respect of borrowings and £145.2 million (2012: £144.9 million) in respect of guarantees. At 31 December 2013, £0.3 million (2012: £0.2 million) had been utilised in borrowings and £89.4 million (2012: £86.1 million) in guarantees.

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

The principal subsidiaries, associated undertakings, jointly-controlled entities and jointly-controlled operations of the Group listed below are those that, in the opinion of the directors, principally affect the figures shown in the financial statements as at 31 December 2013. 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%
Adyard Abu Dhabi LLC	Engineering, fabrication works, marine repairs and other related works for the oil and gas industry, both offshore and onshore	United Arab Emirates	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 International Equipment Ltd	Rental of plant and machinery used in the construction industry	Mauritius	85%
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%

	PRINCIPAL ACTIVITIES	COUNTRY OF INCORPORATION OR REGISTRATION	GROUP HOLDING
MacLellan International Ltd	Facilities management services	England & Wales	100%
The Oman Construction Company LLC	Contract transport services, pipeline construction and general maintenance services to the oil and gas industry	Sultanate of Oman	85%
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%
Paragon Management UK Ltd	Fitting out and refurbishment of offices and other buildings	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 Chile SA	Equipment hire and sales	Chile	100%
RMD Kwikform Holdings Ltd	Holding company	England & Wales	100%
RMD Kwikform Hong Kong Ltd[7]	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 Ltd	Equipment hire and sales	England & Wales	100%
RMD Kwikform Middle East LLC[8]	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 Philippines, Inc[7]	Equipment hire and sales	Philippines	100%
RMD Kwikform Saudi Arabia LLC	Equipment hire	Kingdom of Saudi Arabia	100%
RMD Kwikform (South Africa) (Proprietary) Ltd	Equipment hire and sales	Republic of South Africa	100%
Investments			
Interserve Investments Ltd	Holding company	England & Wales	100%
Interserve Working Futures Ltd	Provision of placement, training and development for jobseekers and employers	England & Wales	100%

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

	PRINCIPAL ACTIVITIES	COUNTRY OF INCORPORATION OR REGISTRATION	GROUP HOLDING
(A) PRINCIPAL SUBSIDIARIES (CONTINUED)			
Group Services			
Interserve Finance Ltd	Group funding entity	England & Wales	100%
Interserve Finance (Switzerland) Sàrl	Intra-group financing company	Switzerland	100%
Interserve Group Holdings Ltd[7]	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%
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 Hussain LLC	Civil engineering, building and maintenance services	United Arab Emirates	1,000 shares of 1,000 UAE Dirhams	49%

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

	PRINCIPAL ACTIVITIES	ADDRESS OF PRINCIPAL PLACE(S) OF BUSINESS	GROUP HOLDING
(C) JOINTLY-CONTROLLED ENTITIES			
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%
Investments			
Addiewell Prison Ltd[2]	Design, build, finance and operation of Addiewell Prison	HMP Addiewell, West Lothian, Scotland	33%
Alder Hey (Special Purpose Vehicle) Ltd	Design, build, finance and operation of a Children's Health Park at Alder Hey Hospital, Liverpool	Alder Hey Hospital, Liverpool, England	20%
Edinburgh Haymarket Developments Ltd	Finance, construction and development of retail, hotel, car parking and office accommodation	Haymarket, Edinburgh, Scotland	50%
Harmondsworth Detention Services Ltd[9]	Design, build and operation of Harmondsworth Immigration Removal Centre	Harmondsworth Immigration Removal Centre, West Drayton, England	49%
Rehab Jobfit LLP	Employment-related support services to the Department for Work and Pensions	Twyford, Reading, England	49%
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%
(D) JOINTLY-CONTROLLED OPERATIONS			
Construction			
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 Shareholding held directly by Interserve Plc.

8 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.

9 Accounting reference date is 31 August.

FIVE-YEAR ANALYSIS

(unaudited)

	2013 £million	2012 £million restated (note1)	2011 £million restated (note1)	2010 £million restated (note1)	2009 £million restated (note1)
Revenue including share of associates and joint ventures					
Support Services - UK	1,292.5	1,215.4	1,069.6	1,098.7	1,051.3
Support Services - International	100.5	31.3	25.9	23.7	19.0
Support Services	1,393.0	1,246.7	1,095.5	1,122.4	1,070.3
Construction - UK	802.2	737.2	731.1	754.3	822.7
Construction - International	215.9	201.6	223.7	239.2	300.1
Construction	1,018.1	938.8	954.8	993.5	1,122.8
Equipment Services	169.6	167.5	154.3	139.9	157.1
Investments	34.5	81.0	160.2	106.6	156.7
Group Services	7.1	-	-	-	-
Inter-segment elimination	(40.4)	(64.4)	(45.2)	(47.0)	(36.2)
	2,581.9	2,369.6	2,319.6	2,315.4	2,470.7
Consolidated revenue					
Support Services - UK	1,196.6	1,118.1	1,007.3	1,024.8	963.2
Support Services - International	57.5	-	-	-	-
Support Services	1,254.1	1,118.1	1,007.3	1,024.8	963.2
Construction - UK	802.2	737.2	731.1	754.3	822.7
Construction - International	-	-	-	-	-
Construction	802.2	737.2	731.1	754.3	822.7
Equipment Services	169.6	167.5	154.3	139.9	157.1
Group Services	7.1	-	-	-	-
Inter-segment elimination	(40.4)	(64.4)	(45.2)	(47.0)	(36.2)
	2,192.6	1,958.4	1,847.5	1,872.0	1,906.8
Headline profit					
Support Services - UK	56.0	44.3	36.4	25.1	21.3
Support Services - International	4.1	3.7	3.6	3.4	2.1
Support Services	60.1	48.0	40.0	28.5	23.4
Construction - UK	14.7	14.6	18.0	24.5	17.0
Construction - International	13.1	14.3	16.6	22.8	22.4
Construction	27.8	28.9	34.6	47.3	39.4
Equipment Services	20.1	16.0	13.6	14.4	35.9
Investments	0.8	6.6	6.0	4.2	4.7
Group Services	(22.1)	(21.1)	(22.9)	(22.2)	(19.6)
Total operating profit	86.7	78.4	71.3	72.2	83.8
Investment revenue	3.6	8.4	5.7	3.8	7.2
Finance costs	(9.2)	(11.5)	(9.7)	(10.8)	(14.6)
Headline profit	81.1	75.3	67.3	65.2	76.4
Earnings per share, pence					
Basic EPS	39.1	130.0	42.7	37.0	53.8
Headline EPS	47.7	45.3	46.1	40.3	48.6
Dividend per share, pence					
Interim	6.8	6.4	6.0	5.6	5.5
Final	14.7	14.1	13.0	12.4	12.0

	2013 £million	2012 £million	2011 £million	2010 £million	2009 £million
Balance sheet					
Intangible assets	286.6	265.8	221.2	228.3	230.8
Property, plant and equipment	155.9	137.8	139.7	149.0	148.8
Interests in joint ventures	20.6	7.6	103.3	60.1	67.4
Interests in associated undertakings	73.9	76.6	77.2	61.7	57.0
Deferred tax asset	21.0	33.5	23.4	16.5	31.4
Non-current assets	558.0	521.3	564.8	515.6	535.4
Assets held for sale	-	51.2	-	-	-
Inventories	30.7	24.6	22.2	19.6	20.1
Trade and other receivables	486.1	432.0	380.1	386.1	355.3
Cash and deposits	79.7	76.8	46.1	67.6	60.9
Bank overdrafts and loans	(27.4)	(19.8)	(19.3)	(35.2)	(11.6)
Trade and other payables	(597.6)	(559.7)	(498.6)	(496.7)	(491.2)
Short-term provisions	(18.1)	(24.2)	(28.7)	(20.2)	(23.1)
Net current liabilities	(46.6)	(19.1)	(98.2)	(78.8)	(89.6)
Bank loans	(90.0)	(30.0)	(70.0)	(85.0)	(85.0)
Trade and other payables	(13.5)	(13.2)	(13.3)	(15.8)	(18.1)
Long-term provisions	(29.9)	(27.1)	(26.3)	(26.9)	(25.7)
Retirement benefit obligation	(7.7)	(101.1)	(56.2)	(51.5)	(95.3)
Non-current liablilites	(141.1)	(171.4)	(165.8)	(179.2)	(224.1)
Net assets	370.3	330.8	300.8	257.6	221.7

	2013 £million	2012 £million	2011 £million	2010 £million	2009 £million
Cash flow					
Operating cash flows before movements in working capital	74.7	39.5	35.6	31.6	(11.6)
Movement in working capital	(19.7)	0.2	9.5	(21.5)	52.6
Changes in hire fleet	(11.8)	(6.0)	3.0	15.1	(3.4)
Taxes paid	(5.7)	(10.7)	(3.2)	(6.3)	(15.7)
Net cash from operating activities	37.5	23.0	44.9	18.9	21.9
Acquisitions and investments	(59.9)	63.0	(19.3)	(32.6)	83.7
Net capital expenditure - non-hire fleet	(21.9)	(8.9)	(8.5)	(5.6)	(27.6)
Dividends from joint ventures and associates	13.7	19.8	20.6	32.1	17.6
Interest received	3.5	8.4	4.4	3.8	7.2
Net cash used in investing activities	(64.6)	82.3	(2.8)	(2.3)	80.9
Interest paid	(7.8)	(9.6)	(6.7)	(6.4)	(5.8)
Dividends paid	(29.1)	(27.0)	(25.5)	(24.8)	(24.5)
Other	0.6	1.5	-	(2.2)	-
Net cash used in financing activities excluding debt	(36.3)	(35.1)	(32.2)	(33.4)	(30.3)
Effect of foreign exchange	(1.0)	(0.2)	(0.3)	0.3	(0.6)
Movement in net debt	(64.4)	70.0	9.6	(16.5)	71.9
Closing net cash/(debt)	(38.6)	25.8	(44.2)	(53.8)	(37.3)

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR 2014

Final results announcement for the year ended 31 December 2013	28 February 2014
Publication of Annual Report and Financial Statements	31 March 2014
Annual General Meeting	13 May 2014
Interim management statement	13 May 2014
Final dividend payable (record date 4 April 2014)	21 May 2014
Half-year results announcement for the six months ended 30 June 2014	6 August 2014
Publication of Half-Year Report	Late August 2014
Interim dividend payable	October 2014
Interim management statement	12 November 2014

SHARE PRICE

As at 31 December 2013	623.00p
Lowest for the year	391.10p
Highest for year	677.00p

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	5	0.12	33,798,356	26.18
Banks, institutions and nominees	1,116	25.88	86,004,670	66.62
Private shareholders	3,191	74.00	9,303,789	7.20
Total as at 28 February 2014	4,312	100.00	129,106,815	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: shareholderenquiries@capita.co.uk
By phone: +44 (0)20 8639 3399 (lines are open 9.00am to 5.30pm, Monday to Friday)
By post: Shareholder Administration, Capita Asset Services, 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 Conduct 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@capita.co.uk 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 Deutsche Bank 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@capita.co.uk.

(e) Buy and sell shares

A quick and easy way to buy and sell shares is provided by Capita Asset 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 Asset Services is a trading name of Capita IRG Trustees Limited which is authorised and regulated by the Financial Conduct 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 Registras 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
CONTINUED

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 Asset Services, 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 28 February 2014, 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.

BEWARE OF SHARE FRAUD

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.

You can find out more information on how share fraud works and how to avoid it on the Financial Conduct Authority website at *www.fca.org.uk/scams*. You can also call the FCA Consumer Helpline on 0800 111 6768.

Details of all share dealing facilities that the Company endorses are detailed above.

Please note that any electronic address provided in this document to communicate with the Company may not be used for any purpose other than that expressly stated.

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ACCRUE FULTON
www.accruefulton.com

REGISTERED OFFICE

Interserve Plc
Interserve House Ruscombe Park Twyford
Reading Berkshire RG10 9JU

T. +44 (0)118 932 0123 **F.** +44 (0)118 932 0206

E. info@interserve.com

www.interserve.com