Interserve

INGENUITY AT WORK

ANNUAL REPORT 2016

STRONG MARKET POSITIONS AND HEALTHY FUTURE WORKLOAD

"2016 was a mixed year for the Group. We delivered a strong cash performance and the majority of our businesses performed well despite political and economic uncertainties, together with the impact of the National Living Wage in the UK. However, the performance of our UK Construction business was disappointing, and we are focusing our efforts on improving and re-shaping this business.

Managing the challenges of exiting from the Energy from Waste sector remains a significant priority. As previously announced, we have increased the exceptional provision for exiting this market and the associated contracts to £160 million. We expect to complete substantially all of the construction and commissioning of the projects during 2017, although our contractual obligations in respect of warranties and the resolution of claims will continue for a period thereafter.

While liquidity available to the Group is adequate, having put in place new banking facilities that expand and extend our debt capacity, the Board has a medium-term objective to reduce our overall indebtedness and enhance liquidity levels further whilst continuing to invest in our core businesses. We have therefore taken the difficult decision to suspend the dividend temporarily.

Despite the increased uncertainty following the UK's EU referendum, our outlook for the current year remains positive. This, together with our strong market positions and healthy future workload, underpins the Board's confidence in our medium-term prospects."

Adrian Ringrose
Chief Executive

FINANCIAL HIGHLIGHTS

REVENUE	(LOSS) BEFORE TAX	HEADLINE TOTAL OPERATING PROFIT*
£3,244.6m	(£94.1m)	£124.2m
HEADLINE PRE-TAX PROFIT*	**FULL-YEAR DIVIDEND**	**HEADLINE EARNINGS PER SHARE***
£106.5m	8.1p	63.3p

* This Annual Report includes a number of non-statutory measures to reflect the impact of non-trading and non-recurring items. See note 32 to the consolidated financial statement for a reconciliation of these measures to their statutory equivalents and note 11 for calculation of earnings per share.

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FOR FURTHER INVESTOR INFORMATION:

www.interserve.com/investors

STRATEGIC HIGHLIGHTS

- Revenue constant at £3.2 billion
- Strong performances from Equipment Services and Construction International and resilience in Support Services UK, offset by weak performance from UK Construction
- Exited Energy from Waste business: exceptional charge of £160 million
- Equipment Services strategic review concluded and updated strategy being implemented
- Strong underlying cash generation, gross operating cash flow of £239.2 million (FY 2015: £54.8 million)
- Strong future workload of £7.6 billion
- Dividend per share 8.1p – no final dividend proposed in order to enhance liquidity levels while continuing to invest in our core businesses
- Key contract wins with both new and existing clients including the Defence Infrastructure Organisation, the Home Office, BBC, JLL, Land Securities, Severn Trent, Meraas (Dubai), SEPCO (Oman) and InterContinental Hotels Group (Qatar)

SUSTAINABILITY ICONS

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

OVERVIEW

Chairman’s statement

GLYN BARKER
CHAIRMAN

RESULTS AND DIVIDEND

Interserve Plc today announced its preliminary results for 2016, the first year under my Chairmanship.

2016 was a challenging year for Interserve. We had solid results in our core businesses, with a strong year for Equipment Services, continued growth in International Construction and further good progress in frontline and support services, backed by an improved cash performance.

This performance was overshadowed by the serious challenges posed by the legacy of our participation in the Energy from Waste (EfW) business and the escalation in the costs of exiting that sector. These contracts have been beset with contractual problems, failures in our supply chain and complex technical issues. We have undertaken a further detailed review of this exited business, including the potential impact of our termination on the Glasgow contract and the insolvency of one of our major subcontractors. As a result, we announced last week that it was necessary to increase the exceptional loss by a further £90 million from that recognised in the 2016 half-year results, giving an aggregate loss of £160 million. In arriving at this position, we have undertaken a detailed and thorough analysis of the situation and made a reasonable, prudent assessment of the potential outcomes. I must stress, however, there remains a range of possible outcomes and it will be some time before we have full visibility of the actual final cost of resolution.

“WE DELIVERED SOLID RESULTS IN OUR CORE BUSINESSES, WITH A STRONG YEAR FOR EQUIPMENT SERVICES, CONTINUED GROWTH IN INTERNATIONAL CONSTRUCTION AND FURTHER GOOD PROGRESS IN UK FRONTLINE SERVICES”

REVENUE

£3,244.6m

I can assure you of three things, however:

- our construction teams will leave no stone unturned to try to ensure that we complete the ongoing EfW contracts as efficiently as possible;
- we have an excellent team of legal and technical experts who will do all that is necessary to protect our position and resolutely pursue our rights in the disputed areas; and
- the overwhelming majority of the Interserve leadership and employees will remain focused on continuing to improve and grow our core businesses by competing effectively in the marketplace and continuing to provide outstanding customer service.

During 2016 we undertook a strategic review of our Equipment Services business, RMD Kwikform (RMDK). We concluded that RMDK is a strong, attractive business with good growth potential. We will continue to invest in this business which is founded on innovation and engineering expertise coupled with the application of world-class design and logistics capability.

We have implemented a greater focus on cash flow during the year and this has become all the more important as the impact of the exited business has been increasingly onerous. In recognition of the exceptional, short-term increased cash demands of the EfW exit we have also successfully secured additional bank facilities of £133 million, which raises our total available facilities and US Private Placement Notes to £640 million.

While liquidity available to the Group is adequate, the Board has a medium-term objective to reduce our overall indebtedness and enhance liquidity levels further whilst continuing to invest in our core businesses. We have therefore taken the difficult decision to suspend the dividend temporarily. I regret this has become necessary, but we took this decision only after examining scrupulously all alternatives. The need to ensure that future dividends are sustainable and covered by operating cash generation and a strong balance sheet is fundamental. Improving the Group's performance and prospects amidst continuing economic uncertainty also requires that we continue to invest and grow the level and flexibility of liquid resources.

BOARD CHANGES

In November we announced that Adrian Ringrose will step down from the Board and leave the Company once a successor has been appointed. Adrian has played a key role in the growth and reshaping of the business during his 13 years as Chief Executive and I would like to thank him for his contribution and for his continued loyalty and dedication to the Company. I am very conscious that our shareholders and our employees are keen to learn the result of our CEO selection process. We have undertaken a comprehensive search and selection process which is now nearing its conclusion and I hope to be in a position to make a further announcement shortly.

I am delighted to welcome Gareth Edwards, who joined the Board on 1 February 2017 as a non-executive director. Gareth has extensive experience as an adviser to Boards and CEOs and considerable commercial and international experience and I am confident he will make an excellent contribution to the Board.

SUSTAINABILITY

We recognise the vital importance of our social and community responsibilities, our employee brand, and our environmental impact. Our commitment to these issues was recognised with the 2016 PLC Award for 'Achievement in Sustainability', and a 3-star rating in Business in the Community's 2016 corporate responsibility index.

The skills agenda is central to Interserve, and we have successfully expanded our work placement, internship and graduate schemes and continue to increase the number of apprenticeship opportunities we provide. We also continue to increase our focus on diversity and inclusivity, evidenced by our achievement of the National Equality Standard accreditation.

The creation of Social Value is a key part of our public-services proposition, reflected in our support of the Buy Social Corporate Challenge, led by Social Enterprise UK and the Cabinet Office, our leadership of the Social Value Summit, and our innovative work with Social Enterprises throughout our business.

OUR PEOPLE

Attracting and retaining the best people is a critical challenge for any organisation, and our strong culture and values are proving to be increasingly effective as shown by a marked improvement in our overall employee engagement. This will always be a work-in-progress, but it is gratifying to move above the peer group average and make such positive progress. On behalf of the Board, I would like to thank all our people for their continued hard work and dedication in what has been an exceptionally tough year.

PROSPECTS

The next 12 months will witness the introduction of a number of further regulatory changes which will add costs to our UK Support Services business. Some, such as the apprenticeship levy, also create business opportunity (in helping other employers deliver their apprenticeship programmes) whereas others, such as increased pension costs and other employment benefits, will take some time to pass on fully to customers. Such changes, together with the broader uncertainties arising from Brexit preparations are challenging, but also create opportunity as clients look to solutions such as outsourcing in order to capture efficiency gains. We are able to seek to achieve productivity gains through continued investment in operational efficiency. We benefit from a large and stable order book (£7.6 billion) and are experiencing encouraging levels of contract bidding opportunities across our core markets, which underpins our expectation of modest volume growth and of stable overall performance in 2017 relative to 2016.

The lower oil price and consolidation and reorganisation among some of the main oil and gas players in the region has led to some contraction in the addressable market for our International Support Services business. This slowdown, the impact of which was witnessed in the second half of 2016, is expected to suppress volumes in 2017. We have been and will continue to take mitigating action on our cost base where possible.

We expect to see continued positive momentum in Equipment Services as we invest further in growth markets, new technologies and products to differentiate our engineering-led customer value proposition. The structural drivers for global infrastructure remain healthy and our proven ability to identify and respond as market demand shifts globally, underpins our confidence in the division's prospects.

In the near term our focus will be on consolidation and on re-establishing the quality of earnings in our continuing UK Construction operations.

Our International Construction business continues to trade well and grow its workload with market conditions remaining generally positive. In the Middle East, our combination of strong customer and partner relationships provides a platform for future growth, as do development plans such as Qatar's 'Vision 2030', the UAE's plans for Expo 2020 and the ongoing need for infrastructure development to keep pace with rapid population growth in the region.

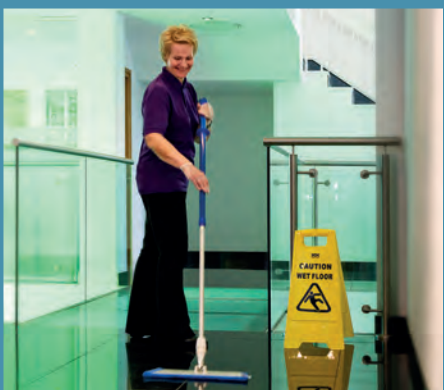
Recognising the different characteristics and prospects of our various markets, as described above, we anticipate overall Group performance in 2017 to be stable compared to 2016.

Glyn Barker

Chairman

28 February 2017

MANAGING FACILITIES ACROSS UK GOVERNMENT DEPARTMENTS



We won a new five-year total facilities management (FM) account with six central government departments worth over £40 million, becoming the first FM provider to provide services to several ministries under one contract.

Known as the 'Affiliate Cluster', the account covers the Cabinet Office, the Department for International Development (DFID), the Food Standards Agency (FSA), the Government Actuary's Department (GAD), the Health and Safety Executive (HSE) and the Office for Standards in Education, Children's Services and Skills (Ofsted).

Under the contract Interserve delivers a broad range of services including security, catering, front-of-house, as well as mechanical and electrical maintenance.

Alongside the new cross-departmental deal, Interserve also has pre-existing partnerships with the Home Office (HO), the Foreign & Commonwealth Office (FCO), the Department for Environment, Food and Rural Affairs (DEFRA) and the Health and Safety Laboratory in Buxton (HSE).

The contract will deliver significant benefits for each department and for the government as a whole. Interserve was chosen because of its ability to deliver a consistent service level across the estate while also achieving cost savings and value for money for the taxpayer.

Strategic Report

STRATEGIC REPORT

Business model

WHAT WE DO

WE ARE A SUCCESSFUL, GROWING, INTERNATIONAL BUSINESS:

A leader in innovative and sustainable outcomes for our clients and a great place to work for our people. We offer construction, equipment services, facilities management and frontline public services. Headquartered in the UK and FTSE listed, we have gross revenues of £3.7 billion and a workforce of circa 80,000 people worldwide.

We are a relationship business.

It is our relationships with our clients and colleagues which underpin our business model and enable us to deliver great service to our clients around the world.

HOW WE DO IT

VISION – REDEFINE THE FUTURE FOR PEOPLE AND PLACES

VALUES – EVERYTHING WE DO IS SHAPED BY OUR CORE VALUES

We listen and encourage openness.

Whatever the task in hand, everybody can and should take pride in a job well done.

We ask questions, think differently, seek solutions and create ideas to support our customers and add value.

We strive to always work in a safe and sustainable way.

EXPERTISE

SUPPLY CHAIN MANAGEMENT

We manage and work with our extensive supply chain to ensure we get the best value from suppliers to meet our clients' needs safely and sustainably. We manage risk by ensuring our supply chain complies with our policies and consider the cost of ownership, quality, service and delivery when selecting our suppliers. We treat our supply chain in a consistent manner from selection to contract agreement and ongoing management.

SYSTEMS AND PROCESSES

Interserve's proven expertise over many years lies in the evolution of systems and processes to maximise impact and manage resources. Through the innovative use of technology and the experience of serving numerous customers, we are constantly looking at ways to enhance process management. Interserve brings ingenuity to work on a daily basis to ensure we can always improve systems and processes in partnership with our customers.

PROJECT MANAGEMENT AND DELIVERY

We use proven programme management tools and draw from our vast experience of delivering complex projects for both public and private-sector organisations. This includes mobilising, transitioning and transforming large-scale contracts across a range of sectors. We recognise the importance of using proven systems to assure our readiness for service commencement, allowing us to deliver the best service possible to our customers.

HOW WE CREATE VALUE

WE CREATE VALUE BY DELIVERING HIGHLY REGARDED PROFESSIONAL SERVICES TO CLIENTS ACROSS THE GLOBE:

INPUTS

Financial*Capital*

Share capital

Borrowings

Cash generated from operations

Social*Capital*

Employees
Suppliers
Customers
Citizens
Communities

Knowledge*Capital*

Skills
Experience
Understanding our customers
Talent
Innovation

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

Ground shoring

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 apprentices, 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.

Our strategy

INTERSERVE HAS A ROBUST STRATEGY TO MEET ITS CORPORATE GOALS AND CAPTURE THE GROWTH OPPORTUNITIES IN OUR MARKETS. THREE KEY THEMES UNDERPIN OUR PLAN FOR DELIVERING ON THIS STRATEGY WHILE MAXIMISING CUSTOMER AND SHAREHOLDER VALUE.

For more information on how we measure and reward strategic progress, please see our Directors' Remuneration Report on pages 60 to 86.

BUILD STRONG CORE BUSINESSES

To maintain and enhance our core businesses

ACHIEVEMENTS IN 2016

- Robust, in-line revenue and headline earnings performance
- Strong gross operating cash flow (£239.2 million in 2016 vs £54.8 million in 2015)
- Updated strategy for our Equipment Services business after concluding a strategic review to maximise value creation for shareholders
- Implemented comprehensive change management plan and new operating model in our justice business

FOCUS FOR 2017

- Continue to leverage scale and increase frontline services capability
- Manage exit from remaining Energy from Waste projects
- Continue to implement actions as part of updated strategy for Equipment Services
- Implement further procedural and organisational changes across UK Construction
- Manage cost and investment risks in volatile oil price environment

OUTCOMES

- CREATE PLACES THAT BENEFIT PEOPLE
- DELIVER PUBLIC SERVICES IN THE PUBLIC INTEREST

EXPAND INTERNATIONALLY

To grow internationally and have the right offering for our customers, who value our products and services

- Diversified operations in Qatar and Oman, winning work in new areas such as the water and power sectors
- Leveraged our extensive UK experience and long-standing customer relationships in the Middle East
- Mobilised first FM contracts in Saudi Arabia

- Continue work to integrate our oil and gas services business across the Middle East to improve the efficiency of our back office and to bid for work on a pan-regional basis
- Control our resources in Qatar ahead of anticipation of activity growth towards the end of 2017
- Leverage our extensive UK experience and long-standing customer relationships in the Middle East to build FM business further in UAE, Qatar and Oman
- Continue to deliver high standards of welfare, training and development for Middle East workforce

CAPTURE RELATED EXPANSION OPPORTUNITIES

To deliver organic growth through a number of incremental initiatives and invest in targeted joint ventures and acquisitions which meet our structural, cultural and financial expectations

- Expanded our operations in the UK justice sector; for example, winning work to provide employment services within prisons
- Equipment Services expanded into the UK ground shoring market, launching new products which complement our existing strengths in falsework and formwork
- Grew our education business in Saudi Arabia, winning contracts to run one new college

- Further expand the range of services we provide to the UK justice sector
- Roll out RMDK's new ground shoring products in new territories and markets
- Grow advisory services to the UK apprenticeship market in response to the introduction of the apprenticeship levy

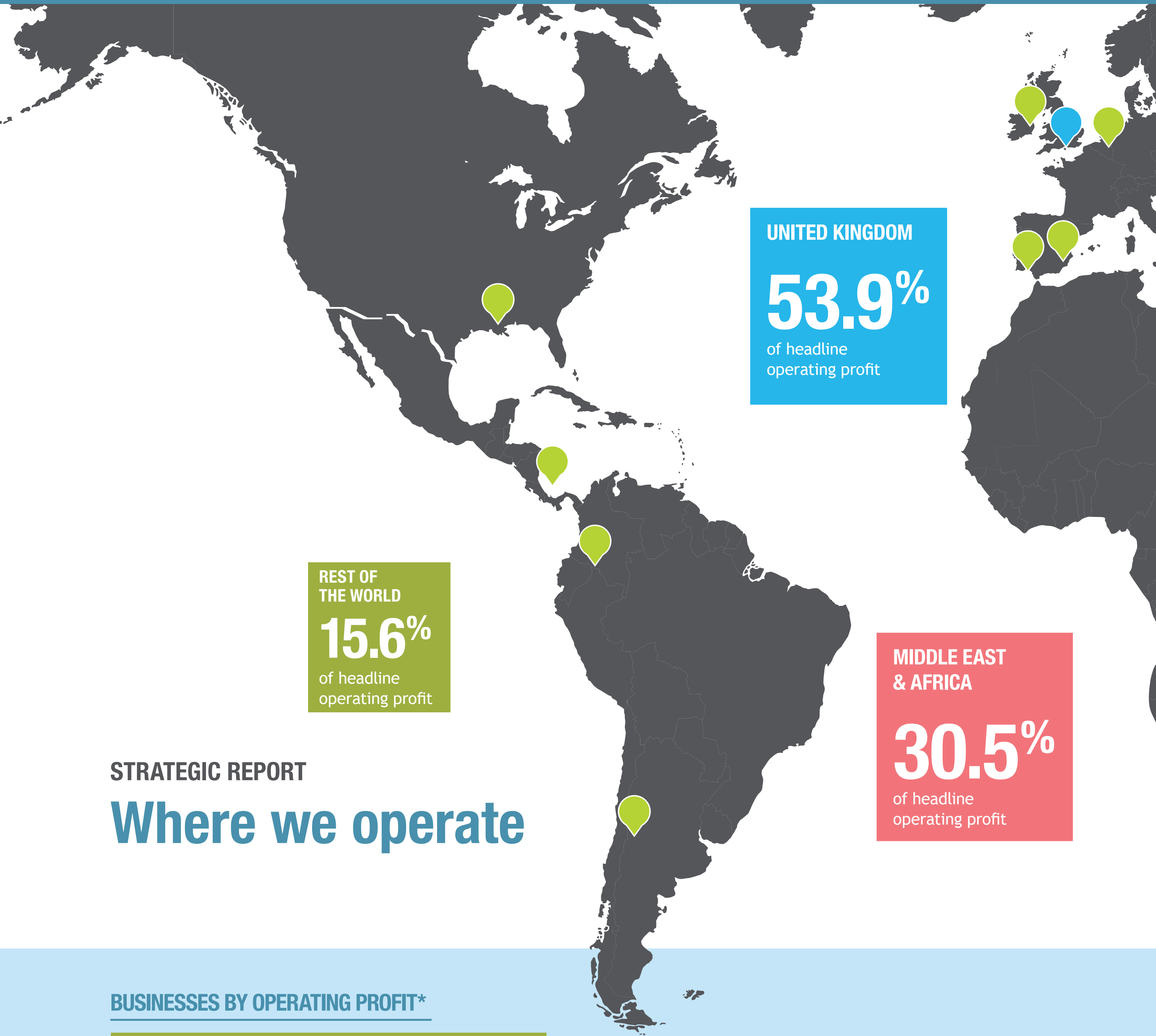
BUILD MORE SKILLS AND MORE OPPORTUNITIES

GENERATE A POSITIVE ENVIRONMENTAL IMPACT

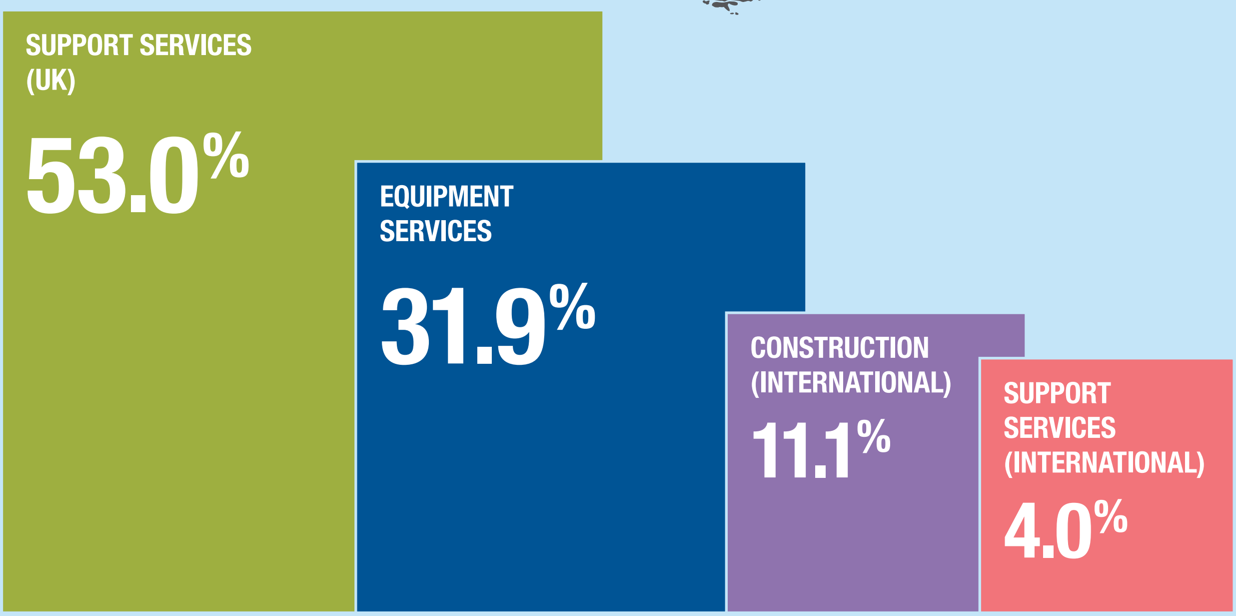
ACHIEVE SUSTAINABLE GROWTH

STRATEGIC REPORT

Where we operate



BUSINESSES BY OPERATING PROFIT*



*Excluding Construction UK and Group Services

WORLDWIDE

233

offi es

SECTORS BY REVENUE

COMMERCE 27.0%

EDUCATION 11.7%

CENTRAL/LOCAL GOVERNMENT 11.1%

INFRASTRUCTURE 10.1%

EXITED BUSINESS 2.6%

INDUSTRY 13.6%

HEALTH 11.1%

JUSTICE 3.4%

DEFENCE 9.4%

STRATEGIC REPORT

Performance

KPIs

We use a scorecard 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.

Financial*Capital*

HEADLINE EARNINGS PER SHARE[1]

2016
63.3p

2015
75.6p

FUTURE WORKLOAD[2]

2016
70%

2015
70%

TARGET
VISIBILITY OVER 70% OF NEXT 12 MONTHS' REVENUE (MARKET CONSENSUS)

GROSS OPERATING CASH CONVERSION, THREE-YEAR ROLLING AVERAGE[3]

2016
84.8%

2015
41.7%

TARGET
100% OVER MEDIUM TERM

Social*Capital*

EMPLOYEE VOLUNTEERING

2016
12.0%

2015
5.0%

TARGET
15% BY 2016

ACCIDENT INCIDENT RATE[4]

2016
128

2015
146

TARGET
HALVE THE RATE BY 2020 FROM A 2010 BASE OF 379

% SUPPLIERS WHERE SUSTAINABILITY CODE OF CONDUCT HAS BEEN APPLIED

2016
52%

2015
47%

TARGET
50% BY 2016

EMPLOYEE ENGAGEMENT INDEX SCORE

2016
75%

2015
68%

[1] See note 11 for calculation of earnings per share.

[2] 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.

[3] See note 32 for a definition of gross operating cash conversion, three-year rolling average.

[4] Accident Incident Rate is based on the number of injuries meeting the RIDDOR reporting requirements per 100,000 workforce and includes associate entities.

[5] Number of apprentices, trainees and graduates on programme.

KnowledgeCapital

APPRENTICES, TRAINEES, GRADUATES[5]

2016
601

2015
477

TARGET
500 BY 2018

WORK PLACEMENTS

2016
2,941

2015
2,178

TARGET
1,000/YEAR

TRAINING DAYS

2016
101,168

2015
131,929

NaturalCapital

Natural Capital			2016 Performance vs. 2013 Absolute	2016 Performance vs. 2013 Relative	Yr on Yr Change 2016 vs. 2015 Absolute	Yr on Yr Change 2016 vs. 2015 Relative
Water consumption (m^3) (relative metric: m^3/£m)[1]	UK		-11.4%	-23.4%	-16.2%	-16.7%
	ROW	20% reduction by 2016[2]	+6.7%	-29.6%	-1.0%	-8.8%
	Total		+6.1%	-14.3%	-1.5%	-4.0%
Construction waste (tonnes) (relative metric: tonnes/£m)[1]	UK		-21.4%	-32.1%	+9.7%	+9.1%
	ROW	25% reduction by 2016[3]	-25.8%	-51.1%	-7.7%	-15.0%
	Total		-25.1%	-39.5%	-4.9%	-7.4%
Total carbon emissions (tonnes CO_2e) (relative metric: tonnes CO_2e/£m)[1]	UK		-11.7%	-23.7%	-8.5%	-9.0%
	ROW	50% reduction by 2020[2]	+4.7%	-30.9%	+8.0%	-0.5%
	Total		+1.2%	-18.2%	+4.5%	+1.8%

[1] £m revenue [2] vs 2013 baseline [3] vs 2014

We recognise the natural environment plays a significant role in the economy and society. Our approach to managing natural capital includes setting ambitious targets to minimise our impacts, focusing on responsible sourcing and improving resources efficiency, and protecting the services the natural environment provides.

The following key environmental issues are addressed through our aim to generate a positive environmental impact as part of our Sustain*Abilities* programme:

- Mitigating climate change through reducing carbon emissions associated with our use of energy, fuel and travel
- Waste management – generation, treatment and disposal
- Water use and scarcity
- Responsible sourcing and efficient use of natural resources

During 2016 we have made considerable progress towards achieving our aim of making a positive contribution through both our own operations and those we undertake on behalf of clients. This includes reducing carbon emissions by 18 per cent (on a relative basis over the last three years) across our operations. This has been driven primarily by a focus on fuel use in our fleet and a focus on energy use across our estate.

Operational review

ADRIAN RINGROSE
CHIEF EXECUTIVE

ACHIEVED 2016 TARGET OF REDUCTION IN CONSTRUCTION WASTE

25%

The Operational Review refers to a number of alternative performance metrics; it is considered these better reflect the underlying performance of the business. See note 32 for the basis of calculation.

SUPPORT SERVICES

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

Results summary	2016	2015	Change
Revenue			
- UK	£1,775.0m	£1,834.4m	-3%
- International[1]	£267.9m	£224.3m	+19%
Contribution to total operating profit	£87.0m	£100.4m	-13%
- UK	£80.8m	£92.2m	-12%
- International[1]	£6.2m	£8.2m	-24%
Operating margin			
- UK	4.6%	5.0%	
- International[2]	2.4%	4.1%	
Future workload[3]			
- UK	£5.7bn	£5.6bn	
- International[1]	£0.2bn	£0.3bn	

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.

3 Future workload comprises forward orders and pipeline. Forward orders are those for which we have secured contracts in place and pipeline covers contracts for which we are in bilateral negotiations and on which final terms are being agreed.

"WE DELIVERED A STRONG CASH PERFORMANCE AND THE MAJORITY OF OUR BUSINESSES PERFORMED WELL DESPITE POLITICAL AND ECONOMIC UNCERTAINTIES"

CUT UK WATER CONSUMPTION YEAR-ON-YEAR BY

16%

UK

Support Services UK delivered a resilient performance, in which we absorbed known cost headwinds and, despite emerging political uncertainties, won £1.9 billion of new work during the period. Revenue decreased by 3 per cent, reflecting the interruption to government procurement around the 2015 General Election which worked its way through our order book during the year. The division's future workload, however, grew slightly to £5.7 billion.

The margin absorbed the substantial rise in the UK National Living Wage (NLW), which came into force from April. On an underlying basis – excluding the impact of the NLW – margins rose by c20 basis points, reflecting improved productivity and a strong operational performance across the division.

The UK Government has been our largest customer for many years, and we continue to be one of its largest suppliers, winning a number of important new contracts during the year. We strengthened our position as one of the Ministry of Defence's largest infrastructure partners during the period, winning a five-year contract worth £230 million with the Defence Infrastructure Organisation to provide facilities services to the United States Air Force's (USAF) UK estate. The addition of this contract means we now manage services at the six USAF main bases in the UK and their associated satellite sites, as well as the National Training Estate, Welbeck Defence Sixth Form College, the Defence Communications Services Agency and the Permanent Joint Overseas Bases (Falklands, Ascension, Cyprus and Gibraltar).

We also won new work and extended existing contracts to provide total facilities management (TFM) services including maintenance, cleaning, catering and security support for the Home Office. The new five-year contract covers more than 200 sites serving key Home Office departments including the College of Policing, HM Passport Office, UK Border Force and UK Visas and Immigration.

We achieved further success by securing a new five-year TFM account worth over £40 million, known as the 'Affiliate Cluster'. The account covers the Cabinet Office, the Department for International Development, the Food Standards Agency, the Government Actuary's Department, the Health and Safety Executive and the Office for Standards in Education, Children's Services and Skills (Ofsted). It is the first time that these six departments' facilities management services will be handled by a single provider. We were also awarded a two-year account extension with the Environment Agency, building on our relationship with the department and our existing partnership with the Department for Environment, Food and Rural Affairs, which allows us to unlock combined operational efficiencies and create further value for both organisations.

Our position as one of the UK's leading providers of facilities services to the retail sector was reinforced by our success in winning contracts during the year at 26 UK shopping centres. Significant amongst these were a three-year, £60 million appointment by JLL to provide services at 18 locations and a £37.5 million contract for services at eight of Land Securities' flagship shopping centres.

More broadly in the commercial sector we won new facilities management contracts with energy group, SSE, and gas distribution company, SGM, as well as beauty group, L'Oreal. Additionally, we secured a two-year extension of our national contract for security services to the BBC worth £20 million. Our significant presence in the transport sector was further strengthened by our success in securing extensions with existing clients, East Midlands Trains and Spain's RENFE Viajeros.

Our sustainability credentials play a large part in our winning of new contracts and retention of existing work. During the year our facilities management team working with law firm CMS Cameron McKenna (where we deliver services including mechanical engineering, security and helpdesk support) won the Platinum Clean City Award for achieving a 10 per cent energy reduction across the client's estate.

We continued to embrace and drive innovation, benefitting our customers and making our services evermore efficient. During the year we supported Sainsbury's in trialling the Intellibot – a hands-free robotic cleaning machine – in its stores and we now also maintain a fleet of robotic transporters that move heavy loads such as laundry and waste around Alder Hey Children's Hospital in Liverpool. As part of our facilities management contract with the University of Sussex, we also used Unmanned Aerial Vehicles (UAVs) to identify potential leaks in the campus' district heating system.

Our frontline public-services business (welfare, skills, healthcare and justice) continues to grow and develop well. In Justice, we implemented our comprehensive change-management plan by introducing a new operating model for the provision of probation and rehabilitation services for low and medium-risk offenders in five areas of England as part of the Ministry of Justice's Transforming Rehabilitation programme. We are the largest provider (by volume) of such contracts, which continue to perform in line with our expectations.

Our healthcare business, which provides nursing care in the home for high-acuity patients, delivered a resilient, profitable performance during the year and is well placed to continue to perform well in 2017.

ACHIEVED TARGET TO DOUBLE THE NUMBERS OF APPRENTICESHIPS, TRAINEES AND GRADUATES ON PROGRAMME TWO YEARS EARLY, INCREASING TO 601 IN 2016 FROM 250 IN 2013

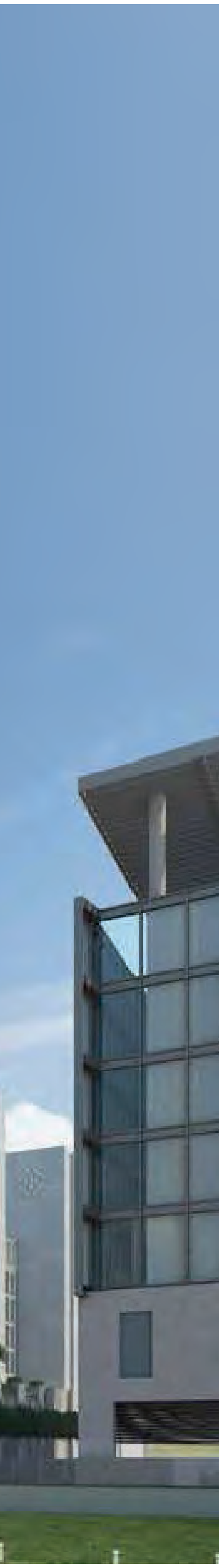
Operational review continued

HELPING BUILD THE NEXT PHASE OF DUBAI'S FINANCIAL DISTRICT

Khansaheb, our construction joint venture in the United Arab Emirates, won a £38 million contract to build a new nine-storey office tower at the Dubai International Financial Centre (DIFC).

The Commercial Office Development (Gate Village 11) will feature five basements, a service floor, a concourse and nine storeys of office space over 27,119 square metres when it is complete in January 2018.

The tower, which Khansaheb started work on in July 2016, is one of the latest developments at DIFC, which is the financial hub for the Middle East, Africa and South Asia. More than 1,200 active registered companies operate within DIFC, which offers an independent regulator and judicial system as well as a global financial exchange employing more than 18,000 people.



Our learning and employment business supported customers into over 3,300 jobs during the year and won a range of contracts to provide skills support to local people and employers across Leeds, Leicestershire, Sheffield, Staffordshire and the North East of England and, separately, help young people onto apprenticeships and training schemes in Yorkshire. Our capability in designing, delivering and evaluating apprenticeship training within our learning and skills business will, we believe, play an increasingly valuable role as higher employment costs and regulatory requirements drive employers to invest more in training and skills (either to defray their apprenticeship levy or to gain additional productivity from an increasingly costly workforce).

International

Internationally we provide outsourced services in sectors such as hospitality, leisure, education, defence, retail, and oil and gas across the Middle East region. Our oil and gas services business, which accounts for the majority of this division, provides essential maintenance services to national oil companies in Abu Dhabi, Oman and Qatar. The division delivered strong revenue growth over the year but saw a significant reduction in activity and in profit in the second half, reflecting continued low oil prices and the cumulative impact on clients' spending.

We have taken pre-emptive actions to reduce the size and cost base of our operations in response to these market conditions, which we expect to remain challenging during at least the first part of 2017. We have also diversified our operations in Qatar and Oman, winning work in new areas such as the water and power sectors. Work to integrate our oil and gas services business across the region is progressing well, enabling us to improve the efficiency of our back office, and to bid for work on a pan-regional basis.

In Qatar, we successfully completed the Steam Header Project for RasGas, replacing 10 kilometres of steam pipeline, and were also awarded a £76 million contract by Occidental Petroleum to provide onshore engineering and fabrication services. We had a good year in Oman, winning a two-year extension on the Oman LNG maintenance contract worth £13 million and, separately, are nearing completion of our works on the Muscat-to-Sohar Product Pipeline Project.

Our developing position in the Middle East facilities management market continues to benefit from our ability to leverage our extensive UK experience and long-standing customer relationships in the region.

Highlights during the period included winning an integrated facilities management contract with Emaar, one of the UAE's largest developers, to provide services at all of its community and retail centres across Dubai. We also won a contract with Meraas (another major UAE developer) to provide integrated FM services at its first roadside food truck park in Dubai.

SUPPLIERS NOW COVERED BY OUR SUSTAINABILITY CODE OF CONDUCT

52%

2016 TARGET

50%

Operational review continued

Our joint venture in Saudi Arabia with the Rezayat Group (Interserve Rezayat) won facilities management contracts for around £11 million of services on the Al Waha project – part of the King Abdullah Economic City development.

Interserve continues to drive standards forward in the region and we achieved a number of significant advances in, and awards for, sustainable procurement, waste reduction and staff training during 2016, all of which align closely with our Sustain*Abilities* goals.

EQUIPMENT SERVICES

Equipment Services, which trades globally as RMD Kwikform (RMDK), provides engineering solutions in the specialist field of temporary structures needed to deliver major infrastructure and building projects. It is a global market leader and our engineers solve complex problems for our customers, through the application of world-class design and logistics capabilities, backed up by technology and an extensive fleet of specialist equipment. Our activities have a broad geographic spread, the mix of which can change quickly, hence we manage our equipment fleet globally, combining our scale and expertise with agility and responsiveness to meet customers' needs and safeguard our operational efficiency.

Results summary[1]	2016	2015	Change
Revenue	£224.1m	£207.0m	+8%
Contribution to total operating profit	£48.6m	£44.5m	+9%
Operating margin	21.7%	21.5%	

[1] Excluding Exited Businesses.

Performance in the period was excellent. Our strong growth momentum, bolstered by sustained, but disciplined, investment in the fleet and focus on growth markets, continued as we delivered revenue growth of 8 per cent.

Contribution to total operating profit increased by 9 per cent to £48.6 million, reflecting strong pricing strategies and a focus on supply-chain management and fleet logistics which continued to drive fleet utilisation improvements. It is notable that the profitable growth occurred across a broad range of our markets, rather than in any one individual territory, as described below, and, in aggregate, away from the Middle East.

In Asia-Pacific, we delivered strong performances in Hong Kong and the Philippines, driven by our ongoing work on large-scale infrastructure projects, including the Kowloon Rail Terminus, the Hong Kong Macau Bridge and the Manila Bay Development.

The North American business has made good progress in 2016 winning sizeable jobs along the west coast of the USA, particularly around Los Angeles and San Francisco, and Texas. In South America trading conditions remain tough but project wins in Peru offer some optimism for our prospects in the region.

We again performed well in the Middle East, though volumes and profits represented a smaller proportion of the overall result than in previous years. We benefitted from the continuation of a number of large projects started last year, including the East:West Highway project in Qatar. Demand also continued to grow in the UAE, where we won work on the Dubai Ports Bridge project and in Saudi Arabia, where we started work on the Jeddah Metro scheme.

In the UK we delivered another strong performance, winning work on several major projects, including the Mersey Gateway Bridge, the Medway crossing, the National Automotive Innovation Centre and the Defence National Rehabilitation Centre. Work also continues on sizeable rail improvement projects in Reading and on the Stockley Viaduct project near Heathrow airport.

In February 2016 we announced that, following several years of substantial growth across the Group, we would conduct a strategic review of RMDK to assess the full range of options to maximise value for shareholders. Following the strategic review, we announced in October 2016 that the Board had concluded that Interserve remains the best owner for this business, and that retaining RMDK as a core part of the Group, with an updated strategy, best enables sustainable value creation for shareholders.

Since then we have begun implementing our plan. We are investing further in new technologies (to augment our already extensive in-house 3D virtual reality and gaming-based applications and differentiate further our engineering-led customer value proposition) in growth markets to develop a stronger position and improved financial performance. As part of this we have launched new products within the UK ground shoring market, complementing our existing strengths in falsework and formwork. Additionally, we are exiting some of our smaller, less attractive markets including Singapore and Colombia and have rationalised part of the product range. Details of the costs associated with these actions can be seen in note 5 on page 125. We set up Kwikform College in South Africa during the year to equip our growing workforce with a broad range of skills including sales and design and to offer advice on less traditional topics such as work/life balance, nutrition, negotiation skills and time management.

CONSTRUCTION

We offer design 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 (in UAE, Qatar and Oman) is structured through longstanding joint-venture partnerships, enabling us to form enduring relationships with clients and to combine our international experience with our partners' local knowledge to deliver outstanding service.

Results summary	2016	2015	Change
Revenue			
- UK[1]	£971.4m	£894.9m	+9%
- International[2]	£296.9m	£279.0m	+6%
Contribution to total operating profit	£13.8m	£23.7m	-42%
- UK[1]	(£3.1m)	£10.7m	
- International[2]	£16.9m	£13.0m	+30%
Operating margin			
- UK[1]	-0.3%	1.2%	
- International[3]	5.5%	4.3%	
Future workload			
- UK[1]	£1.2bn	£1.4bn	
- International[2]	£0.4bn	£0.3bn	

1 Excluding Exited Business.

2 Share of associates.

3 Operating margin is calculated based on the underlying operating margin of associates.

UK

Our UK Construction business, excluding the Exited Business (reported separately, below), delivered a disappointing performance. The continuation of a long period of challenging market conditions, coupled with pockets of underperformance in operational delivery in a number of contracts, offset strong performances in most of our regional businesses, resulting in a net loss result for the division.

These results, allied to the difficulties around the Exited Business, have led to a series of senior management, procedural and other organisational changes across the division, which will continue this year. We are also investing in new management information systems to improve scrutiny of and risk assessment in our operations. Strategically, we have narrowed our focus for work winning to core sectors and activities and have refined the risk profile of work that we take on.

Reflecting this increased selectivity in work winning our future workload fell 12 per cent to £1.2 billion, the substantial majority of which is focused on low-risk projects with an average value of less than £10 million, constructing a range of buildings and infrastructure often under framework agreements with public-sector customers and utility companies. Notwithstanding the uncertainty following the EU Referendum vote, which has begun to impact on the London fit-out market with some project deferrals, our assessment is that demand within our core areas remains adequate to meet our modified volume, risk and return aspirations for the business.

During the year we secured a place on the Department of Health's £4 billion ProCure22 (P22) construction framework, which continued our 14-year role on UK health frameworks, through which we have delivered over £1 billion of diverse healthcare facilities across more than 250 projects, including the UK's first Proton Beam therapy unit, currently under construction at The Christie in Manchester. We also won a place on the new £750 million Eastern Highways Alliance Framework, which covers 11 local highways authorities across the East of England.

Our strong presence in the utilities sector was reinforced with new contract wins worth more than £200 million. These included the Birmingham Resilience 'Treated Water' contract for Severn Trent (in joint venture with Kier), and (in joint venture with Doosan Enpure), a contract with Northumbrian Water to upgrade the Horsley water treatment works in the Tyne Valley. We were also selected by South West Water to deliver a new water-treatment plant, which will serve Plymouth and the surrounding area.

In another of our longstanding core markets, education, we were selected to design and build a three-storey development at the University of York and also to design and build two new student accommodation buildings in Leamington Spa for Alumno Developments.

Where appropriate we continue to be at the forefront of innovation in the industry, for example increasing our use of Unmanned Aerial Vehicles to undertake surveys in areas where access is difficult or restricted, enabling us to provide innovative designs and reduce delivery costs; and the design and delivery of Ingenuity House – an exemplar sustainable workplace of the future for our Midlands-based staff.

International

International Construction continued to gain momentum in improving markets stimulated by development plans such as Qatar's 'Vision 2030', the UAE's plans for Expo 2020 and the ongoing need for infrastructure development to keep pace with rapid population growth in the region.

Contribution to operating profit in our associate businesses rose by 30 per cent to £16.9 million (2015: £13.0 million), with a strong increase in volume and margins strengthening to 5.5 per cent (2015: 4.3 per cent). Future workload increased to £0.4 billion (2015: £0.3 billion).

STRATEGIC REPORT

Operational review continued

RMDK HELPS BRING HONG KONG BRIDGE PROJECT TO LIFE

RMD Kwikform has designed and supplied specialist formwork and shoring solutions to support the creation of the turnaround facilities for a new £6.5 billion bridge linking Hong Kong, Macao and Zhuhai (HKZMB).

The 50 kilometre, dual three-lane bridge will connect Hong Kong to China across the Pearl River when it is completed later this year, becoming one of the world's longest bridges. RMD Kwikform has been involved with the project since 2014, having previously supported major works for the land phase of the bridge.

For the latest phase, which is being built by a Dragages, China Harbour and VSL joint venture, RMD Kwikform designed and supplied a range of formwork and shoring solutions to support the construction of the turnaround facilities in the water, over the marine viaducts.

The turnaround facility – a junction that allows traffic travelling in one direction to make a U-turn – is located above the main bridge, meaning the overall structure had to be built using both deck mounted and barge mounted cranes.

Composed of different concrete elements, the formwork and shoring solutions required to support the construction of the whole turnaround structure, were both complex and varied. In order to cope with the loads from the precast sections we designed solutions based on our modular, heavy-duty Megashor shoring system. We designed two identical Megashor towers each side of the main bridge, reaching a height of just over 19 metres.

We also created a specially fabricated support tower to help connect the upper section of the bridge to the base as well as a number of safety platforms to support the teams working on the project.

Market conditions in the UAE were largely good with key contract wins including the £75 million expansion of the City Centre mall in Ajman for Majid Al Futtaim, a client for whom we have worked extensively on numerous projects, including Dubai's flagship Mall of the Emirates (the significant extension of which we completed and handed over during the year). We also won a £40 million contract to design and build a new office tower at the Dubai International Financial Centre as well as a contract to build a 389-room Premier Inn hotel in Dubai.

In Qatar, we are making good progress in delivering Doha Festival City with joint-venture partner ALEC, where (also in joint venture with ALEC) we have recently won a £120 million contract to design and build a five-star hotel for the InterContinental Hotels Group. The market continues to show few immediate signs of the long-awaited resurgence. Nevertheless, we remain confident of its medium-term prospects and are carefully controlling our resources in anticipation of activity growth towards the end of 2017.

In Oman, we successfully delivered the extension to Muscat City Centre (again for Majid Al Futtaim) and completed the £55 million Sohar Refinery Improvement Project for the Oman Oil Refineries and Petroleum Industries Company. Activity levels in downstream industrial development are healthy in Oman and since the year end we have won contracts for civil and building works for the new 445 MW combined power plant in Salalah for SEPCO and for £120 million worth of buildings, civils and underground piping work on the Liwa Plastics project.

Our training centres in Dubai and Qatar, which run a full trades training curriculum taught by Construction Industry Training Board qualified tutors, enabled us to continue to invest in the skills and workmanship of our workforce, and delivered over 55,000 training days in 2016.

Exited Business

Results summary	2016	2015
Revenue		
- UK Exited Business (Consolidated revenue)	£91.0m	£145.9m
Total pre-tax exceptional loss	£160.0m	£10.6m

In November we were served notice of termination on the Glasgow Recycling and Renewable Energy project. We have considered the implications of this development with our legal advisers and expect a lengthy period of litigation to ensue. Alongside this exercise we have continued to undertake a detailed review of operational developments on the other contracts in our exited EfW business, including the impact of the entering into administration by our principal gasification sub-contractor, Energos, together with the likelihood and timing of potential recoveries and claims from third parties.

In the light of these developments and of the continuing uncertainties in relation to the final conclusion of our EfW contracts, we have concluded that the exceptional loss of £70 million announced in May 2016 is no longer adequate

Operational review continued

to reflect the incurred and anticipated losses associated with this business. Consequently, we have determined that it is appropriate to increase the exceptional loss for exiting this market and the associated contracts to £160 million. We expect to complete substantially the construction and commissioning of the projects during 2017, although our contractual obligations in respect of warranties, and the resolution of claims will continue for a period thereafter.

Further cash outflows of c£60 million are expected during 2017 as the income statement charge is utilised.

Managing the challenges of exiting from these projects and of pursuing our entitlements to recoveries and claims from third parties remains the focus for the large, experienced team of commercial, operational and legal experts we have deployed and will remain an area of critical focus for the foreseeable future.

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 rose 7 per cent to £25.2 million (FY 2015: £23.6 million), due principally to investment in back-office capabilities, IT infrastructure, people development and communications. We anticipate this increased level of investment will continue in the medium term, as we continue to scale our support and assurance functions appropriately with the growth of our operational businesses. This investment is also reflected in an increased level of capital expenditure as we continue the construction of a new Midlands hub into which we will consolidate many of our back-office activities.

OUTLOOK

Our near-term development will continue to be played out against a backdrop of mixed economic conditions.

Support Services UK

The next 12 months will witness the introduction of a number of further regulatory changes which will add costs to our UK Support Services business. Some, such as the apprenticeship levy, also create business opportunity (in helping other employers deliver their apprenticeship programmes) whereas others, such as increased pension costs and other employment benefits, will take some time to pass on fully to customers. Offsetting these headwinds, we are able to benefit from productivity gains generated by the substantial investment we have made in our own back office and customer facing systems and processes. In aggregate we therefore expect margins to remain resilient.

We continue to benefit from a large and stable order book (£5.7 billion) and to see encouraging levels of contract bidding opportunities across our core markets, as clients increasingly look to solutions such as outsourcing in order to capture efficiency gains to offset their own rising costs. This underpins our expectation of modest volume growth and of a stable overall performance in 2017 relative to 2016.

Support Services International

The lower oil price and consolidation and reorganisation among some of the main oil and gas players in the region has led to some contraction in the addressable market. This slowdown, the impact of which was witnessed in the second half of 2016, is expected to suppress volumes in 2017. We have been and will continue to take mitigating action on our cost base where possible. Notwithstanding these short-term pressures, we expect a more favourable 2018 outlook as markets stabilise.

Equipment Services

We expect to see continued positive momentum in Equipment Services as we invest further in growth markets, new technologies and products to differentiate our engineering-led customer value proposition. The structural drivers for global infrastructure remain healthy and our proven ability to identify and respond as market demand shifts globally, underpins our confidence in the division's prospects.

Construction UK

Managing the challenges of exiting the remaining EfW projects is a significant priority, as is ensuring our processes continue to improve given the lessons we have learned. In the near term our focus will be on consolidation and on re-establishing the quality of earnings and the appropriate risk:reward profile in our continuing UK Construction operations. In more stable market conditions overall, we believe there is sufficient demand to enable us to achieve this objective at broadly current revenues.

Construction International

Our International Construction business continues to trade well and grow its workload with market conditions remaining generally positive. In the Middle East, our combination of strong customer and partner relationships that have developed over more than 30 years provide a platform for future growth, as do development plans such as Qatar's 'Vision 2030', the UAE's plans for Expo 2020 and the ongoing need for infrastructure development to keep pace with rapid population growth in the region.

Overall

Recognising the different characteristics and prospects of our various markets, as described above, we anticipate overall Group performance in 2017 to be stable compared to 2016.

OUR PEOPLE

Employee consultation and participation

We believe in involving our people in matters affecting them as employees and keeping 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 newspaper 'Focus' and our intranet.

We continued to grow our web-based employee portal, *www.MyInterserve.com*, specifically aimed at reaching our thousands of frontline employees. The portal, which now has around 20,000 regular users, is accessible on mobile devices, giving staff access to e-pay slips, company news, the ability to participate in discussion forums, and to give days of their time in support of good causes, as well as access to staff discounts at a range of retailers and leisure outlets.

We operate two all-employee share schemes to encourage our employees to share in the future of the Group. In our Sharesave Scheme, employees save small amounts each month which can then be 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 justifi ble, 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 or 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.

Diversity and inclusion

In 2016 we were awarded the National Equality Standard (NES) for equality, diversity and inclusion. This is a cross-industry recognised standard covering all areas of Equality, Diversity and Inclusion in the UK.

We became the first company operating in the support services and construction sectors to have been accredited, as well as being the largest employer to achieve the standard to date. The target of achieving a diversity and equality standard across the Group by 2018 was a key aim within our Sustain*Abilities* Plan.

The Group was praised for its visible leadership support for the agenda at Executive Board and Divisional Board level, for having comprehensive people policies across the business and delivering diversity and inclusion programmes across the Group. The Company was also commended for demonstrating strong employee engagement through diversity network groups and its employee survey.

Interserve already works with a variety of different organisations who are helping us put in place programmes and practices that improve the diversity of our talent pipeline and build our culture of inclusion. These include BITC (Business in the Community), Investors in Diversity (IiD), The Prince's Trust, WISE, Ban the Box, Leonard Cheshire and Two Ticks (for disability), to name several. The NES is the consolidating standard that binds all our activities together and through their process will help our selection of partner organisations moving forward.

To improve the gender split of our talent pipeline, Interserve further invested in the following activities in 2016: development of a Woman in Interserve network, provision of one-on-one and group coaching to support career progression of our female talent and an enhancement on maternity benefits across the divisions.

As at 31 December 2016, 33,157 of our global workforce of 60,123 were male and 26,966 were female. Further information is provided in the table below.

Throughout our worldwide operations we strive to operate to high standards of human rights in accordance with our values and all appropriate legislation.

	Male		Female		Total	
	2016	2015	2016	2015	2016	2015
Number of persons who were directors of the Company[1]	8	9	1	1	9	10
Number of persons who were senior managers of the Group[2]	102	106	7	8	109	114
Number of persons who were employees of the Group[3]	33,047	34,671	26,958	28,775	60,005	63,446
Total	33,157	34,786	26,966	28,784	60,123	63,570

1 Plc Board directors at year end.

2 Subsidiary directors and Persons Discharging Managerial Responsibility (PDMRs) at year end.

3 Employees of wholly-owned subsidiaries included within Group consolidation at year end.

Operational review continued

128
2016 ACCIDENT INCIDENT RATE

146
2015 ACCIDENT INCIDENT RATE

HEALTH AND SAFETY

Interserve adopts a formal and proactive approach to the management of health and safety throughout our operations. Bruce Melizan is the executive director designated as Safety Champion and senior directors are appointed with responsibility for health and safety in each division. These directors, together with the Heads of Safety from each of the divisions, met five times during the year to review performance and the various health and safety initiatives being undertaken to facilitate the spread of best practice.

Our standard is for all operating businesses to implement safety management systems that meet the OHSAS 18001 standard. During the year Group Centre achieved certification to the standard. Across the world 97 per cent of our employees work under safety management systems certified to this standard.

Safety performance is clearly defined as a line-management responsibility and together with formal management systems we provide appropriate training and professional support to ensure managers are able to effectively discharge their duties.

Proactive site visits and safety inspections are carried out by directors, management teams and safety advisers. Members of the Executive Board carried out a total of 101 site safety visits during the year and across the Group over 4,900 management safety tours were recorded. As a result of these and other inspections over 131,500 unsafe conditions were identified and corrected, preventing potential incidents.

We are regularly recognised for our contributions to delivering high standards of health and safety and in 2016 this included:

- Construction and Engineering Services received RoSPA Order of Distinction awards for 16 and 15 consecutive Gold Awards respectively.
- Other RoSPA awards included eight President's Awards (for between 10 and 14 Gold Awards), four Gold Medals (for between five and nine Gold Awards), eight Gold Awards and a Silver Award.
- Two employees received recognition through RoSPA Guardian Angel Awards.

Despite this success two of our employees suffered fatal injuries in an incident in Oman and a contractor working for us was fatally injured in an incident in Qatar. These incidents were each investigated to find lessons learned and they have informed a detailed review of the culture we have surrounding our approach to both safety and health.

Overall our reportable injury incidence rate reduced by 12 per cent with our overall accident rate for all lost-time injuries reducing by 10 per cent.

ACHIEVING THE NATIONAL EQUALITY STANDARD

We achieved the National Equality Standard (NES) for equality, diversity and inclusion in the UK during the year.

The NES was developed by Ernst & Young (EY) alongside leading businesses, the Equality and Human Rights Commission and the CBI. It is based on a robust assessment of an organisation against defined criteria across seven standards, comprised of 49 competencies and is tested through documentary analysis, staff interviews and site visits.

The target of achieving a diversity and equality standard across the Group by 2018 was a key aim within our Sustain*Abilities* Plan.

We became the first company operating in the support services and construction sectors to have been accredited, as well as being the largest employer to achieve the standard to date.

Interserve was praised for its visible leadership support for the agenda at Executive Board and Divisional Board level, for having comprehensive people policies across the business and delivering diversity and inclusion programmes across the Group. The Company was also commended for demonstrating strong employee engagement through diversity network groups and its employee survey.

Interserve Chief Executive, Adrian Ringrose said: “The next challenge for us is to ensure our diversity and inclusion agenda continues to move forward.”

Principal risks and uncertainties

We operate in a business environment in which a number of risks and uncertainties exist. While it is not possible to eliminate these completely, the established risk-management and internal control procedures, which are regularly reviewed by the Group Risk Committee on behalf of the Board, are designed to manage their effects and thus contribute to the preservation and 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. More information about how we manage risk can be found in the Corporate Governance report on pages 50 to 52. The table below details the principal risks and uncertainties which the Group addresses through its risk-management measures. The changes to these risks relative to the last bi-annual review undertaken by the Board in August 2016 are depicted in the column entitled "Risk Environment".

RISK	POTENTIAL IMPACT	RISK ENVIRONMENT	MITIGATION AND MONITORING
BUSINESS, ECONOMIC AND POLITICAL ENVIRONMENT	Among the changes which could affect our business are: • shifts in the economic climate both in the UK and internationally, including changes in the oil and gas industry should the current low prices continue into the medium term; • alterations in the UK Government's policy with regard to employment costs, expenditure on improving public infrastructure, buildings, services and modes of service delivery and delays in or cancellation of the procurement of government-related projects; • Brexit, in particular our reliance on the large number of EU nationals within our workforce; • the imposition of unusually onerous contract conditions by major clients; • changes in our competitors' behaviour; • a deterioration in the profile of our counterparty risk; 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 deliver contracts with sufficient profitability.		We seek to mitigate these risks by fostering long-term relationships with our clients and partners, our governmental/ quasi-governmental medium-to-long-term revenue streams, the development of additional capabilities to meet anticipated demand in new growth areas, maintaining a flexible cost base, careful supply-chain management and by operating in various regions of the world, including the Middle East, as part of a global balanced portfolio, where we are able to transfer resources to maximum effect between the differing economies of that region. We also have in place new and enlarged committed financing with long maturity dates. We are presently undertaking a workforce survey in order to be able to determine the effects of any change to the current arrangements for EU nationals working in the UK. 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 constantly monitor and assess levels of political risk and have contingency plans to mitigate such risks. We have also set ourselves the goals of delivering sustainable 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.

FinancialCapital SocialCapital KnowledgeCapital NaturalCapital

RISK	POTENTIAL IMPACT	RISK ENVIRONMENT	MITIGATION AND MONITORING
IT SYSTEMS/ SECURITY	As IT systems become ever more integrated and the number of cyber attacks increases, there is an increasing need to: • maintain data integrity; • prevent loss of service; and • meet contractual requirements which impose increased levels of data security.	↑	We have, and continue to invest in, IT applications and infrastructure bringing on board a high-quality team to implement our IT strategic roadmap, and the management of cyber security risk. We have also enhanced our data security policies and procedures.
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, poor mobilisation of new contracts leading to non-delivery of promised cost or efficiency improvements, failure to appreciate risks being taken on, poor control of costs or of service delivery, sub-contractor performance and/or 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 or clients under financial pressure seeking to implement alternative interpretations of the contract in order to reduce payments.	↔	Among our mitigation strategies are targeting work within, or complementary to, our existing competencies, engagement of experts to effectively deploy both business and cultural change requirements, 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. We monitor the risk on contractual counterparties to avoid over-dependency on any one customer or sub-contractor. We have made a series of senior management, procedural and other changes across our UK Construction division which will continue into the current year.
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.

Principal risks and uncertainties continued

RISK	POTENTIAL IMPACT	RISK ENVIRONMENT	MITIGATION AND MONITORING
KEY PEOPLE	The success of our business is dependent on recruiting, retaining, developing, motivating and communicating with sufficient numbers of appropriately skilled, competent people of integrity at all levels of the organisation. This is particularly relevant during periods of rapid growth and expansion into new markets.		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. We are also committed to providing skills development and training to our current employees through work experience, graduate and apprenticeship schemes. We work with organisations such as the Social Market Foundation and the Skills Commission to lead the debate with the UK Government on training for the workforce of tomorrow. We are very conscious of protecting workers' rights issues in the Middle East and monitor evolving standards and costs of compliance very closely.
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 training and communication campaigns across the Group emphasising its importance. Health and safety also has its own category in our reward and recognition scheme.
FINANCIAL RISKS	We are subject to certain financial risks which are discussed in the Financial Review on page 34. 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 certain development 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. We have put in place increased and extended committed financing with long maturity dates.

Financial*Capital* Social*Capital* Knowledge*Capital* Natural*Capital*

RISK	POTENTIAL IMPACT	RISK ENVIRONMENT	MITIGATION AND MONITORING
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 and may have an adverse impact upon the Group's "licence to operate". This risk increases as we expand the range of frontline services being delivered, some of which are high profile and/or politically sensitive.		Control procedures and checks governing the operation of our contracts and of our businesses, supported by business continuity plans, are in place. With the expansion of our frontline services there is even more emphasis placed upon assessing reputational risk before entering into such contracts, having proper procedures in place to monitor performance, escalate issues and monitor our response, promoting a good understanding of our brand amongst stakeholders through timely, clear and consistent communications. We have a clear set of core values which we strive to embed within our organisation and set ourselves the goals of creating a culture of innovation in sustainability and offering transparency to clients on public-sector projects.
ENVIRONMENTAL CHANGE	Adverse weather events, travel disruption, long-term climate shifts, water stress and sea-level rises which could have uncertain implications for our business and for many of our clients, who increasingly require us to help them address the impact of these issues on their activities.		We have in place business continuity plans for our own businesses and work closely with our clients in respect of their business continuity arrangements. Our Sustain*Abilities* Plan identifies a number of specific and challenging targets in areas of waste, emissions, recycling and water use. 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. Whilst it does not trade in commodities, the Group does operate in countries where their economies depend upon commodity extraction and are therefore subject to volatility in commodity prices. The Group's principal businesses operate in countries which we regard as politically stable.

STRATEGIC REPORT

Financial review

REVENUE AND OPERATING PROFIT

For commentary on the operational results and highlights of the year please refer to the Operational Review section of the Strategic Report on page 14 to 25.

NET INTEREST CHARGE

The net interest charge for the year of £17.7 million can be analysed as follows:

£million	2016	2015
Net interest on Group debt	(18.8)	(16.7)
Pension finance credit	1.1	0.3
Group net interest charge	(17.7)	(16.4)

The increased interest charge on Group debt of £18.8 million (2015: £16.7 million) reflects higher average net debt levels in 2016, principally driven by the impact of the loss-making exited businesses. 2016 average net debt stood at £390.9 million.

The pension finance credit is calculated based on the funding position at the end of the preceding year. Consequently, the 2015 IAS 19 pension surplus position resulted in a 2016 pension finance credit of £1.1 million (2015: £0.3 million credit). In 2017 this will become a pension finance charge, reflecting the £52.4 million IAS 19 deficit position as at 31 December 2016; this charge is expected to be in the region of £2.0 million in 2017.

PENSIONS

At 31 December 2016 the Group had an IAS 19 pension deficit of £52.4 million (2015: £17.2 million net surplus).

£million	2016	2015
Gross liabilities	(1,044.6)	(880.9)
Insurance assets	368.7	347.9
Defined benefit obligation net of insurance assets	(675.9)	(533.0)
Other assets	623.5	550.2
Total surplus/(deficit)	(52.4)	17.2

Although the aggregate investment portfolio delivered a strong return this was not sufficient to prevent the scheme moving from a surplus position at year end 2015 to a deficit position at year end 2016. The key elements in this movement were a reduction in the liability discount rate from 3.8 per cent in 2015 to 2.8 per cent in 2016 (reflecting the continued low yields on bonds) and an increase in anticipated RPI inflation from 3.1 per cent to 3.3 per cent.

Looking to 2017 it is anticipated that these macro-economic factors will lead to an increase in our overall pension costs of £5 million to £10 million.

Cash contributions into the pension scheme, however, will remain unchanged until the next triennial valuation, due in 2018 on the position as at December 2017. The existing deficit recovery payments of £12 million per annum, indexed for inflation, will continue until that date.

TAXATION

The tax charge for the year of £7.5 million is further analysed below. The factors underlying this effective rate are shown in the table below.

	2016			2015		
£million	Profit/(loss)	Tax	Rate	Profit/(loss)	Tax	Rate
Subsidiary companies	83.9	(12.2)	14.5%	106.0	(17.8)	16.8%
Joint ventures and associates[1]	22.6	-	0.0%	22.6	-	0.0%
Headline profit before tax	106.5	(12.2)	11.5%	128.6	(17.8)	13.8%
Amortisation of intangible assets	(29.9)	4.7	15.7%	(31.1)	5.8	18.6%
Pre-exited business and exceptional items	76.6	(7.5)	9.8%	97.5	(12.0)	12.3%
Exited business and exceptional items	(170.7)	-	n/a	(18.0)	2.7	15.0%
Effective tax charge and rate	(94.1)	(7.5)	n/a	79.5	(9.3)	11.7%

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

The Group companies' effective rate stands at 14.5 per cent, below the UK corporation tax rate of 20.0 per cent, due to the impact of profits in lower tax Middle East locations and the utilisation of prior year losses.

Tax credits arising on the amortisation of intangible assets and on other exceptional items have remained at broadly stable rates from 2015.

No tax credit has been recognised on the charges relating to the exited business and the exceptional items relating to the strategic review of Equipment Services. This reflects a prudent approach to the speed of possible utilisation, particularly in overseas jurisdictions we have subsequently exited.

NEW ACCOUNTING STANDARDS

IFRS 9 *Financial instruments*

The impact of the sections of IFRS 9, effective from 1 January 2018 at the earliest, 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".

IFRS 15 *Revenue from contracts with customers*

The new standard will replace IAS 18 *Revenue* and IAS 11 *Construction contracts*. It will become effective for accounting periods on or after 1 January 2018, at the earliest. The main impact of the standard will be to require the recognition and disclosure of revenue to be based around the principle of disaggregation of discrete performance obligations.

IFRS 16 *Leases*

The new standard will replace IAS 17 *Leases*. It will become effective for accounting periods on or after 1 January 2019, at the earliest. It will require nearly all leases to be recognised on the balance sheet as liabilities, with corresponding assets being created.

In advance of the adoption of IFRS 9, IFRS 15 and IFRS 16, the Group will conduct a systematic review to ensure that the impact and effect of the new standards are fully understood, and changes to the current accounting procedures are highlighted and acted upon. Any impact is not known at this time.

Except for IFRS 9, IFRS 15 and IFRS 16 noted above, the directors do not currently anticipate that the adoption of any other standard and interpretation that has been issued but is not yet effective will have a material impact on the financial statements of the Group in future periods.

Financial review continued

DIVIDEND

No final dividend is proposed for the year. The total dividend for the year is 8.1 pence (2015: 24.3 pence).

NET DEBT AND CASH FLOW

Year-end net debt stands at £274.4 million (1.7x EBITDA) an improvement on the 2015 position of £308.8 million (1.9x EBITDA). This decrease is analysed below:

£million	2016	2015
Operating profit before exceptional items and amortisation of intangible assets	124.2	145.0
Depreciation and amortisation	39.0	36.1
EBITDA	163.2	181.1
Net capital expenditure	(46.0)	(44.2)
Land disposal – Midlands office consolidation	7.0	(7.0)
Gain on disposal of property, plant and equipment	(16.0)	(12.9)
Other	(0.3)	0.4
Working capital movement	119.7	(53.7)
Dividends in excess/(deficit) of JVA profit	11.6	(8.9)
Gross operating cash flow	239.2	54.8
Exited Business	(116.9)	(10.4)
Exceptional items	(7.7)	(5.6)
Pension contributions in excess of the income statement charge	(19.5)	(16.1)
Interest and tax	(29.0)	(23.5)
Dividends paid	(37.1)	(34.7)
Investments (net)	(5.2)	(6.6)
Foreign exchange	10.9	0.1
Other non-recurring	(0.3)	2.1
Decrease/(increase) in net debt	34.4	(39.9)
Year-end net debt	(274.4)	(308.8)

2016 was a strong year of cash generation in our continuing operations, with a gross operating cash inflow of £239.2 million. Some of this significant inflow arose from actions of a non-recurring nature, largely implemented in order to mitigate the cash requirements in the exited businesses. The majority, however, arose from structural improvements to our processes and/or the resolution of previous years' investments and imbalances. Overall, pre the funding of revenue growth, we continue to target gross operating cash conversion at 100 per cent of profits over a three-year period. Following two years of relatively high investment and consequent low cash conversion, 2016 has seen a reversal and a return of our rolling three-year conversion closer to our norms. This measure now stands at 85 per cent (three years to 31 December 2015: 42 per cent). The constituent parts of this year's performance are discussed below.

Net capex of £46.0 million (2015: £44.2 million) reflects our continued investment across the Group, in the Equipment Services equipment fleet, our customer-facing IT solutions and particularly improving our back-office IT solutions. The £7.0 million net land disposal in the period reflects the progression of arrangements in respect of our Midlands Office consolidation. No profit was recognised on this transaction.

The very strong working capital inflow of £119.7 million reflects the impact of settlement of a number of final accounts, an increased focus on cash management throughout the business and the stabilisation of customer payment terms, following several periods of tightening. During 2016 we released an aggregate of £87.1 million from our receivables and inventory balances. Some of the benefit we received in 2016 from our creditor balances is expected to unwind in the current financial year. Over the coming year we would expect to continue with our programmed improvements in customer collections, the order-to-cash cycle, and the management of contract work in progress.

This strong cash performance has also been reflected in good dividend flow from our overseas joint ventures and associates, with dividends at c150 per cent of reported profits in period. This reflects both the improved underlying cash flow management within those businesses and the final settlement of a number of significant contracts in the period.

The £116.9 million cash outflow in the year (£127.3 million cumulatively since 2015) within the UK Construction exited business reflects our gross operational losses (cumulatively £181.5 million), the settlement of subcontract accounts and customer damages ahead of any recoveries from third parties. We expect approximately £60 million of further net cash outflows in 2017 as the contracts are completed and our claims are pursued. Although the timing of resolution of claims is uncertain, ultimately the contract cash and profit outflows will equate.

£7.7 million of exceptional items reflect the cash costs of the Equipment Services strategic review (£4.9 million) and the 2016 losses generated in those countries exited (£2.8 million) as a consequence of the review.

Investments outflow in the year of £5.2 million reflects the net position following continued investment into our property portfolio and the disposal of our investment in West Yorkshire Police in H1 2016.

The foreign exchange related increase reflects the decline in strength of sterling, which had the impact of increasing the translated value of cash balances held overseas.

AVERAGE NET DEBT AND OUTLOOK

2016 average net debt stood at c£390 million (YE 2016: £274.4 million) with main drivers of the difference being the phasing of flows on the Exited UK Construction Business, timing of creditor payments and the benefit of reductions in our inventory and debtor balances.

2017 average net debt is expected to be c£450 million with the key movers from 2016 presented below:

	Expected 2017 £m
2016 average net debt	(390)
Full-year impact of 2016 Exited Business outflows	(45)
Average impact of 2017 Exited Business outflows	(60)
Cash generation – underlying business	45
2017 average net debt	(450)

Flows from the Exited Business were staggered throughout 2016 and the full-year impact of these within 2016 will increase average net debt by c£45 million. It is expected the average net debt impact of 2017 Exited Business outflows will be broadly in line with the expected net full-year cash flow; however, the timing of claims resolution will have a significant influence on this number. Expected cash generation from the underlying business is after the funding of obligations to both equity and debt holders.

In February 2017 we enhanced our committed borrowing facilities, which now total £640 million. These are discussed in greater detail overleaf.

Financial review continued

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.

We have two main committed funding sources, totalling £640 million:

- a $350 million, fully-hedged, US private placement facility with a weighted average maturity at June 2024. This amount is fully swapped out into a sterling amount of £207 million; and
- committed revolving bank facilities. Throughout 2016 these stood at £300 million with an expiry date of February 2019. During February 2017 we replaced these with new committed bank facilities totalling £433 million with a weighted average expiry date of April 2021.

These additional facilities were put in place to reflect the increased liquidity requirements of the Group, accommodating the actual and forecast outflows from the Exited Business. As discussed above it is anticipated that average net debt for 2017 will be approximately £450 million. Debt facilities are sufficient on both covenant compliance and absolute net debt metrics.

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 under the US private placement are denominated in US dollars and subject to fixed interest rates. These are fully hedged back into a sterling fixed rate with foreign exchange swaps lasting for the duration of the loan period.

Our other 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 approximately one year and six 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 offset 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.

The impact of changes in the year-end exchange rates, compared to the rates used in preparing the 2016 consolidated financial statements, has led to an increase in consolidated net assets of £67.4 million (2015: £7.3 million increase).

2016 Tax strategy and risk management

Interserve understands and seeks to observe its corporate and social responsibilities as a large employer in the UK whilst seeking to ensure that it is fiscally efficient.

Governance

The Group seeks constantly to evolve its systems, processes and procedures as they relate to taxation to ensure that confidence is maintained in the Group's ability to process and deal with its taxation affairs. All tax decisions and considerations are routed through the specialist Group Tax Department prior to being considered further and, when appropriate, put forward for approval at Board level. All tax disclosures and errors are reported to the Group Tax Department which also forms the principal point of contact between the Group and HMRC.

The Group has a robust system of documented controls which are regularly reviewed to ensure they remain fit for their intended purpose and which ensure that we are able to meet our taxation obligations and the requirements of the Senior Accounting Officer (SAO) reporting obligations. A comprehensive review is undertaken each year of adherence to SAO requirements before considering whether it is necessary to draw attention to errors which may have affected the Group's ability to account for the correct amount of tax.

Responsibility for the execution of the Group's tax strategy rests with the Group Finance Director and the Head of Tax and Treasury.

Planning

Efficient management of the tax base of the Group involves structuring the Group's affairs efficiently for tax and conducting the Group's affairs in accordance with tax legislation, but does not involve or permit the use of risky or aggressive tax structures or schemes.

The Group's tax strategy is determined by the Board of directors and is summarised in the following statement:

The Group will seek to manage the tax it pays i) by abiding by legal and regulatory principles, ii) by considering acceptability to stakeholders, and iii) by avoiding any acts inconsistent with the Group's reputation.

The Group seeks to create value for its shareholders and efficient management of the tax base of the Group is an integral part of that value creation, subject to the principles outlined above.

Relationship with UK tax authorities

Interserve seeks to maintain an open dialogue in the UK with HMRC regarding its plans and tax affairs, discussing potential tax issues which may arise in the business as well as initiating discussion around the suitability of the systems and controls in place to control and manage its tax position.

STRATEGIC REPORT

Financial review continued

GOING CONCERN

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

The majority of our revenue is derived from long-term contracts, which provides a strong future workload and good forward revenue visibility. In February 2017 we enhanced our committed debt facilities, as outlined in the Treasury Risk Management section above, and these now total £640 million with a weighted average maturity of April 2022. The directors believe that the Group is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, representing, at least, a period of twelve months from the date of this report. For this reason, they consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

VIABILITY STATEMENT

The directors have assessed the viability of the Group over a three-year period to December 2019, taking account of the Group's current position and the potential impact of the principal risks documented in the Strategic Report. The choice of a three-year period accords with the strategic planning horizon considered in the Group's budget process. Based on this assessment, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2019.

In making this statement the directors have considered the resilience of the Group, taking account of its current position, the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions. This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period. The presence and effectiveness of internal audit and other review processes has also been assessed. These are discussed in the Governance section.

The directors have determined that the three-year period to December 2019 is an appropriate period over which to provide the viability statement. In making this assessment the directors have taken account of a number of factors including:

- the Group's financial position with £640 million of committed bank facilities with a weighted average maturity of April 2022;
- potential mitigants to any cash outflows in the form of possible restrictions on dividends and capex;
- the expected future cash flow profile on the Group's Exited Business activities;
- the diversified and blue-chip nature of the Group's client base;
- the long-term secured nature of the Group's work with £4.5 billion of work already secured in the orderbook until the end of 2019; and
- the Group's commitment to a long-term and balanced approach to doing business, as exemplified by our Sustain*Abilities* agenda and our business plan.

The Strategic Report was approved by the Board of Directors on 28 February 2017 and signed on its behalf by:

Adrian Ringrose
Director

Tim Haywood
Director

USING ARTIFICIAL INTELLIGENCE TO HELP THE RNLI

As part of our total facilities management contract with the Royal National Lifeboat Institution (RNLI), Interserve has introduced artificial intelligence (AI) systems to diagnose and report on the health of vital machinery.

Earlier this year we fitted a range of AI sensors to the RNLI's All-weather Lifeboat Centre (ALC) in Poole where boats are manufactured and the Sea Survival Pool (SSP) where lifeguards are trained.

The sensors capture the sounds that the machines create to learn normal operation, allowing us to diagnose any anomalous sounds that could indicate imminent machine failure.

The Cognitive Plant room allows us to maintain the equipment based on deterioration in their condition as opposed to a fixed schedule, thus reducing cost without increasing the risk of machine failure.

The ultimate aim is to gather an extensive body of machine health data from the thousands of plant rooms Interserve maintain, which allows Interserve to understand the performance of any machinery in greater detail. In the future, statistical models will be built to predict failures and optimise the balance between delaying maintenance and reducing machine failure risk.

BUILDING HOMES AND OPPORTUNITIES FOR EX-SERVICE PERSONNEL

We started work on a project to design and build an apartment complex in Plymouth for ex-service personnel who will work on the project and live in the complex once complete.

The scheme is to design and build 24 one-bedroom dwellings, arranged in four three-storey clusters of six units, in the Stonehouse area of Plymouth.

12 of these units will provide accommodation for ex-service personnel who will participate fully in the construction process. The Community Self Build Agency (CSBA) selected the 'self-builders', who are learning construction skills and gaining qualifications during the build, having an affordable home to rent on completion of the project.

Interserve staff train and manage the self-builders while they are on site.

The aim of this project is to provide support for people with a variety of needs, based on a successful initiative in Bristol where military service veterans were helped to retrain in various construction trades and build their own dwellings.

This is one of many projects - including the Defence National Rehabilitation Centre in Loughborough which we are currently building - where Interserve works with and provides opportunities to ex-service personnel.

Governance

Board of directors

GLYN BARKER (63)

Chairman

Joined the Board in January 2016 and became Chairman in March 2016

Chairman of the Nomination Committee and Member of the Remuneration Committee

Skills and experience

Glyn has extensive experience as a business leader and trusted adviser to FTSE-100 companies and their boards on a wide variety of corporate finance issues. He previously held a number of senior positions during his 35-year career at PricewaterhouseCoopers and built PwC's private-equity focused Transactions Services business. He has a deep understanding of accounting and regulatory issues, together with comprehensive transactional and financial services experience. Glyn is a Fellow of the Institute of Chartered Accountants in England and Wales and holds a BSc (Hons) in Economics and Accountancy from the University of Bristol.

External appointments

- Non-Executive Director and Audit Committee Chairman, Aviva plc
- Non-Executive Director and Remuneration Committee Chairman, The Berkeley Group Holdings plc
- Non-Executive Chairman, Irwin Mitchell Holdings Ltd
- Non-Executive Chairman, Transocean Partners LLC (NYSE)
- Non-Executive Director, Transocean Ltd (NYSE)

Former key appointments

- Vice Chairman, UK, PricewaterhouseCoopers LLP
- Managing Partner, UK, PricewaterhouseCoopers LLP
- Head of Assurance, UK, PricewaterhouseCoopers LLP
- Deputy Chairman, English National Opera

ADRIAN RINGROSE (49)

Chief Executive

Joined the Board in January 2002 and became Chief Executive in July 2003

Member of the Nomination Committee

Skills and experience

Adrian joined Interserve in December 2000 on its acquisition of the Building & Property Group and became Managing Director of Interserve*fm* a year later. Adrian's background is in commercial management and business development, and prior to leading Interserve, he worked in the outsourcing and utilities sectors. Adrian is a member of the CBI's President's Committee, a member of the Chartered Institute of Marketing, a Fellow of the Chartered Management Institute and a Fellow of the Institute of Directors. He holds a BA (Hons) in Political Theory and Institutions from the University of Liverpool.

External appointments

- Adviser, University of Liverpool
- Chairman, Prince's Trust Built Environment Leadership Group (from March 2017)

Former key appointments

- Chairman, CBI's Public Services Strategy Board
- President, Business Services Association
- Head of Business Development, Building & Property Group

TIM HAYWOOD (53)

Group Finance Director

Joined the Board in November 2010

Skills and experience

Tim has extensive financial experience gained from a variety of senior management roles and is a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW). Since 2011 he has also been Head of Sustainability, launching Interserve's Sustain*Abilities* Plan in March 2013. He is a member of the Sustainability Committee of the ICAEW and of the Enterprise Leadership Team of Business in the Community. He holds an MA (Hons) in Modern History from the University of Oxford.

External appointments

- Non-Executive Director and Audit Committee Chairman, Tarsus Group plc

Former key appointments

- Finance Director, St Modwen Properties plc
- Group Finance Director, Hagemeyer UK Ltd
- Senior Finance Director and various Financial Controller positions, Williams Holdings PLC

BRUCE MELIZAN (49)

Executive Director

Joined the Board in January 2008

Skills and experience

Bruce is Managing Director of Interserve's Support Service division. He joined Interserve in 2003 and was Managing Director of the Investments division before being appointed to his current role in 2006. He has been in the outsourcing industry for over 20 years and has held a wide variety of roles, both in the UK and globally, ranging from direct delivery through to sales, marketing and general management. Bruce is a Fellow of the Royal Institute of Chartered Surveyors and holds an MBA from Cranfield School of Management and a BSc in Electrical and Electronics Engineering from Queen's University, Canada.

External appointments

- Chair of charity, Safer London

Former key appointments

- Managing Director, Amey plc
- Bid Management Director, Mowlem plc
- Various roles, TYE Manufacturing Ltd
- Senior Field Engineer, Schlumberger Ltd

DOUGIE SUTHERLAND (51)

Executive Director

Joined the Board in January 2011

Skills and experience

Dougie, who joined Interserve in September 2006, is Managing Director of Interserve's Developments division and is also responsible for UK Construction. He began his career with seven years in the Royal Engineers. He then led on various deals on behalf of the Government including the redevelopment of the HM Treasury, GCHQ and National Savings sites. He has an extensive background in the Private Finance Initiative infrastructure investment arena, across both public and private sectors. Dougie holds an MBA from Cranfield School of Management and a BSc (Hons) in Civil and Structural Engineering from the University of Edinburgh.

External appointments

- None

Former key appointments

- Partner, 3i Infrastructure
- Divisional Managing Director, Lend Lease
- Managing Director, Amey Ventures Ltd
- Various roles at HM Treasury

GARETH EDWARDS (58)

Independent Non-Executive Director

Joined the Board in February 2017

Skills and experience

As a partner at Pinsent Masons, Gareth's expertise is in corporate legal matters, but he also has extensive experience as an advisor to Boards and CEOs in a range of public (predominantly FTSE 250), private and entrepreneurial companies on their strategy and wider business and commercial issues. He has considerable international experience, particularly in the Middle East and has spent recent years expanding Pinsent Masons' offices in Continental Europe and facilitating its business development between Asian, Middle Eastern and European offices. Gareth, a qualified solicitor, has a BA in French/German from the University of Keele. Gareth will be leaving Pinsent Masons on 30 April 2017.

External appointments

- Partner, Global Head of Corporate, Pinsent Masons LLP
- Director, Pinsent Masons Director Ltd
- Director, Pinsent Masons Secretarial Ltd
- Non-Executive Director, Positive Healthcare plc

Board of directors continued

ANNE FAHY (56)

Independent Non-Executive Director

Joined the Board in January 2013

Chair of the Audit Committee, and Member of the Nomination and Remuneration Committees

Skills and experience

During her 27 years at BP, Anne gained extensive experience of global business, developing markets, risk management, internal control, compliance and strategy development in the aviation, petrochemicals, trading and retail sectors. She is a Fellow of the Institute of Chartered Accountants in Ireland and a Bachelor of Commerce in Economics, Accounting and Business from University College Galway, Ireland. Anne has chaired the Audit Committee since May 2013.

External appointments

- Non-Executive Director and Audit Committee Chair, Nystrar NV (Belgium)
- Non-Executive Director and Audit Committee Chair, SThree plc
- Director/Trustee and Chair of Finance Committee, Save the Children

Former key appointments

- Chief Financial Officer, Global Fuels, BP
- Controller Strategic Businesses, BP
- Controller Petrochemicals, BP
- Other senior management roles at BP
- Senior Audit Manager, KPMG (Ireland and Australia)

RUSSELL KING (59)

Senior Independent Director

Joined the Board in September 2014

Member of the Audit, Nomination and Remuneration Committees

Skills and experience

Following his appointment to the Board in September 2014, Russell was appointed as Senior Independent Director in May 2015. He has broad international experience in business/strategy development, human resources relations, government and sustainable development acquired during his 20 years in various management roles at ICI and senior positions at Anglo American, Bergteamet and GeoProMining. Russell holds a BA (Hons) in Politics from the University of Durham.

External appointments

- Non-Executive Chairman, Hummingbird Resources PLC
- Senior Independent Non-Executive Director and Remuneration Committee Chairman, Spectris Plc
- Senior Independent Non-Executive Director and Remuneration Committee Chairman, Aggreko plc

Former key appointments

- Senior Adviser, Heidrick & Struggles
- Chairman, Sepura plc
- Chairman, Sorrett Advisors Ltd
- Chairman, GeoProMining Ltd
- Senior Adviser, RBC Capital Markets on Metals and Mining
- Chairman, Bergteamet AB
- Non-Executive Director, Anglo Platinum Ltd
- Chief Strategy Officer, Anglo American plc
- Executive Vice President of Group Human Resources and Business Development, Anglo American plc
- Various senior management roles at ICI

KEITH LUDEMAN (67)

Independent Non-Executive Director

Joined the Board in January 2011

Chairman of the Remuneration Committee, and Member of the Audit and Nomination Committees

Skills and experience

Keith has many years' experience in the transport and infrastructure industries including some 15 years with the Go-Ahead Group, where, as Chief Executive, he was responsible for the negotiation and operation of complex public-service contracts and the management and motivation of large workforces. He is a Fellow of the Chartered Institute of Transport and Logistics and a Fellow of the Institute of Railway Operators. He holds a BA in Geography from the University of Newcastle and an MSc in Transport Engineering and Planning from the University of Salford. Keith has chaired the Remuneration Committee since July 2014.

External appointments

- Non-Executive Chairman, TXM Plant
- Non-Executive Chairman, Aspin Group Holdings Ltd
- Non-Executive Chairman, Bristol Water plc
- Non-Executive Chairman, London Transport Museum Ltd
- Senior Independent Director, Eversholt Rail Group
- Director, European Rail Finance (GB) Ltd

Former key appointments

- Senior Independent Non-Executive Director, Network Rail Ltd
- Non-Executive Director, Network Rail Infrastructure Ltd
- Non-Executive Director, Network Rail Consulting Ltd
- Group Chief Executive, Go-Ahead Group Plc
- Chairman, Association of Train Operating Companies

NICK SALMON (64)

Independent Non-Executive Director

Joined the Board in August 2014

Member of the Audit, Nomination and Remuneration Committees

Skills and experience

Nick brings a wealth of experience from a number of senior roles in multinational companies. A mechanical engineer by training, he spent his formative years as a project engineer before joining Alstom in 1988. During his tenure at Alstom, Babcock and Cookson, Nick was responsible for leading several major restructuring projects and negotiating complex acquisitions and disposals. He is a Fellow of the Royal Academy of Engineering and holds a BSc (Hons) in Mechanical Engineering from the University of Bristol.

External appointments

- Non-Executive Chairman, South East Water Ltd
- Senior Independent Non-Executive Director, Elementis plc

Former key appointments

- Senior Independent Non-Executive Director, United Utilities Group plc
- Chief Executive, Cookson Group plc
- Executive Vice President, Alstom SA
- Chief Executive, Babcock International Group plc

Advisers

GROUP COMPANY SECRETARY

Trevor Bradbury

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AUDITORS

Grant Thornton UK LLP

STOCKBROKERS

J.P. Morgan Cazenove Limited
Numis Securities Limited

LAWYERS

Ashurst LLP

Corporate governance

Glyn Barker
Chairman

Dear Shareholder

Our corporate governance framework is based on:

- setting out our core values and the ethical standards by which we expect the business to operate;
- fostering a culture that supports those behaviours; and
- calling to account those who do not abide by them.

We also continue to focus on risk management, reducing the overall level of risk in the business and upon the control environment.

Our “licence to operate” for our expanding citizen services, and increasingly our wider business, relies upon maintaining the trust and confidence of our stakeholder base.

With a dispersed workforce such as ours, a set of strong core values forms a crucial part of our governance framework.

Our continuing Sustain*Abilities* strategic initiative increasingly assists us in building stronger ties with the communities in which we work.

In addition to our own observations when we are out in the business, the Board uses the results of our employee survey to help us gauge how well our core values are embedded within the business. 79 per cent of respondents reported that they understand our vision and values, 68 per cent could see evidence of our vision and values in their day-to-day work and 89 per cent thought that health and safety was taken seriously where they work. We were also very pleased this year to have increased our overall employee engagement score to 75 per cent.

The diversity and inclusion agenda and developing our talent pipeline continues to be an important element of our people strategy.

We were delighted to have attained the National Equality Standard (NES) in 2016. Whilst this is a significant achievement, the Board is aware that the Group still has some way to go on the journey towards a truly diverse and inclusive workforce.

The Nomination Committee paid particular attention to diversity and workforce demographics in its review of succession planning. Diversity of participation in our leadership development programmes also continues to be monitored.

Our aim is to deliver a sustainable and growing business. We have set ourselves stretching financial objectives which require us to improve operating margins and cash flow and aligned our remuneration targets to this end.

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

Glyn Barker
Chairman

COMPLIANCE WITH THE CODE

The Financial Reporting Council (FRC) requires the Company to disclose how it has applied the principles of the UK Corporate Governance Code published in September 2014 (the Code) and whether there has been compliance with its provisions throughout the financial year. In the case of non-compliance, the Company must specify those provisions with which it has not complied and give reasons for this. The Code may be found on the FRC website (*www.frc.org.uk*). Reporting for the 2017 financial year will be against the April 2016 version of the Code.

The directors consider that the Company has complied throughout the year with all provisions of the Code applicable to it, save for provision B.1.2 (requiring at least half the Board, excluding the Chairman, to comprise independent non-executive directors) for a brief period between 1 March to 4 May 2016 when there were more executive than non-executive directors.

The resignation of Steven Dance on 4 May 2016 restored parity between independent non-executive directors and executive directors.

LEADERSHIP

The Board

Operation of the Board

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

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

Board activities in the 2016 financial year

The Board is responsible for reviewing the Group's strategic direction, governance, ethics, values and risk management. Set out below are the key matters dealt with by the Board during the course of the year, in addition to the ongoing monitoring of operational and financial performance of the Group:

Strategy

- setting the health and safety targets for the Group and monitoring performance on a monthly basis;
- completing the strategic review of the Equipment Services business and setting a revised strategy for its growth based upon the findings of that review;
- reviewing progress on a quarterly basis against the HR strategy;
- monitoring progress against the Group's Sustain*Abilities* Plan;
- reviewing the progress of the Group's IT enhancement plans;
- considering the results of the employee survey;

Finance/governance

- ongoing monitoring of key contracts where outcomes could impact financial performance with particular reference to the exited Energy from Waste (EfW) business forming part of the UK Construction business;
- considering capital investments and requests by the businesses for approval of significant tenders within the framework of matters reserved for the Board's decision;
- setting the Group's annual budget and plan;
- approval of the annual and half-year report;
- satisfying itself as to the basis for and appropriateness of the going concern and viability statements;
- declaration of the interim dividend and recommendation of the final dividend;

Risk management

- ensuring the maintenance of a sound system of internal controls and an effective risk management and assurance strategy;
- reviewing the risk and control performance report from the Executive Board, including conducting, in February and August, a robust assessment and ongoing monitoring of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity; and horizon scanning for emerging risks;
- careful consideration of the risk/reward profile of significant bids and potential joint ventures; and
- reviewing legal risk management within the Group.

The Board also undertook a visit to a number of the Group's Support Services and Construction contracts in the Salford and Manchester areas.

Division of responsibilities

There is a clear division of responsibilities between the role of the Group Chairman and Chief Executive which are clearly defined in written terms of reference, agreed by the Board.

The role of the Chairman

The Group Chairman leads the Board and creates the conditions for overall Board and individual director effectiveness, both inside and outside the boardroom. The Group Chairman 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 Group Chairman has a number of other significant commitments which are set out in his biography on page 40.

Corporate governance continued

The role of the Chief Executive

The Chief Executive manages the Group, 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 Senior Independent Director

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 acts as a sounding board for the Group Chairman, serves as an intermediary for the other directors when necessary, conducts the Group Chairman's annual performance evaluation and leads any new Chairman appointment process.

The role of the Company Secretary

The Company Secretary distributes 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, advises on Board procedures and ensures that 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 Board reviews the independence of its non-executive directors on an annual basis as part of its nomination for re-election process. 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 and constructive challenge to bear on matters for consideration.

As at 31 December 2016 the Board comprised nine members: the Group Chairman, four executive and four non-executive directors. The appointment of Gareth Edwards on 1 February 2017 has increased the number of non-executive directors to five.

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 letters of appointment of the non-executive directors and the Group Chairman specify the anticipated level of time commitment.

The terms and conditions of appointment of the non-executive directors and the Group Chairman are available for inspection at the Company's registered office during normal business hours.

BOARD EFFECTIVENESS

Meetings

The Board held 11 pre-scheduled meetings throughout the year and three ad hoc meetings to deal with time-critical matters. Attendance at Board and committee meetings during the year is set out in the table below.

	Board	Audit	Remuneration	Nomination
Number of meetings	14	5	10	5
G A Barker[1]	14	1	9	4
Lord Blackwell[2]	3		2	2
S L Dance[3]	5			
A K Fahy	14	5	10	5
T P Haywood	14			
R J King	14	5	10	5
K L Ludeman	14	5	10	5
B A Melizan	14			
A M Ringrose	14			4
N R Salmon	13	5	10	5
D I Sutherland	14			

[1] Glyn Barker was appointed on 1 January 2016. He retired from the Audit Committee on his appointment as Group Chairman on 1 March 2016.

[2] Lord Blackwell resigned on 29 February 2016.

[3] Steven Dance resigned on 4 May 2016.

The Group Chairman held six sessions with the non-executive directors at which no executive directors were present plus a number of informal discussions with the Chief Executive present. The non-executive directors also met under the chairmanship of the Senior Independent Director, without the Group Chairman being present, to review the Group Chairman's performance.

Board induction, training and development

On appointment, new directors receive a tailored induction programme arranged by the Company Secretary which includes, for example, refresher training on the duties of a listed company director, the operation and activities of the Group, meetings with management and other corporate advisers, and operational site visits encompassing a representative cross-section of most of the Group's UK operations accompanied by the executive director responsible for that part of the Group.

An ongoing programme of site visits, staff meetings and business presentations provides additional opportunities for the Group Chairman and non-executive directors to visit various operations of the Group and to receive insight and feedback from employees. The executive directors also make the details of their scheduled site visits available to the non-executive directors in order to provide further opportunities for the non-executive directors to learn more about the business.

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.

Performance evaluation

During the course of the year the performance of the directors was reviewed by the Group Chairman on an ongoing basis and the Group Chairman's performance was reviewed by the Senior Independent Director.

The overall time commitment of the non-executive directors in the attendance of Board meetings/visits was in the order of 20 days in addition to the time taken to read Board papers and attendance at six meetings held by the Group Chairman.

An external evaluation of the Board, including Board Committees, was last conducted in 2013. In view of the changes and forthcoming changes to the Board it was considered more appropriate to postpone this for a year in favour of an internal evaluation conducted by the Company Secretary involving one-to-one interviews with each of the executive and non-executive directors.

The key themes emerging from the evaluation were that:

- the Board members continued to work well together;
- the balance between operational and strategic matters at meetings remained appropriate to the needs of the business;
- the strategy would be re-visited once the new Chief Executive has had the opportunity to get to know the business;
- the Group's culture was open and there were a strong set of values understood and generally applied by the workforce; and
- whilst outwardly Board diversity had not increased, there was sufficient diversity of view and strength of character and a demonstrable commitment to continue to work to improve the diversity and inclusiveness of the Group.

The Group Chairman and the Senior Independent Director are developing an action plan dealing with matters where further work is required.

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

Gareth Edwards will submit himself for election by shareholders at the AGM on 12 May 2017 in accordance with the Company's Articles of Association. All remaining directors will also submit themselves for re-election.

Biographical details for each of the directors standing for election or re-election are set out on pages 40 to 43.

EXECUTIVE BOARD

The Executive Board, which, during the year, comprised the executive directors together with the senior operational and functional leaders of the Group, is chaired by the Chief Executive.

The Executive Board, which met 11 times during the course of the year, is responsible for:

- the operational management and delivery against budget and forecast of the Group;
- implementing resolutions of the Board, formulation of strategy, annual budgets and other proposals for consideration by the Board;
- the identification and evaluation for consideration by the Board of risks faced by the Group;
- conducting the employee survey and oversight of divisional action plans addressing areas for improvement; and
- designing, operating and monitoring a suitable system of internal control embracing the policies adopted by the Board and providing assurance to the Board that it has done so.

The Executive Board 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 54 to 59 and are incorporated into this Corporate Governance report by reference.

Corporate governance continued

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 generally 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.

Overview of activities

Business conducted during the year included recommendations to the Board for the re-election of retiring directors at the AGM, reviewing the Board structure and composition, and oversight of the senior management talent review and succession planning up to and including those at Board level. The effectiveness of the Committee and its terms of reference were also reviewed.

Re-election of retiring directors at the AGM

In making its recommendation to the Board for the re-election of directors, the subject of "overboarding" was considered by the Committee. It reached the conclusion that all directors were sufficiently available to the Company. Neither Glyn Barker nor Russell King are over-committed in terms of current guidance, particularly as only one of Mr Barker's two chairmanships is of a listed company and Mr King's chairmanship is of an AIM-listed company. The Committee considers these other directorships assist in bringing valuable knowledge and experience to Board and committee debate.

Senior appointment and recruitment

The Committee is currently managing the recruitment process for a new Chief Executive (CEO). A role and person specification for the CEO position was drawn up and specification for and credible external and internal candidates were identified and assessed. The process is being facilitated by external headhunters.

External headhunters were also involved in Gareth Edwards' selection in assessing his suitability and referencing as a non-executive director.

There are no other connections between the headhunters and the Company.

Succession planning

The annual talent review in November encompassed 846 employees (2015: 705), down to three layers of management below Executive Board level, enabling management to have excellent visibility of the composition and development needs of the Group's extensive talent pool.

The diversity and demographic challenges within the business were identified and are being addressed.

There was good short-term emergency cover in place for most key positions, with identified successors for all but one Executive Board position.

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 79 to 86.

Effectiveness

The Committee also reviewed its effectiveness against its terms of reference and concluded that it continued to operate effectively.

Equality, diversity and inclusion

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.

In 2016 we achieved the National Equality Standard (NES) and in so doing achieved one of our Sustain*Abilities* targets two years early.

The NES sets clear equality, diversity and inclusion (EDI) criteria against which we were assessed and has become the accepted standard for inclusiveness in business across the UK.

Only 11 organisations in the UK have successfully achieved the NES standard to date, and of those we are the largest employer and first from the Support Services sector.

Actions undertaken during the year to advance the EDI agenda within the Group included:

- Updating our Leadership Competency Profile to include diversity and inclusion descriptors and language. The profile is being rolled out across the divisions and used in our leadership development programmes, performance and development process, succession and talent reviews and 360 degree feedbacks.
- Enhancing our employee survey to include questions about diversity and inclusion culture, and prompt respondents to include diversity information to enable us to analyse the results of the survey by diversity group.
- Increased leadership visibility from our Executive and divisional boards. Diversity and Inclusion was chosen as a central topic in the UK and international leadership conferences, attended by 170 of our most senior leaders. The output from the discussions have been used to generate key activities to prioritise during 2017.
- Members of the Executive and divisional boards have increased their participation in employee forums dedicated to diversity and inclusion.
- Diversity networks focusing on LGBT, mental health, disability and religious awareness have been launched. The Women in Interserve Network, now five years old, continues to grow in membership and programmes.

Meeting the NES was a significant milestone for the organisation and we are committed to continuous improvement in order to maintain high standards of equality, diversity and inclusion.

It is recognised that increased workforce diversity will require positive steps to be taken and take time to achieve. The actions outlined above, combined with the talent review and succession planning processes, are aimed at accelerating diversity generally and, in particular, at a senior level.

The success in developing the diversity of the Board is monitored as part of our annual evaluation of Board effectiveness.

We would expect our diversity policy and the ongoing work on diversity and equality throughout the organisation to lead to greater diversity on the Board and divisional boards over time.

Culture

Our culture, drawn from our core values and expressed in our leadership framework, is promoted through the way we deliver the Company Vision and key initiatives such as Sustain*Abilities*; Innovation; Health and Safety; and Diversity and Inclusion. These initiatives, which are implemented across the Group, provide a common thread connecting our diverse businesses and set cultural and behavioural norms that form a key part of our employer brand.

The beliefs, norms and behaviours fostered by our culture include:

- we make a difference in the work that we do;
- we care about each other, our customers, the community, the environment and the services we deliver;
- we are a place where different people thrive and make their mark;
- we enjoy being successful;

and characterise what it feels like to be a colleague within our organisation. They also make a positive contribution towards both employee engagement and our reputation as an employer of choice.

Our well-established employee survey, the work of internal audit and internal communication audits are all used to help us ensure that there is alignment between our culture, beliefs, norms, behaviours and our employer brand.

As part of our commitment to compliance in anti-bribery and competition laws, we have worked with the Institute of Business Ethics to develop and recently launch our smart choice toolkit. This is a decision-making guidance tool providing practical help and guidance on the legal position in a variety of situations in which our employees may find themselves, such as when it is and is not appropriate to accept a gift or offer hospitality, practical tips to avoid involvement in facilitation payments and how best to act if faced with a conflict of interest.

REMUNERATION COMMITTEE

The Remuneration Committee is composed entirely of independent non-executive directors, details of whom are set out in the table on page 46. The responsibilities of the Committee, together with an explanation of the work undertaken and how it applies the directors' remuneration principles of the Code, are set out in more detail in the Directors' Remuneration Report on pages 60 to 86 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 Private Finance Initiative (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
Confl cts	2
General Purposes	29
Inside Information	8
PFI	1

Corporate governance continued

ACCOUNTABILITY

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 95, an Independent Auditor's Report about their reporting responsibilities on pages 98 to 105, a going concern statement on page 36 and a viability statement on page 36. An explanation of the Company's business model and strategy for delivering the Company's objectives is set out on pages 6 and 7, and 8 and 9, respectively.

The Directors' Report contained on page 87 to 94, 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)).

Risk management and internal control

The Board has documented a risk management framework setting out its objectives in terms of the risk management framework and risk appetite, risk management policy, risk oversight structures and accountability, risk identification and assessment, escalation, monitoring and reporting, and guidance on the application of the framework, which is included within the Group's internal controls manual.

The Board has carried out a robust assessment of the principal risks facing the Group[1], as required by the Code, together with a review of effectiveness of the Group's risk management and internal control systems, including operational and financial controls during the period covered by this report and has not identified nor been advised of any failings or weaknesses in the operational or financial controls which it determines to be significant.

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.

Risk management framework

The Board has overall responsibility for the Group's systems of risk management and internal controls, together with the ongoing review of its effectiveness, and sets appropriate policies having regard to the objectives of the Group.

Key decisions are reserved by the Board to itself. Other decisions are taken under various delegated authorities down through the management chain.

The Executive Board, under delegated responsibility from the Board, identifies, assesses, manages and monitors risk and operates and monitors the system of internal control and provides assurance to the Board that it has done so. The Risk Committee assists the Executive Board in discharging its risk management responsibilities.

The Risk Committee, comprising 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, the Group Chief Information Officer, the Group Information Security Officer and a representative from each of the Group's operating divisions, met five times during the course of the year. 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.

Work undertaken by the Risk Committee included reviewing the Group's prime risk areas[2] and principal risks and uncertainties, providing a bi-annual risk and control report to the Executive Board, a programme of reviewing (on a divisional bottom-up basis) a selection of the Board's key risks against the overall assurance map, mapping (on a top-down basis) the three lines of assurance (management, functional oversight and independent internal reporting), receiving reports from the Information Security Forum, regular horizon scanning for risks presented by legal developments and forthcoming legislation, reviewing business continuity planning and reviewing whistleblowing notifications and the results of subsequent investigations.

Risk committees have also been established by most divisions. These committees review risk at a divisional and business unit level, providing both reports to and attendance at the Risk Committee.

1 Further details of the Group's Principal Risks and Uncertainties, their potential to affect the business, how they are being mitigated and changes in the current risk environment are set out in the Strategic Report on pages 26 to 29.

2 The Group's prime risk areas are sub-sets of and have been mapped to the Principal Risks and Uncertainties set out on pages 26 to 29 of the Strategic Report and are matters which, if not appropriately managed, may lead to events which breach the Board's risk appetite.

Risk oversight, structures and accountability

The risk and control framework is predicated on the basis that line management is best placed to ensure that appropriate risk management is being exercised to maintain risk within the constraints of the Board's risk appetite.

The risk oversight structure mirrors the operating style and culture of the Group, devolving responsibility for operational risk mitigation controls to those best placed to supervise and ensure their proper implementation. Divisional line management exercise oversight to manage risk appropriately and to ensure that the Board's risk appetite is not being exceeded.

The Board's risk appetite is cascaded throughout the Group indirectly by defined delegated decision boundaries and authority matrices. Certain key areas listed on pages 26 to 29 are subject to central management or control.

Best practice, procedure and, where appropriate, policies in the areas of information security, business continuity and human resources, are promulgated by specialist forums comprised of subject matter experts from across the business.

Risk identification and assessment

As a normal part of Board business, consideration is given to any emerging or changing risks and whether these affect the strategy.

A thorough risk identification and assessment exercise is undertaken of the prime risk areas by the Risk Committee on a six-monthly basis. This review focuses on risks with the potential for material impact on the Group's operational, financial or reputational standing. The review takes into account the latest divisional updates, actions taken, current performance against existing and any new key performance indicators and whether, as a result of the foregoing, the residual (net) risk of the prime risk area has changed since the last assessment.

The identification of risks associated with new business and associated risk controls/mitigation is part of the process for obtaining Board approval.

New and emerging risks are captured by divisional risk committee bi-annual risk reviews which are consolidated into the risk and control performance report by the Risk Committee. The Board also gives consideration to emerging risks as part of its bi-annual risk review and more generally as part of its ongoing consideration of the future development of the Group.

Escalating, reporting, monitoring and review

Monthly management accounts, divisional board meetings, the March, May and September forecast reviews, monthly and quarterly safety and quarterly legal and insurance reports all provide an opportunity for emerging risks to be escalated.

Divisional boards are required bi-annually to review their risk matrices, in January/February and June/July, to facilitate aggregation ahead of the release of the annual and half-year results.

Divisional management monitor the implementation, operation and efficacy of the risk management procedures within their division. Improvements implemented by divisional management are reported as part of the bi-annual risk reviews.

The Executive Board and the Board monitor risk as part of their monthly review of trading.

The internal audit function also undertakes a rolling review of the effectiveness of the internal control and risk management procedures as part of its annual work programme. Divisional risk and assurance resources have also been increased to support this work.

The Board performs a formal assessment of the effectiveness of the risk management process twice a year prior to publication of the half-year and annual results, taking into account the risk and control performance report from the Executive Board.

The Board has an ongoing process for identifying, evaluating and managing principal risks that the Group faces, together with an ongoing process to embed internal control and risk management within the business operations. This process was in place for the period under review and up to the date of approval of this Annual Report and Financial Statements and the systems accord with the FRC's guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Control effectiveness

Divisional boards undertake an ongoing assessment of, and effect improvements to, the control environment, and report their actions through the bi-annual risk review process.

The internal audit function assesses the effectiveness of certain internal control and risk management procedures as part of its annual work programme.

Recent enhancements to the risk management process include the development of an assurance map which identifies the three lines of assurance (management, functional oversight and independent internal reporting) over the prime risk areas. This enables the Board to make an informed assessment of the appropriateness of assurance.

Corporate governance continued

Financial reporting

Based on submissions from the trading divisions, a budget is prepared 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 Group Services.

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 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 34 and a description of how the Group manages those risks is set out on page 28.

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.
- All Group companies operate detailed tendering procedures designed to ensure effective risk management when tendering for high-value projects or projects with difficult conditions, onerous obligations, guarantees, bonds and adverse cash flow conditions which are monitored by the relevant Executive Board member and, where appropriate, in conjunction with the Chief Executive.
- 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, motor fleet 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*.

RELATIONSHIP WITH SHAREHOLDERS

The main communications with financial investors are the half-year and annual results presentations and a capital markets day. The results presentations are posted on our website and are available for all investors to view, along with a recording of the presentations themselves. A live webcast of the capital markets day was publicised via the Regulatory News Service (RNS) and copies of the presentations were made available on the Company's website.

The Company also encourages two-way communication with both institutional and private investors to develop an understanding of the views of major shareholders about the Company.

The Group Chairman met with six of the Company's major shareholders shortly after taking up the role in order to gain an understanding of their aspirations for the Company and to afford them the opportunity to give their views. The key themes emerging from these meetings were then fed back to the Board.

Adrian Ringrose and Tim Haywood attended 34 meetings with analysts and institutional investors during the year ended 31 December 2016 and, respectively, nine and 50 individual meetings accompanied by another member of staff.

One-to-one post-results meetings held with institutional investors tend to 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. Meetings held with analysts focus on the foregoing 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.

Having due regard to their importance as stakeholders, we also undertake regular one-to-one meetings and group presentations with our bank and private-placement lenders, in which operational, strategic and market issues are discussed, together with the implications for our future financing requirements.

The Group's annual and half-yearly results, trading updates, presentations given to analysts and all announcements made through the RNS are published on the Company's website at *www.interserve.com*.

All shareholders are given at least 21 clear 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 voting results of the AGM are also announced through the RNS and posted on the Company's website shortly after the close of the meeting.

APPROVAL

This report was approved by the Board of Directors on 28 February 2017 and signed on its behalf by:

Glyn Barker
Chairman
28 February 2017

Audit Committee report

Anne Fahy
Chair of the Audit Committee

INTRODUCTION FROM THE AUDIT COMMITTEE CHAIR

I am pleased to present, on behalf of the Board, our Audit Committee Report on our work in relation to the financial year ended 31 December 2016.

During the year the focus of our normal work programme has again 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 retirement benefit obligations, as well as oversight of the Company's systems of internal control, assurance and risk management, all of which are covered in more detail within the body of the report.

In addition to our normal work programme, an area of particular focus in 2016 was the exceptional losses from the exited Energy from Waste (EfW) business and from the strategic review of the Equipment Services business.

We also spent time evaluating the independence of the external auditor and the effectiveness of both internal and external audit processes in addition to the Committee itself.

Having reviewed the Annual Report, the Committee considers that, taken as a whole, it is fair, balanced and understandable and provides the information necessary to assess the Group's strategy, business model, position and performance.

Anne Fahy
Chair of the Audit Committee

MEMBERSHIP

The Committee is composed entirely of independent non-executive directors, in accordance with the provisions of the UK Corporate Governance Code published in April 2016 (the Code), and is chaired by Anne Fahy. The directors who have served on the Committee during the year are:

Name	Date of appointment to Committee
A K Fahy (Chair)	1 January 2013
G A Barker	1 January 2016
R J King	1 September 2014
K L Ludeman	1 January 2011
N R Salmon	1 August 2014

Glyn Barker was appointed to the Committee on 1 January 2016 but retired when he succeeded Lord Blackwell as Group Chairman on 1 March 2016.

Appointments to the Committee are made by the Board, on the recommendation of the Nomination Committee and in consultation with the Committee Chair.

Anne Fahy is a qualified chartered accountant and has recent and relevant financial experience. The other members of the Committee all have extensive business and financial experience. Directors' biographies are included on pages 40 to 43.

The Company Secretary is secretary to the Committee.

ROLE AND RESPONSIBILITIES

The role and responsibilities of the Committee are set out in its terms of reference which are available on the Company's website at *www.interserve.com* and on request. These terms of reference, which include all matters described in the Code and paragraph 7.1.3 of the Disclosure Guidance and Transparency Rules, are reviewed at least annually by the Committee and were last updated in August 2016. They were reviewed again in December 2016 and no further changes were necessary.

The principal responsibilities of the Committee are to:

- review with management and the external auditor 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 position and performance, business model and strategy;
- make recommendations to the Board on the appointment and re-appointment of the external auditor, take responsibility for reviewing the effectiveness of the statutory audit and agreement of the fees in respect of both the statutory audit and non-audit services provided by the external auditor;
- 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; and
- provide an independent overview of the integrity of the Group's systems of internal control, fraud prevention, compliance, whistleblowing, risk management and financial reporting processes through the co-ordination and supervision of the quality, independence and effectiveness of the internal and external auditors, reviewing the Company's financial reporting and making further enquiries as appropriate.

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

A full set of Committee papers is provided to all directors and the Chair of the Committee reports at the subsequent Board meeting on the Committee's work. The Board also receives a copy of the minutes of each meeting.

MEETINGS

The Committee met five times during the year. The external auditor was present at three of the meetings and representatives from PricewaterhouseCoopers LLC (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 also attended the majority of the meetings by invitation.

The Committee has twice 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 frequently to review audit and internal control topics and to ensure open and continuous dialogue with the Committee.

OVERVIEW OF ACTIVITIES

In relation to the 2016 financial year the Committee:

- investigated, in detail, the circumstances of the Glasgow EfW contract, including potential financial outcomes;
- reviewed the proposed accounting treatment relating to the exited EfW business and the strategic review of Equipment Services' business at the half year and full year;
- reviewed and approved PwC's updated internal audit charter, following their re-appointment in January 2016 as the Group's internal auditor;
- received a financial briefing from the divisional finance director on the Equipment Services business;

Audit Committee report continued

- reviewed the paper prepared by management supporting the going concern and viability statements and satisfied itself as to the appropriateness of the underlying assumptions ensuring consistency with the Group's longer-term planning and annual budgeting cycle financing arrangements and any material contingent risks;
- received a briefing from the Group Finance Director on the principal judgements made in determining the half-year review and annual report, reviewed those judgements and, taking into account the external auditor's view, satisfied itself that the judgements and estimates were both appropriate and robust and in accordance with the Group's accounting policies;
- reviewed both the half-year report and annual report and financial statements. As part of each review the Committee satisfied itself as to the clarity and completeness of disclosures in the financial statements and that they were appropriately contextualised. It also reviewed the Audit Committee Report, together with the Chairman's Statement, Strategic Report and Corporate Governance statement relating to audit and risk management. As part of each review the Committee received a report from the external auditor 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 auditor in respect of the half-year review and the annual report;
- conducted an assessment of the effectiveness of the external audit process;
- reviewed the independence and objectivity of the external auditor;
- reviewed and approved the external auditor's terms of engagement for the half-yearly review and for the audit of the annual report;
- considered and agreed the scope and fees to be paid to the external auditor for the half-yearly review and the statutory audit;
- reviewed the Group's statement of compliance with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 made by the Competition and Markets Authority (the CMA Order);
- received a bi-annual update on the Group's monitoring of fraud risk assessment;
- reviewed the external and internal audit risk assessments and satisfied itself that the audit activities appropriately addressed those risks;
- reviewed the adequacy of controls across the worldwide businesses, particularly with regard to entities which are not controlled by the Group;
- reviewed and updated the Company's policy on the provision of non-audit services by the external auditor and regularly monitored non-audit fees in comparison to the audit fees in accordance with this policy (as detailed in Objectivity and Independence on page 58);
- reviewed both the internal audit programme and the findings and remediation actions, as well as agreeing the internal audit plan for 2017, ensuring an adequate coverage of risks;
- received a report at each meeting on the progress and outcome of the investigation of the 18 whistleblowing notifications received during the course of the year, seven of which were upheld and one where investigations continue;
- established the Committee's calendar of actions for the 2017 financial year;
- reviewed its terms of reference, particularly in view of the new EU audit framework, and considered whether any changes needed to be proposed to the Board; and
- conducted an evaluation exercise to review its own effectiveness.

SIGNIFICANT ISSUES CONSIDERED

The Committee 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 112 to 161 as well as considering the overall quality of earnings. The Committee received a paper, prepared by management, setting out the key judgements and reviewed and challenged these in the light of its own knowledge, taking into account the audit findings and views of Grant Thornton and further enquiry of executive management, as appropriate, in relation to the following matters:

- ### Exceptional items – exited businesses

  Energy from Waste

  During 2016 the Board took the decision to exit business where the Company takes contractual responsibility for process risk on the construction of energy from waste facilities.

  The loss of £160 million across the EfW business has been presented as an exceptional item, reflecting the materiality and its non-recurring nature.

  The Committee's detailed consideration of the issues facing the EfW business identified areas for improvement resulting in a number of significant changes, including the appointment of a managing director with specific responsibility for the exited EfW business supported by dedicated finance, commercial and legal resources; the appointment of additional and replacement sub-contractors as well as an enhanced operational, financial and contractual review to improve the Committee's and the Board's visibility and understanding of the risk profile and underlying judgements.

  The Committee satisfied itself that, consistent with the Company's accounting policy, the loss was correctly presented and disclosed.

The Committee reviewed the audit findings and assessed management's judgements and estimates in determining the provision and the potential impact on banking covenants, going concern and viability.

Strategic review of Equipment Services

Following a strategic review of Equipment Services, the Board took the decision to restructure the business and exit a number of smaller and less attractive markets. The Committee satisfied itself that the exceptional losses resulting from this decision were appropriately recorded, presented and disclosed in the financial statements.

- **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 and the recoverability of debtors.

  The Committee reviewed the audit findings and management judgements on a selection of contracts perceived to carry the highest risk of misstatement. This review was undertaken against the background of its familiarity with the challenged contracts, whilst acknowledging that final outcomes on contracts always carry uncertainty and exposure to changes in the supply chain, client's requirements and circumstances, the ability to meet technical commissioning and completion hurdles and other variables. This work also included the Committee satisfying itself as to the recoverability of long-dated debtor and work-in-progress balances.

  The Committee reviewed the level of provisioning made by management at both contract level and centrally at the year end in order to form a view of the completeness of provisions on loss-making contracts and whether there was a requirement to include a forward loss provision on longer-term contracts. The quality of earnings and movement in provisions during the course of the year was also reviewed.

- **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 £514.0 million, which included goodwill with a value of £437.0 million.

  The Committee reviewed management's determination of its principal cash generating units, the key assumptions used, such as the discount rate and future cash flows in light of current business performance and that future projections were consistent with medium-term plans, and satisfied itself of the appropriateness of management's impairment testing, that significant headroom exists and that any reasonable sensitivity to the assumptions did not indicate any impairment.

- **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 29 to the financial statements, taking into account the independent third-party confirmations of the pension assets valuation at the balance sheet date and that pension balances are accounted for in accordance with relevant accounting standards and guidance.

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 position and performance, business model and strategy.

The Committee was satisfied that, taken as a whole, the 2016 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 95.

Audit Committee report continued

EXTERNAL AUDIT

Oversight

The Committee considers and makes recommendations to the Board as regards audit matters. The Committee manages the relationship with the Company's auditor, which includes a review of the effectiveness of the statutory audit at the end of the audit cycle, agrees, for and on behalf of the Board, the statutory audit fees and scope of the statutory audit and makes a recommendation to the Board as to the auditor appointment or re-appointment. The Committee also seeks to ensure co-ordination between the activities of the external and internal auditors.

Tenure

Grant Thornton was formally appointed as the Company's auditor on 13 June 2014 following a competitive tender exercise involving four audit firms at the end of the 2013 statutory audit and approval by shareholders at the 2014 AGM.

Based upon the review of audit effectiveness the Committee has recommended to the Board that Grant Thornton be reappointed for a fourth year as the Company's independent auditor for the 2017 financial year. Grant Thornton are planning for the Audit Engagement Partner succession by rotating members of the engagement team to facilitate both continuity and independence in future years.

The Committee will continue to review the auditor appointment and the need to ensure that the Group complies with the CMA Order relating to mandatory audit tenders every ten years and rotation after 20 years.

Objectivity and independence

The Company has an established policy aimed at safeguarding the independence and objectivity of the Group's external auditor. The policy sets out the approach to be taken when considering engaging the external auditor for non-audit work. There is no inconsistency between the FRC's Revised Ethical Standard 2016 and the Group's policy.

The external auditor 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 auditor with a value not exceeding £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; and
- audit reports required by statute or regulation.

The above policy also prohibits the auditor auditing their own work, or entering into any arrangement in relation to audit work whereby a joint interest is created between the Company and the auditor, without the Committee's prior consent.

The Committee received a report at each of its meetings itemising the fees expended and forecast to be expended with Grant Thornton for non-audit services. In addition to the above safeguards, a minimal amount of non-audit services was delivered by specialists and advisers who were independent of the audit team.

Non-audit fees incurred for the year were £0.2 million (18 per cent) compared to audit fees of £1.1 million, the largest element of which – £93,000 – related to the interim review. Further details of the audit and non-audit fees paid to Grant Thornton are included in note 4 to the financial statements on pages 123 and 124.

The Committee concluded that the safeguards set out above were sufficient so as not to compromise auditor objectivity and independence.

Audit quality

The Committee also reviewed Grant Thornton's audit effectiveness following the audit of the 2016 annual report taking into account the partners' and senior audit staff's understanding of the business, the effectiveness of the audit work in relation to key judgements and how those were addressed, the quality of suggested control improvements, the appropriateness of assurance gained over parts of the Group not audited by Grant Thornton, the appropriateness and deployment of experts on technical items, the quality and comprehensibility of the audit findings report, the quality and clarity of the auditor's external report and feedback from senior management on the audit process generally. In addition, the Committee reviewed the FRC's 2015/16 Audit Quality Inspection (AQI) of Grant Thornton and discussed its findings with the Audit Engagement Partner as well as satisfying itself as to the adequacy of the firm's internal quality assurance processes.

The Audit Engagement Partner has direct access to the Chair of the Committee and they meet on a regular basis in addition to the formal committee process.

INTERNAL AUDIT

The internal audit function provides an independent and objective appraisal to the Board, through the Committee, of the adequacy and effectiveness of the processes established to manage risk and control the business, makes recommendations on how the system of internal control might be improved, assists the Board in meeting its objectives and discharging its responsibilities and also provides certain advisory reports on business initiatives in support of management initiatives.

The annual internal audit plan of work, submitted to the Committee each December for approval, is risk-based and designed to provide core assurance against those areas identified as high risk and deliver cyclical reviews of key business activities, financial reporting processes and medium-risk areas. The annual plan may be modified by exception (subject to agreement of the Committee) based on changing circumstances.

Specialist subject matter experts are engaged, where appropriate, across many reviews to address areas such as engineering and commercial issues, VAT, employment law, IT, business continuity, culture and behaviour, working capital and information security.

The Committee received a summary of each internal audit review undertaken during the year comprising a set of findings, proposed corrective actions, management's responses to those findings and, where appropriate, recommendations for improvements.

Closure of the agreed corrective actions was tracked via a web-based system and monitored by management, with progress reported to the Committee in June 2016, December 2016 and February 2017.

In addition to the agreed audit programme, and in order to monitor the level of control across the Group, all material business units and relevant central and support functions were required to complete an online self-assessment of their compliance with key controls covering 16 different business processes.

The Committee also monitored, reviewed and assessed the role and effectiveness of internal audit in the overall context of the Group's risk management system and review.

The Internal Audit Partner has direct access to the Chair of the Committee and they meet on a regular basis in addition to the formal committee process.

REVIEW

The Committee undertook a review of its own performance in 2016 and concluded that it remained effective in discharging the obligations entrusted to it by the Board.

The Committee also confirms that it has fulfilled its responsibilities during the year in relation to, and confirms the Group is in compliance with, The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014.

AGM

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

APPROVAL

This report was approved by the Board of Directors on 28 February 2017 and signed on its behalf by:

Anne Fahy
Chair of the Audit Committee
28 February 2017

Directors' remuneration report

Keith Ludeman
Chairman of the Remuneration Committee

CHAIRMAN'S SUMMARY STATEMENT

Dear Shareholder

On behalf of the Board, I am pleased to present the Remuneration Committee's annual report on directors' remuneration for the year ended 31 December 2016 which sets out the amounts earned by the directors under the revised Remuneration Policy approved by shareholders at the 2015 AGM.

Our Remuneration Policy encourages achievement of our corporate goals, through an annual bonus linked to achieving profitable growth and meeting specific strategic objectives (where appropriate) and long-term incentive awards that only reward for delivering long-term earnings growth and achieving above median sector-based total shareholder returns.

2016 has been a challenging year for Interserve, with disappointing performance in our UK Construction business including the challenges of exiting from the Energy from Waste (EfW) sector. Whilst other parts of the Group continued to perform well in the year, the Committee took the view that they should apply discretion when considering whether to pay management incentives for 2016, having regard to the impact of EfW on the Group's performance and share price.

2016 REMUNERATION PAYMENTS

Base salaries

Cost of living increases were made to the directors' base salaries, broadly in line with those awarded to the general salaried workforce.

Annual Variable Pay

In line with our Remuneration Policy, the maximum Annual Variable Pay potential for Steven Dance, Bruce Melizan and Dougie Sutherland was 100 per cent of basic annual salary, with Adrian Ringrose and Tim Haywood having an additional opportunity to earn up to a further 25 per cent of basic annual salary for delivery of stretching strategic targets.

As in prior years, the financial targets set for bonuses up to 100 per cent of salary were based on a combination of normalised EPS[1] (up to 80 per cent of the maximum), and the efficient use of capital employed (up to 20 per cent of the maximum). For the additional 25 per cent of salary bonus opportunity applicable to Adrian Ringrose and Tim Haywood, individually tailored strategic targets were set (including targeted improvements in business Sustain*Abilities*, health and safety and financial processes and management).

With regards to the performance achieved against these targets, while good progress was made against the strategic targets (including health and safety and Sustain*Abilities*) which would have resulted in bonuses becoming payable, the Committee used its discretion to reduce the bonuses that would have been earned based on an application of the formula to zero. This was felt appropriate to recognise the impact of the three deaths in our International business and the exited EfW businesses on the Group's performance and share price.

Long-term variable pay

The long-term incentive awards granted in 2014 were eligible to vest based on independent, challenging three-year normalised EPS[2] and relative total shareholder return (TSR) targets (versus a bespoke group of sector peers).

Despite growth in EPS of 33.5 per cent over the three-year period, the threshold performance target was not met. With regards to our relative TSR performance, we were below the median when compared against the peer group and so this target was also missed. Accordingly, there will be no vesting in relation to the 2014 long-term incentive award.

APPLICATION OF 2017 REMUNERATION POLICY

We have made several changes to the application of our Remuneration Policy for the current financial year to better align with our 2017 strategic priorities.

Annual Variable Pay

Regarding the Annual Variable Pay scheme, we have refined the balance between our financial metrics for 2017 (moving to a 70:30 split between normalised EPS[1] and cash metrics from an 80:20 split in the 2016 financial year). To reflect our strong focus in 2017 on cash generation, which in turn enables the reduction of average net debt levels, we are increasing its weighting in Annual Variable Pay and are adjusting the basis of measurement. We are replacing average working capital days which we operated in 2016 with average net debt reduction targets to recognise our greater focus on cash.

We have also refined the non-financial targets that will apply in 2017. While we will continue to include targets relating to delivery against our Sustain*Abilities* agenda and health and safety for the Chief Executive, we are to set strategic targets for the Group Finance Director and Dougie Sutherland. Further details of the targets and weightings to apply to each individual director are included on page 63.

Long-term variable pay

Consistent with the approach we have taken in prior years, the long-term incentive awards to be granted in 2017 will be subject to independent, challenging three-year normalised EPS[2] growth targets (applying to two-thirds of the awards) and relative TSR versus companies of a comparable size (applying to one-third of the awards).

Delivering profitable growth and above-average total shareholder returns remain clear long-term objectives at Interserve, and continued use of these metrics will ensure that they are appropriately aligned with our strategy.

Board changes

As announced on 5 May 2016, Steven Dance stepped down from the Board and is to retire following serving his 12 months' notice period. Furthermore, as announced on 14 November 2016, it is expected that Adrian Ringrose will also leave the Board during 2017. Details of the payments agreed in connection with cessation of employment of each individual, which are consistent with our Remuneration Policy, are included on pages 70 and 71.

Shareholder engagement

The Committee is committed to maintaining an ongoing dialogue with shareholders on the issue of executive remuneration and we welcome any further feedback you may have.

We look forward to your support on the resolution relating to remuneration at the AGM on 12 May 2017.

On behalf of the Remuneration Committee

Keith Ludeman
Chairman of the Remuneration Committee

[1] Normalised EPS is 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.

[2] Normalised EPS is headline EPS 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.

Directors' remuneration report continued

In this section:

ANNUAL REPORT ON REMUNERATION

The Annual Report on Remuneration will be put to an advisory vote at the AGM on 12 May 2017.

HOW THE DIRECTORS' REMUNERATION POLICY WILL BE APPLIED FOR THE YEAR ENDING 31 DECEMBER 2017

The directors' Remuneration Policy was approved by shareholders at the AGM on 12 May 2015. We believe the policy framework introduced at the 2015 AGM continues to support our strategy. However, as summarised in the Remuneration Committee Chairman's summary statement, we have made some modest revisions to the application of the policy for 2017 compared to 2016 to better align our remuneration with current strategy.

A copy of our remuneration strategy and the full Remuneration Policy is set out on pages 76 to 86 of the Company's Annual Report and Financial Statements 2014, available on the Company's website at *www.interserve.com/investor-centre/financial-reports-and-results*.

A summary of the policy is set out on pages 79 to 86 of this Annual Report.

EXECUTIVE DIRECTORS' REMUNERATION

At a glance

The table below sets out an at-a-glance summary of how the key elements of the Remuneration Policy for the executive directors will be applied during the financial year ending 31 December 2017.

Remuneration element	Remuneration policy
Base salary	Reviewed annually with any increases from 1 July of each year.
Pension	15% salary supplement in lieu of pension contributions.
Annual Variable Pay	Maximum payment of 125% of salary for the Chief Executive and Group Finance Director. The maximum applicable to other executive directors is 100% of salary. The performance targets applying to 100% of Bruce Melizan's bonus, 80% of the bonuses of the Chief Executive and Group Finance Director and 75% of Dougie Sutherland's bonus are as follows: 70% – normalised EPS[1] growth 30% – average net debt reduction The performance targets applying to the remaining portions of the bonuses of the Chief Executive, Group Finance Director and Dougie Sutherland relate to specific strategic areas which the Board is targeting in 2017. For each executive director, an element of any payment in excess of 25% of basic salary is required to be invested in Company shares and held for a period of three years (full details are set out in the Remuneration Policy).

Remuneration element	Remuneration policy
Performance Share Plan (PSP)	Maximum value of shares (when awarded) is set at up to 150% of salary. Shares vest subject to remaining in employment and satisfaction of performance conditions tested over three years: • Two-thirds: growth in normalised EPS[2]. • One-third: Total Shareholder Return (TSR) as measured against the TSR of each company in the FTSE Small Cap and FTSE 250, excluding investment trusts. Vested shares from the PSP award are to be held for two years post-vesting (after payment of tax).
Malus and clawback provisions	Variable Pay arrangements include provisions that enable the recovery of value overpaid (clawback) or the withholding of pay earned (malus) in the event of misstatement, error or misconduct for a period of two years after the date on which a payment is made.
Shareholding requirement	200% of salary to be held as shares.

[1] Normalised EPS is 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.

[2] Normalised EPS is headline EPS 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.

A more detailed summary of how the policy will be applied during the year ending 31 December 2017 is set out below.

Salaries

Salaries for the executive directors are reviewed annually with increases effective from 1 July of each year. Payroll movement in the salaried workforce, adjusted on a like-for-like basis (including in-year increases, but excluding starters, leavers and promotions) and increases awarded to the general salaried workforce, will be taken into account when conducting this review.

Annual Variable Pay

The maximum Annual Variable Pay potential for the year ending 31 December 2017 will remain at 125 per cent of basic salary for the Chief Executive and Group Finance Director, and 100 per cent of basic salary for the other executive directors.

The financial targets to apply to Annual Variable Pay are designed to provide a balance between incentivising profitable growth, through targeting improved normalised EPS[1] (EPS Targets) and focusing management on generating cash from our activities. The non-financial targets reflect current strategic priorities.

The targets applicable to each executive director are as follows:

Position	% Salary	Metric
Chief Executive	70%	• EPS
	30%	• Average net debt reduction
	12.5%	• Deliver the Board's Sustain*Abilities* agenda
	12.5%	• Achievement of Group Annual Safety Plan targets
Group Finance Director	70%	• EPS
	30%	• Average net debt reduction
	25%	• Deliver Board strategic targets
Dougie Sutherland	52.5%	• EPS
	22.5%	• Average net debt reduction
	25%	• Deliver Board strategic targets
Bruce Melizan	70%	• EPS
	30%	• Average net debt reduction

With regards to the choice of metrics we are to use in 2017, we are continuing with EPS as the primary measure of financial performance as it is well understood and the metric used internally to measure our success in growing profitably. Given our increased focus on the generation of cash in 2017, we are increasing its weighting in Annual Variable Pay and adjusted the basis of measurement vis-à-vis 2016. We are replacing average working capital days which we operated in 2016 with average net debt reduction.

Directors' remuneration report continued

Both the EPS and average net debt reduction targets, consistent with our Remuneration Policy, will operate on a sliding scale.

With regard to the non-financial targets, where practicable, this additional Variable Pay is to be earned based on a range of strategic objectives which are in the process of being finalised, following recent developments at the Company.

In relation to any payment in connection with the above targets, the Committee will retain the discretion to reduce these elements of Variable Pay (to zero) if it considers it appropriate to do so in light of the Company's overall financial performance achieved during the year.

Since disclosure in advance of the specific EPS and average net debt reduction and non-financial targets in the Annual Variable Pay scheme is considered commercially sensitive, disclosure of performance against the targets and the criteria to determine pay awards will be set out in full retrospectively in the 2017 Annual Report on Remuneration (subject to any price sensitivity considerations in which case the targets would be considered for disclosure the following year).

Performance Share Plan

Awards will be made in 2017 to executive directors (save for Adrian Ringrose) over shares worth 150 per cent of basic salary as at the date of grant, subject to the following performance conditions:

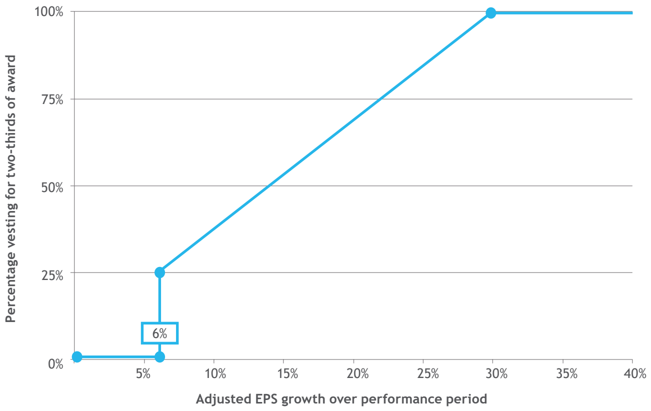
Earnings per share growth

Normalised EPS[1] growth of the Company over the performance period	Vesting percentage of two-thirds of shares subject to the award
Less than 6%	0%
6% to 30%	25% to 100% (pro-rated)
Greater than 30%	100%

1 Normalised EPS is headline EPS 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.

In setting the above targets, the Committee considered the Company's internal planning expectations alongside current consensus market expectations. Having given due regard to these factors, the Committee is comfortable that the targets are appropriately demanding, no less challenging than in previous years, and provide a realistic incentive at the lower end of the performance range, but with full vesting requiring exceptional outperformance given the current commercial environment.

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 FTSE Small Cap and the FTSE 250, excluding investment trusts.

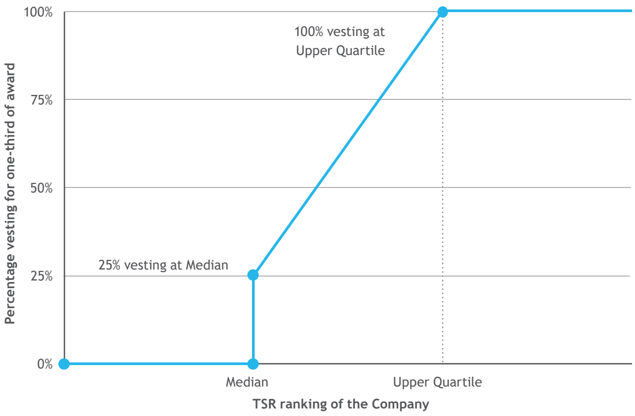
TSR is calculated as the percentage change in the net return index from the start to the end of the three-year performance period commencing on the fi st day of the 2017 financial year[1]. This measures the return to an investor on a holding of Interserve shares.

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%)	25%
Median to upper quartile ranking	25% to 100% (pro-rated)
Upper quartile ranking (top 25%)	100%

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.

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



The Board's strategy continues to focus on delivering long-term profitable growth and generating above-market long-term returns to our shareholders. The ongoing use of EPS growth targets and relative TSR targets is considered to provide alignment between the Board's strategy and the executive's long-term reward. The targets are weighted towards EPS performance since this is the key metric targeted internally for growth.

Post-tax vested shares must be retained for at least a two-year holding period after vesting (see policy table on page 81).

Non-executive director fees

The fee levels for the non-executive directors for 2017 are set out in the table below:

Element	Fee effective 1 January 2017 £	Fee effective 1 January 2016 £	Percentage change
Fee paid to Group Chairman	170,000	170,000	nil
Base fee paid to other non-executive directors	51,400	51,400	nil
Supplementary fees:			
- Senior Independent Director	7,000	7,000	nil
- Audit Committee Chairman	10,000	10,000	nil
- Remuneration Committee Chairman	10,000	10,000	nil
- 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.

The Committee and the Board, respectively, resolved in December 2016 not to increase the fees of the Group Chairman and the non-executive directors for the 2017 financial year.

HOW THE REMUNERATION POLICY WAS APPLIED FOR THE YEAR ENDED 31 DECEMBER 2016

The salaries for the executive directors are set out in the table below:

Name	Salary as at 1 January 2017 £	Salary as at 1 January 2016 £	Percentage change
S L Dance[1]	-	307,500	n/a
T P Haywood	378,225	369,000	2.5
B A Melizan	357,213	348,500	2.5
A M Ringrose	577,844	563,750	2.5
D I Sutherland	315,188	307,500	2.5

[1] Steven Dance resigned on 4 May 2016.

For the salaried workforce, payroll movement in the period June 2015 to June 2016, adjusted on a like-for-like basis (including in-year increases, but excluding starters, leavers and promotions) was 3.9 per cent.

Cost of living increases of 2.5 per cent were made to the executive directors' base salaries broadly in line with those awarded to the general salaried workforce, with the increases effective from 1 July 2016 in line with the Remuneration Policy.

Tim Haywood is a non-executive director of Tarsus Group plc for which he receives a fee of £54,075 per annum. Bruce Melizan is an unremunerated director of Safer London.

The table overleaf shows the remuneration paid to each director. Further details are included on pages 67 to 71.

GOVERNANCE

Directors' remuneration report continued

Remuneration paid to each director (audited information)

£	Year	Salary & fees	Taxable benefits	Annual Variable Pay	PSP[6/7]	Pension[8]	Other remuneration	Total
Executive directors								
S L Dance[1]	2016	106,048[1]	6,779[1]	-	-	15,907[1]	-	128,734[1]
	2015	303,750	22,532	179,949	186,751[7]	45,563	1,281[9]	739,826
T P Haywood	2016	373,613	19,787	-	-	56,042	-	449,442
	2015	364,500	17,623	254,462	225,924[7]	54,675	1,281[9]	918,465
B A Melizan	2016	352,857	26,253	-	-	52,929	-	432,039
	2015	344,250	28,741	203,942	186,751[7]	51,638	1,281[9]	816,603
A M Ringrose[10]	2016	570,797	22,306	-	-	85,619	-	678,722
	2015	556,875	23,410	438,767	313,744[7]	83,531	1,281[9]	1,417,608
D I Sutherland	2016	311,344	17,009	-	-	46,702	-	375,055
	2015	303,750	16,950[5]	179,949	186,751[7]	45,563	1,357[9]	734,320
Sub-total	2016	1,714,659	92,134	-	-	257,199	-	2,063,992
	2015	1,873,125	109,256	1,257,069	1,099,921[7]	280,970	6,481[9]	4,626,822
Non-executive directors								
Glyn Barker[2]	2016	150,233	-	-	-	-	-	150,233
	2015	-	-	-	-	-	-	-
Lord Blackwell[3]	2016	28,333	-	-	-	-	-	28,333
	2015	165,000	-	-	-	-	-	165,000
A K Fahy	2016	61,400	-	-	-	-	-	61,400
	2015	60,000	-	-	-	-	-	60,000
R J King	2016	58,400	-	-	-	-	-	58,400
	2015	54,460	-	-	-	-	-	54,460
K L Ludeman	2016	61,400	-	-	-	-	-	61,400
	2015	60,000	-	-	-	-	-	60,000
N R Salmon	2016	51,400	-	-	-	-	-	51,400
	2015	50,000	-	-	-	-	-	50,000
Sub-total	2016	411,166	-	-	-	-	-	411,166
	2015	389,460	-	-	-	-	-	389,460
Former directors								
L G Cullen[4]	2016	-	-	-	-	-	-	-
	2015	20,754	-	-	-	-	-	20,754
Total	2016	2,125,825	92,134	-	-	257,199	-	2,475,158
	2015	2,283,339	109,256	1,257,069	1,099,921	280,970	6,481	5,037,036

1 Steven Dance resigned from the Board on 4 May 2016. The figures reported above are pro-rated for the period during the year that he was a serving director (1 January to 4 May 2016). For the period during the year that he received remuneration as a past director, under notice of his employment contract (5 May to 31 December 2016), his base salary was £201,452; his taxable benefits were £14,006 and his salary supplement in lieu of pension was £30,218, giving a total of £248,676. During this period, a contribution towards legal fees in connection with his retirement was capped at £500 (excluding VAT).

2 Glyn Barker was appointed on 1 January 2016.

3 Lord Blackwell resigned on 29 February 2016.

4 Les Cullen resigned on 12 May 2015.

5 Re-stated.

6 The PSP awards awarded on 13 May 2014 have not met the performance conditions and will not vest. For further information see page 69.

7 The share price used to calculate the value of shares for the 2013 PSP awards which vested on 9 April 2016 was the market value on the previous business day (8 April 2016), being 420.50p. The values above also include a dividend equivalent payment of 68.8p per vested share. For the amount realised on exercise, please refer to the PSP table on page 73.

8 15 per cent salary supplement in lieu of pension.

9 Gains made on the exercise of options under the Sharesave Scheme.

10 Adrian Ringrose received a £10,000 contribution (excluding VAT) towards legal fees in respect of his severance agreement and £20,000 (excluding VAT) towards outplacement support.

Additional notes to the directors' remuneration table (audited information)

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[1]	2016	4,443[1]	-	1,929[1]	-	407[1]	6,779[1]
	2015	14,075	-	6,888	-	1,569	22,532
T P Haywood	2016	12,876	-	5,665	-	1,246	19,787
	2015	11,420	-	4,935	-	1,268	17,623
B A Melizan	2016	798[2]	12,986[2]	-	10,784	1,685	26,253
	2015	16,388	-	-	10,784	1,569	28,741
A M Ringrose	2016	-	19,192	1,429	-	1,685	22,306
	2015	-	19,192	2,649	-	1,569	23,410
D I Sutherland	2016	-	13,896	1,428	-	1,685	17,009
	2015	-	13,896	1,485	-	1,569[3]	16,950
Total	2016	18,117	46,074	10,451	10,784	6,708	92,134
	2015	41,883	33,088	15,957	10,784	7,544	109,256

1 Steven Dance resigned on 4 May 2016. The figures reported above are pro-rated for the period during the year that he was a serving director (1 January to 4 May 2016). For the period during the year that he received remuneration as a past director, under notice of his employment contract (5 May to 31 December 2016), his taxable benefits were as follows: company car: £9,171; fuel benefit: £3,996; medical insurance £839.

2 Bruce Melizan received a company car benefit-in-kind for the period 1 to 17 January 2016. From 18 January to 31 December 2016 he received a cash allowance in lieu of company car.

3 Re-stated.

Directors' remuneration report continued

2. Determination of 2016 Annual Variable Pay

The table below in relation to non-financial targets provides disclosure of the targets (other than where elements of the targets are considered to remain commercially sensitive) and actual performance against them. We do not expect to provide any further disclosure in relation to 2016 non-financial performance in future years as certain targets are expected to remain commercially sensitive. This position will be reviewed when preparing next year's Remuneration Report.

The Annual Variable Pay for 2016 was to have been determined with reference to performance over the financial year ending 31 December 2016. However, the Committee considered it appropriate to recognise the exceptional charge in respect of the exited EfW business and, in the case of the Chief Executive, the three fatalities in the International business, and applied its discretion to award no Annual Variable Pay for 2016. The performance measures and targets, and the performance against them, are set out below. For completeness, had the Committee not used its discretion to reduce payments to zero, the bonus awards would have ranged from 35 per cent to 44 per cent of salary.

Metric	Maximum award as percentage of salary	Performance target	Percentage of salary	Extent of achievement	Actual award as percentage of salary (following use of Committee discretion)
Targets applicable to all executive directors					
Normalised EPS[1]	80%	Less than 57.9p 57.9p to 64.3p 64.3p to 73.95p Above 73.95p	0% 8% to 40% pro rata 40% to 80% pro rata 80%	63.3p per share, 98.5% of budgeted normalised EPS[1], triggering 43.75% of this target.	nil
Average capital employed days	20%	Average capital employed days greater than 19.6 Average capital employed days less than 19.6	0% 20%	22.3 days – target not achieved.	nil
Personal targets applicable to Adrian Ringrose (Chief Executive)					
Sustain*Abilities*	12.5%	Progress against the 2016 targets for the five high-level outcomes of: • Places that benefit people • Public service in the public interest • More skills more opportunities • Positive environmental impact; and • Sustainable growth.		Good progress made against the 2016 Sustain*Abilities* targets – a score of 22 out of a maximum of 31 on a balanced scorecard triggering 75% of this target.	nil
Health and safety	12.5%	Progress against nine health and safety targets set annually by the Board.		On a formula basis 87.5% of this target was achieved. As a result of the three accidental deaths in the workforce in the Middle East this was reduced to zero.	nil

Metric	Maximum award as percentage of salary	Performance target — Percentage of salary	Extent of achievement	Actual award as percentage of salary (following use of Committee discretion)
Personal targets applicable to Tim Haywood (Group Finance Director)				
Sustain*Abilities*	12.5%	As above.	As above.	nil
Financial processes and management	6.25%	No more than 20% of Internal Audit reports to be red/amber: no actions overdue for longer than six months.	No red reports, with partial achievement of the remaining objectives, triggering 3.13% of this target.	nil
	6.25%	No variance in the monthly working capital in excess of +/- 10% from the current forecast or no variance greater than £10 million.	Not met.	nil

[1] Normalised EPS is 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.

3. Determination of 2016 Performance Share Plan payments

The analysis below explains how the PSP payments for the performance period ending 31 December 2016 were determined.

The PSP awards granted on 13 May 2014 were based on performance over the three-year period from 1 January 2014 to 31 December 2016 and were subject to the following performance conditions:

The EPS Performance Condition for two-thirds of the 2014 Awards

Normalised EPS[1] growth of the Company over the performance period	Vesting percentage of two-thirds of shares subject to the award
Less than 40.46%	0%
40.46% to 83%	25% to 50% (pro-rated)
Greater than 83%	100%

[1] Normalised EPS is defined as headline EPS 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 discretion of the Committee.

In testing the performance condition, the Committee assessed performance based on the definition of EPS detailed above, made an adjustment for the change from IAS 19 to IAS 19R *Pensions*, which ensured the target was no more or less challenging than the target originally set allowing for this factor. Following adjustment, growth in normalised EPS from 47.4 pence per share to 63.3 pence per share over the three-year performance period for the 2014 award was 33.5 per cent, 6.96 per cent below the growth required for threshold vesting to occur.

The TSR Performance Condition for one-third of the 2014 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, MITIE Group, Morgan Sindall, Rentokil Initial, RPS Group and Serco.

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%

TSR performance was below the median of the comparator group and therefore the TSR part of the awards will not vest.

Directors' remuneration report continued

4. Directors' pension entitlements

Defined Contribution Scheme

During 2016 none of the executive directors were active participants of the Defined Contribution section of the Interserve Pension Scheme and, as at 31 December 2016, all had transferred their deferred benefits out of this section of the Scheme. All the executive directors receive 15 per cent salary supplement in lieu of pension contributions.

Non-executive directors' fees are not pensionable.

Defined Benefit Scheme

Following the benefit changes to the Interserve Pension Scheme, Adrian Ringrose ceased to accrue any further benefits in the Defined Benefit section of the Scheme from 31 December 2009. His accrued pension at that date was £72,337 per annum and his pension will increase up to the point he draws his benefits broadly in line with price inflation.

5. Payments for cessation of employment

(a) Steven Dance

As announced on 5 May 2016, Steven Dance is to retire from Interserve on 4 May 2017. As a result of his forthcoming retirement, he resigned from the Board on 4 May 2016. The financial payments in connection with his retirement are detailed below.

Salary and benefits

In line with Mr Dance's service agreement, he continued to receive his salary and benefits from 4 May 2016 until 31 December 2016. He will continue to receive his salary and benefits until he retires on 4 May 2017.

Treatment of Annual Variable Pay

In light of Mr Dance's retirement with the agreement of the Company, the Committee used its discretion to treat him as a "good leaver" for the purposes of the Annual Variable Pay scheme. As a result, he remained eligible to receive a bonus payment (subject to the performance targets being applied) at the conclusion of the relevant financial year, reduced pro-rata for the proportion of the relevant financial year for which he was employed. Having first reviewed the achievement of the performance targets, the Committee considered it appropriate to recognise the exceptional charge in respect of the exited EfW business and, in so doing, applied its discretion to award no Annual Variable Pay for 2016.

Treatment of share awards

Under all schemes operated by the Company, retirement with the employer's consent attracts "good leaver" status.

The options granted to Mr Dance under the Sharesave Scheme on 9 April 2014 and 30 September 2014 will normally become exercisable on 1 June 2017 and 1 December 2017, respectively. Under the rules of the Scheme he may continue saving for the duration of each contract and exercise his options within six months of retirement.

The shares purchased by Mr Dance under the Share Incentive Plan (partnership shares), together with any dividend shares held, will be transferred to him shortly after his retirement date.

The 61,908 shares awarded under the PSP 2006 in 2014 will not vest.

Under the PSP 2015, Mr Dance's unvested nil-cost share option awards over 71,784 and 106,425 shares, granted in 2015 and 2016 respectively, will become exercisable at the end of their respective performance periods, subject to the applicable performance conditions being satisfied, and subject to time pro-rating to reflect the period of Mr Dance's employment within each of the awards relative to three years. Dividend equivalents will accrue on the shares that vest in line with the plan rules.

Any vested awards must be exercised within 12 months of the vesting date, after which time they will lapse. Any shares resulting from the 2015 and 2016 awards must be held for a further two years after vesting and will be subject to the recovery and withholding provisions of the PSP 2015.

General

All amounts payable to Mr Dance will be subject to such deductions in respect of tax and national insurance as the Company is required by law to make. A contribution towards legal fees in connection with his retirement was capped at £500 (excluding VAT).

(b) Adrian Ringrose

Salary and benefits

As announced on 14 November 2016, Adrian Ringrose will step down from the Board and leave the Company after a successor has been appointed, in order to pursue the next phase of his career. To facilitate a smooth transition through this process, he will continue in his current role until this process has been completed and following an orderly handover.

During this period he will continue to receive his salary and benefits until such time as his employment is terminated, at which time, in line with the provisions in his service agreement and our Remuneration Policy, he may be paid up to a maximum of one year's salary and benefits (for the period he remains in active employment or is placed on gardening leave) or one year's basic salary if he receives payment in lieu of any unexpired notice period (or an appropriate combination of each, subject to no more than a total payment relating to a period of 12 months' notice).

Treatment of Annual Variable Pay

In light of Mr Ringrose's continuation in active employment, consistent with the Company's Remuneration Policy, the Committee used its discretion to treat him as a "good leaver" for the purposes of the Annual Variable Pay scheme for the period of his active employment. As a result, he will remain eligible to receive a bonus payment (subject to the performance targets being applied) at the conclusion of the relevant financial year with any bonus reduced pro-rata for the proportion of the relevant financial year for which he was in active employment. No payment will be received under the scheme in relation to 2016.

Treatment of share awards

The shares purchased by Mr Ringrose under the Share Incentive Plan (partnership shares), together with any dividend shares held, will be transferred to him shortly after his employment terminates.

In light of Mr Ringrose's continued employment and, in line with the rules of the PSP 2015 and the Company's Remuneration Policy, the Committee resolved to treat him as a "good leaver" under the plan. His unvested nil-cost share option awards over 131,604 and 195,114 shares, granted in 2015 and 2016 respectively, will become exercisable at the end of their respective performance periods, subject to the applicable performance conditions being satisfied, and subject to time pro-rating to reflect the period of Mr Ringrose's employment (which will include the full length of any notice period reflecting the uncertain timing of the appointment of a successor) relative to three years. Dividend equivalents accrue on the resulting shares that vest in line with the plan rules.

Any vested awards must be exercised within 12 months of the vesting date, after which time they will lapse. Any shares resulting from the 2015 and 2016 awards must be held for a further two years after vesting and will be subject to the recovery and withholding provisions of the plan.

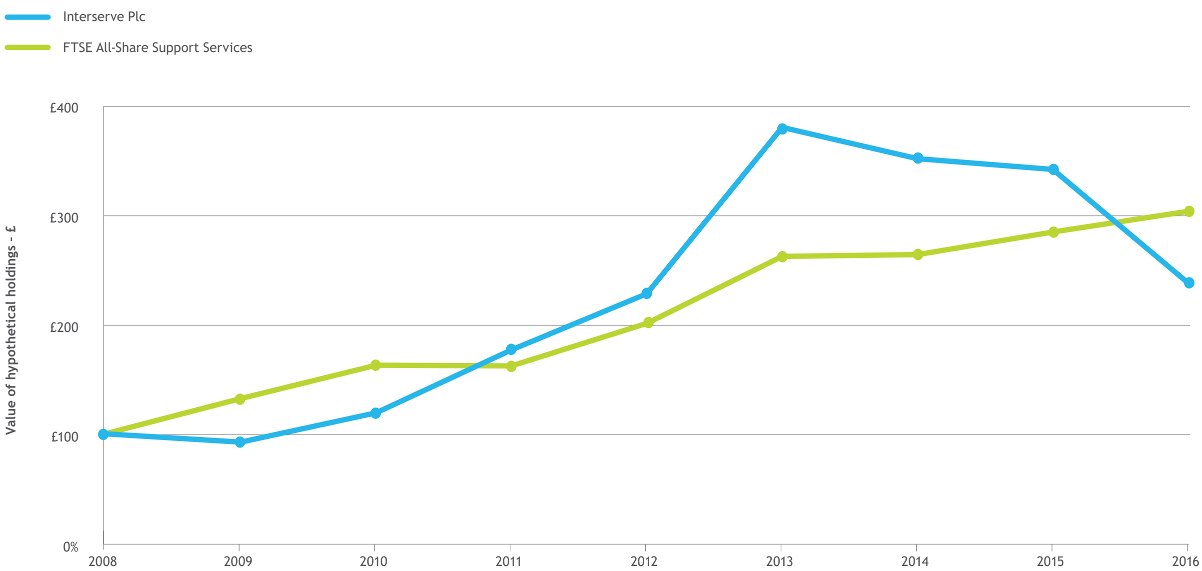
General

All amounts payable to Mr Ringrose will be subject to such deductions in respect of tax and national insurance as the Company is required by law to make. A contribution towards legal fees, capped at £10,000 (excluding VAT), was made in connection with his stepping down from the Board, together with a further contribution of £20,000 (excluding VAT) towards provision of outplacement services.

Performance graph

The graph below shows the value, on 31 December 2016, of £100 invested in Interserve Plc on 31 December 2008 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.

Historical TSR Performance



Source: Thomson Reuters Datastream

Directors' remuneration report continued

Change in Chief Executive remuneration

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

	2016	2015	2014	2013	2012	2011	2010	2009
Total remuneration (£000)	679	1,418	1,797	2,054	1,928	1,318	543	943
Annual Variable Pay (% of maximum)	nil	77.8%	62.6%	58.7%	100.0%	100.0%	30.0%	98.0%
PSP vesting (% of maximum)	nil	44.5%	54.2%	100.0%	100.0%	50.0%	nil	50.0%

The data for this table was taken from the Directors' Remuneration Reports for the relevant years and adjusted to take account of the actual share price on the date of vesting for the PSP.

Percentage change in Chief Executive's remuneration compared to 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 2015 and 31 December 2016, compared to the percentage increase for UK Senior Management (on a per capita basis):

	Percentage change
Salary	
Chief Executive	2.5
Senior Management[1]	6.0
Benefits	
Chief Executive	1.1
Senior Management[1]	6.2
Annual Bonus	
Chief Executive	(100.0)
Senior Management[1]	(42.2)[2]

1 The comparator group relates to UK Senior Management rather than all Group employees. We have chosen this group because the Committee believes that it provides a sufficient comparator group to give a reasonable understanding of underlying increases based on similar remuneration constituents applicable to Senior Management whilst reducing the distortion that would otherwise arise from the changing mix between UK and overseas employees.

2 This figure is an estimate only of the 2016 bonus. The actual amount will only be known once the March 2017 payroll has been run. To the extent that there is a material difference this will be disclosed in the 2017 report.

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 2015 compared to the financial year ending 31 December 2016:

	2016 £million	2015 £million	Percentage change
Overall expenditure on pay	1,153.7	1,117.4	3.3
Dividends paid	11.8	35.2	(66.5)

Performance Share Plan (audited information)

The following grants were made to the executive directors under the PSP 2015 during the year:

Executive director	Number of shares	Face value[1] £	End of performance period
S L Dance[2]	106,425	446,559	31 December 2018
T P Haywood	127,711	535,875	31 December 2018
B A Melizan	120,616	506,105	31 December 2018
A M Ringrose	195,114	818,698	31 December 2018
D I Sutherland	106,425	446,559	31 December 2018

1 Valued using the share price at the date of grant (5 April 2016), being 419.60p per share.

2 Resigned from the Board on 4 May 2016. His award will be subject to a pro-rata reduction and performance targets will apply as detailed on page 74.

Awards were made in the form of nil-cost options equivalent to 150 per cent of base salary, exercisable between 5 April 2019 and 4 April 2021.

The performance conditions attached to these awards are set out on page 74.

Achievement of the minimum performance over the performance period would result in 25 per cent of the awards vesting on 5 April 2019 together with the corresponding dividend equivalent. Executive directors must retain their post-tax vested shares for at least a two-year holding period after vesting.

The number of awards over shares in the Company (pursuant to the PSP 2006 and the PSP 2015) 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 2016*	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 exercise# £	Balance as at 31 December 2016*	Performance period
S L Dance	09.04.13	85,770	-	466.10	38,167	420.50	416.60	47,603	185,263	-†	01.01.13-31.12.15[1]
	13.05.14	61,908	-	694.00	-	n/a	n/a	-	n/a	61,908†	01.01.14-31.12.16[2]
	01.06.15	71,784	-	619.50	-	n/a	n/a	-	n/a	71,784†	01.01.15-31.12.17[3]
	05.04.16	-	106,425	419.60	-	n/a	n/a	-	n/a	106,425†	01.01.16-31.12.18[4]
T P Haywood	09.04.13	103,761	-	466.10	46,173	420.50	416.60	57,588	224,124	-	01.01.13-31.12.15[1]
	13.05.14	74,893	-	694.00	-	n/a	n/a	-	n/a	74,893	01.01.14-31.12.16[2]
	01.06.15	86,140	-	619.50	-	n/a	n/a	-	n/a	86,140	01.01.15-31.12.17[3]
	05.04.16	-	127,711	419.60	-	n/a	n/a	-	n/a	127,711	01.01.16-31.12.18[4]
B A Melizan	09.04.13	85,770	-	466.10	38,167	420.50	416.60	47,603	185,263	-	01.01.13-31.12.15[1]
	13.05.14	61,908	-	694.00	-	n/a	n/a	-	n/a	61,908	01.01.14-31.12.16[2]
	01.06.15	81,355	-	619.50	-	n/a	n/a	-	n/a	81,355	01.01.15-31.12.17[3]
	05.04.16	-	120,616	419.60	-	n/a	n/a	-	n/a	120,616	01.01.16-31.12.18[4]
A M Ringrose	09.04.13	144,094	-	466.10	64,121	420.50	416.60	79,973	311,423	-	01.01.13-31.12.15[1]
	13.05.14	104,005	-	694.00	-	n/a	n/a	-	n/a	104,005	01.01.14-31.12.16[2]
	01.06.15	131,604	-	619.50	-	n/a	n/a	-	n/a	131,604	01.01.15-31.12.17[3]
	05.04.16	-	195,114	419.60	-	n/a	n/a	-	n/a	195,114	01.01.16-31.12.18[4]
D I Sutherland	09.04.13	85,770	-	466.10	38,167	420.50	416.60	47,603	185,263	-	01.01.13-31.12.15[1]
	13.05.14	61,908	-	694.00	-	n/a	n/a	-	n/a	61,908	01.01.14-31.12.16[2]
	01.06.15	71,784	-	619.50	-	n/a	n/a	-	n/a	71,784	01.01.15-31.12.17[3]
	05.04.16	-	106,425	419.60	-	n/a	n/a	-	n/a	106,425	01.01.16-31.12.18[4]

\# Steven Dance, Tim Haywood, Bruce Melizan and Adrian Ringrose exercised their 2013 awards on 11 April 2016. The share price used to calculate the amount realised on exercise was 416.60p, being the closing price on that date. Dougie Sutherland exercised his 2013 awards on 19 April 2016. The share price used to calculate the amount realised on exercise was also 416.60p, being the closing price on that date. The amount realised for each executive director also includes a dividend equivalent payment of 68.80p per vested share.

† As at 4 May 2016, when Steven Dance resigned from the Board.

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

[1] The EPS Performance Condition for the 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.

Directors' remuneration report continued

[2] The EPS Performance Condition for the 2014 Awards

Normalised EPS growth of the Company over the performance period	Vesting percentage of two-thirds of shares subject to the award
Less than 40.46%	0%
40.46% to 83%	25% to 100% (pro-rated)
Greater than 83%	100%

The 2014 PSP awards were granted in the form of nil-cost options, exercisable between 13 May 2017 and 12 May 2019.

[1/2] The TSR Performance Condition for the 2013 and 2014 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 (not after 2013), MITIE Group, Morgan Sindall, Rentokil Initial, RPS Group and Serco.

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%

[3] The EPS Performance Condition for the 2015 Awards

Normalised EPS growth of the Company over the performance period	Vesting percentage of two-thirds of shares subject to the award
Less than 18%	0%
18% to 32%	25% to 65% (pro-rated)
32% to 58%	65% to 100% (pro-rated)
Greater than 58%	100%

The 2015 PSP awards were granted in the form of nil-cost options, exercisable between 1 June 2018 and 31 May 2020.

[4] The EPS Performance Condition for the 2016 Awards

Normalised EPS growth of the Company over the performance period	Vesting percentage of two-thirds of shares subject to the award
Less than 16.7%	0%
16.7% to 37%	25% to 65% (pro-rated)
37% to 65%	65% to 100% (pro-rated)
Greater than 65%	100%

The 2016 PSP awards were granted in the form of nil-cost options, exercisable between 5 April 2019 and 4 April 2021.

[3/4] The TSR Performance Condition for the 2015 and 2016 Awards

This condition is determined by comparing the Company's TSR performance to the TSR of each company in the FTSE 250, excluding investment trusts.

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%)	25%
Median to upper quartile ranking	25% to 100% (pro-rated)
Upper quartile ranking (top 25%)	100%

Share options (audited information)

No options were granted to, or exercised by, the executive directors during the year pursuant to an executive share option scheme and none remain outstanding. The aggregate gain made on the exercise of options was £nil (2015: £598,873). The market price of the shares as at 31 December 2016 was 341.75p. The highest and lowest market prices of the shares during the financial year were 518.50p and 221.25p respectively.

Sharesave Scheme (audited information)

No grants were made to the executive directors under the Interserve Sharesave Scheme 2009 during the year. 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 the options.

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 between 0 per cent and a maximum of 20 per cent.

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 2016	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 2016	Exercise period
S L Dance	04.04.13	226	-	469.50	398.00	-	n/a	-	n/a	226[1]	01.06.16-30.11.16
	09.04.14	352	-	696.50	511.00	-	n/a	-	n/a	352[1]	01.06.17-30.11.17
	30.09.14	340	-	599.50	529.00	-	n/a	-	n/a	340[1]	01.12.17-31.05.18
T P Haywood	04.04.13	226	-	469.50	398.00	-	n/a	226	n/a	-	01.06.16-30.11.16
	09.04.14	352	-	696.50	511.00	-	n/a	-	n/a	352	01.06.17-30.11.17
	30.09.14	340	-	599.50	529.00	-	n/a	-	n/a	340	01.12.17-31.05.18
	14.10.15	385	-	592.50	467.00	-	n/a	-	n/a	385	01.12.18-31.05.19
B A Melizan	04.04.13	226	-	469.50	398.00	-	n/a	226	n/a	-	01.06.16-30.11.16
	09.04.14	352	-	696.50	511.00	-	n/a	-	n/a	352	01.06.17-30.11.17
	30.09.14	340	-	599.50	529.00	-	n/a	-	n/a	340	01.12.17-31.05.18
	14.10.15	385	-	592.50	467.00	-	n/a	-	n/a	385	01.12.18-31.05.19
A M Ringrose	n/a	-	-	n/a	n/a	-	n/a	-	n/a	-	n/a
D I Sutherland	04.04.13	226	-	469.50	398.00	-	n/a	226	n/a	-	01.06.16-30.11.16
	09.04.14	352	-	696.50	511.00	-	n/a	-	n/a	352	01.06.17-30.11.17

1 As at 4 May 2016, when Steven Dance resigned from the Board.

Shareholding guidelines

Executive directors are expected to build up over time a shareholding equivalent to 200 per cent of their base salary. Further details of the shareholding guidelines are set out in the executive directors' remuneration policy table on page 82.

Directors' remuneration report continued

Shareholdings of directors (audited information)

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 200 per cent of salary:

			31 December 2016		
	31 December 2016 Beneficially owned	31 December 2015 Beneficially owned	Outstanding vested PSP awards	% shareholding requirement (% of salary/fee)	% actual shareholding (% of salary/fee)[1]
Executive directors					
S L Dance	106,352[2]	102,082	-	n/a	n/a
T P Haywood	162,164	115,643	-	200%	143%
B A Melizan	109,551	104,157	-	200%	102%
A M Ringrose	563,325	510,525	-	200%	325%
D I Sutherland	149,145	144,758	-	200%	158%
Non-executive directors					
G A Barker	5,670	5,670[3]	-	n/a	n/a
Lord Blackwell	10,995[4]	10,995	-	n/a	n/a
A K Fahy	8,000	8,000	-	n/a	n/a
R J King	3,000	3,000	-	n/a	n/a
K L Ludeman	4,990	4,990	-	n/a	n/a
N R Salmon	5,000	5,000	-	n/a	n/a

1 Using a share price of 332.88p, being the three-month average to 31 December 2016.

2 As at 4 May 2016, when Steven Dance resigned from the Board.

3 As at 1 January 2016, when Glyn Barker was appointed to the Board.

4 As at 29 February 2016, when Lord Blackwell resigned from the Board.

The above figures include shares held in trust pursuant to the Share Incentive Plan (SIP).

Between the year end and the date of this report, Tim Haywood, Bruce Melizan and Adrian Ringrose have each purchased additional shares pursuant to the SIP, as shown below:

Director	Date of purchase	Purchase price pence	Number of shares acquired	Beneficial holding as at 28 February 2017
T P Haywood	09.01.2017	319.75	47	
	09.02.2017	334.91	44	162,255
B A Melizan	09.01.2017	319.75	47	
	09.02.2017	334.91	45	109,643
A M Ringrose	09.01.2017	319.75	39	
	09.02.2017	334.91	38	563,402

There have been no further changes in the shareholdings of the directors who held office at the year end.

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 (14,571,412 shares) under all its share schemes. At 31 December 2016 there remained headroom equivalent to 3,119,358 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 PSP 2006 and PSP 2015 will be satisfied by newly-issued shares.

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
K L Ludeman (Committee Chairman)	10/10
G A Barker	9/10
Lord Blackwell[1]	2/2
A K Fahy	10/10
R J King	10/10
N R Salmon	10/10

[1] Lord Blackwell resigned on 29 February 2016.

The Committee meets as often as is necessary to discharge its duties and met ten times during the year ended 31 December 2016. 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 2016 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 through 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 fee paid to NBS in respect of its services to the Committee during the year was £21,861 (2015: £29,718). The 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 2013 PSP awards;
- review of vesting documentation for the PSP;
- assistance with the drafting of the Directors' Remuneration Report; and
- the provision of updates on developments in remuneration practice.

Directors' remuneration report continued

An additional fee of £5,750 (2015: £6,728) was paid to NBS in respect of its services to the Company during the year, the majority of which related to assisting the Company with a benchmark review of eight senior roles and providing an IFRS 2 valuation of the 2016 long-term incentive awards.

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

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 relevance to the Company or if there are specific pieces of work which the Committee requires to be undertaken.

NBS is a signatory to the Remuneration Consultants' Code of Conduct and has confirmed its compliance with the Code.

During the last quarter of 2016 the Committee issued invitations to five, and received proposals from four, remuneration consultants for the provision of independent advice to the Committee on remuneration matters. Korn Ferry was appointed to provide these services for a period of three years commencing on 1 January 2017. Korn Ferry 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 10 May 2016, the Annual Report on Remuneration received the following votes from shareholders:

Resolution	Votes for	% for	Votes against	% against	Total votes cast (excluding votes withheld)	Votes withheld
Annual Report on Remuneration	95,719,243	99.1	861,490	0.9	96,580,733	1,237,848

The directors' Remuneration Policy did not require a shareholder vote in 2016.

REMUNERATION POLICY

In this section we set out our Remuneration Policy for executive and non-executive directors which was approved by shareholders for up to three years at the AGM on 12 May 2015. The policy remains unchanged and therefore does not require a shareholder vote in 2017.

Our Remuneration Policy continues to be underpinned by remuneration packages which are designed to retain and motivate stable leadership teams who understand and are able to apply the core skills and control framework of the business into adjacent markets in order to grow the business.

A copy of our remuneration strategy and the full remuneration policy is set out on pages 76 to 86 of the Company's Annual Report and Financial Statements 2014, available on the Company's website at *www.interserve.com/investor-centre/financial-reports-and-results*.

EXECUTIVE DIRECTORS' REMUNERATION POLICY (APPROVED ON 12 MAY 2015)

The following table summarises the main elements of the executive directors' remuneration policy, 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 86.

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 rest of 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. Small tokens with a value not exceeding £1,000 to mark significant events (e.g. long service, retirement etc).	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.

Directors' remuneration report continued

<table>
<tr><th>Element of pay</th><th>Purpose and link to strategy</th><th>How operated in practice (including framework for assessing performance)</th><th>Maximum opportunity</th></tr>
<tr><td>Pension</td><td>To provide benefits commensurate to the market in which the Company operates.</td><td>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-enhanceable 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.</td><td>Employer's defined contribution and/ or pension cash supplement up to a total maximum of 15% of base salary.</td></tr>
<tr><td>Annual Variable Pay</td><td>To incentivise the achievement of annual targets, rewarding strong operational performance in line with and in excess of targeted performance and which promote the long-term success of the Company.</td><td>Targets are set by the Committee with reference to stretching targets that are set annually by the Board.

For Variable Pay earned up to 100% of salary, a majority (if not all) of the Variable Pay will be based on financial targets and a minority (if at all) of the Variable Pay may be based on other performance metrics linked to the business strategy.

For Variable Pay above 100% of salary (i.e. for the Chief Executive and Group Finance Director), in order to maintain a common set of targets across the executive team, supplementary stretching non-financial targets are applied to the additional Variable Pay opportunity beyond 100% of salary.

Although Annual Variable Pay is deliverable in cash, an element of any payment 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 or, in the case of the Chief Executive and Group Finance Director, between 50% and 125% 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 and dividends will accrue on deferred shares.

The Committee has the overriding discretion to adjust the Variable Pay outcome up or down (subject to the overall maximum set out in the adjacent column) to ensure the payment is fair and appropriate in all the circumstances.

The Annual Variable Pay arrangements include provisions that enable the Committee to recover value overpaid (clawback) or to withhold future Variable Pay awards (malus) in the event of misstatement, error or misconduct for a period of two years after the date on which a payment is made.

Annual Variable Pay is not pensionable.</td><td>Maximum opportunity:

125% of basic salary for the Chief Executive and Group Finance Director and 100% of basic salary for the remaining executive directors.

Entry level performance:

No more than 10% of basic salary in relation to financial targets.

A graduated scale of targets operates between entry level and maximum performance.

Where non-financial targets are set, it may not always be possible to set a graduated scale of targets with some elements requiring a subjective assessment of the level of performance achieved.</td></tr>
</table>

Element of pay	Purpose and link to strategy	How operated in practice (including framework for assessing performance)	Maximum opportunity
Performance Share Plan (PSP)	To provide a longer term incentive to incentivise the executive directors to achieving the Group's longer-term objectives and promote the long-term success of the Company. To provide alignment with shareholders and provide a retention tool.	PSP awards may be granted each year to senior executives. Awards will be made in the form of nil-cost options. 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). Post-tax vested shares must be retained for at least a two-year holding period after vesting. Dividends notionally accrue on awards from the date of award (up to the earlier date of exercise of the nil-cost option or the conclusion of a holding period of up to two years from vesting) and an equivalent cash sum will become payable on settlement to the extent that the shares ultimately vest. The PSP includes provisions that enable the Committee to recover value overpaid on vesting (clawback) or to withhold future variable pay awards (malus) in the event of misstatement, error or misconduct for a period of two years after the date on which an award vests. 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 an appropriate comparator group. No more than 25% of each part of an award may vest 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 comparator 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) and may make appropriate revisions in light of developments in the Company's strategy. Should there be a material change in the proposed 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 25% of any part of a performance condition can vest for achieving the threshold performance level.

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 tax-advantaged 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 build up over time a shareholding equivalent to 200% of their base salary. Shares purchased under the Annual Variable Pay arrangements, the 2002 Executive Share Option Scheme, vested awards under the PSP (whether or not exercised), the Sharesave Scheme and the SIP also count toward this limit. Share options, whether or not vested, 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

With regards to performance conditions, the Committee will continue to select financial and, if appropriate, non-financial 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 continue to 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 together with appropriate and demanding targets in the context of the Company's trading environment and strategic objectives.

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, such as the higher Variable Pay maxima for the Chief Executive and Group Finance Director and Variable Pay targets weighted 70 per cent on divisional and 30 per cent on Group performance, 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 may only have an EPS-based performance condition.

The Shareholding Guidelines are not applicable other than to the executive directors.

When approving this directors' Remuneration Policy, authority was 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 the previously approved Remuneration Policy or remuneration reports or disclosed to and approved by shareholders and in respect of outstanding share awards as detailed on pages 73 to 75 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

Remuneration payments can only be made if they are consistent with the approved Remuneration Policy, the relevant plan rules or are otherwise approved by ordinary resolution of the members of the Company.

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 without limitation, 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 85); 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
- waive some or all of the Shareholding Guidelines or the requirement to invest Annual Variable Pay in Company shares and retain share awards on vesting in exceptional circumstances.

Service contracts and policy on payments for loss of office

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 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
T P Haywood	30 November 2010
B A Melizan	10 January 2008
A M Ringrose	13 December 2001
D I Sutherland	1 January 2011

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 overleaf 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.

Payments for loss of office can only be made if they are consistent with the approved Remuneration Policy or are otherwise approved by ordinary resolution of the members of the Company. Failure will not be rewarded.

Directors' remuneration report continued

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 (PILON) 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 or in the case of a Chief Executive or Group Finance Director, 125% 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 fl xibility 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.

Directors’ remuneration report continued

TERMS OF APPOINTMENT AND REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

Terms of appointment

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 elected/re-elected
G A Barker	1 January 2016	10 May 2016
G M Edwards[1]	1 February 2017	n/a
A K Fahy	1 January 2013	10 May 2016
R J King	1 September 2014	10 May 2016
K L Ludeman	1 January 2011	10 May 2016
N R Salmon	1 August 2014	10 May 2016

1 Gareth Edwards will be proposed for election by shareholders at the forthcoming AGM on 12 May 2017.

Remuneration Policy (approved on 12 May 2015)

The following table summarises the non-executive directors’ Remuneration Policy:

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 (e.g. paying reasonable travel expenses incurred undertaking Company business to keep individuals whole on a net of tax basis). Small tokens with a value not exceeding £1,000 may be made to mark significant events (e.g. long service, retirement etc). 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.

APPROVAL

The Directors’ Remuneration Report was approved by the Board of Directors on 28 February 2017 and signed on its behalf by:

Keith Ludeman
Chairman of the Remuneration Committee
28 February 2017

Directors' report

Trevor Bradbury
Company Secretary

The directors of Interserve Plc (the Company) present their report and the audited consolidated financial statements for the year ended 31 December 2016.

SCOPE OF REPORTING

For the purposes of compliance with paragraphs 4.1.5R(2) and 4.1.8R of the Disclosure Guidance and Transparency Rules (DTRs) of the Financial Conduct Authority (FCA), the required content of the "management report" can be found in the Strategic Report and this Directors' Report (including the sections of the Annual Report and Financial Statements incorporated by reference).

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 95, and 98 to 105, respectively, of this Annual Report.

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. The Group's business model and strategy are summarised in the Strategic Report.

The DTRs also 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.

Information required to be disclosed under Listing Rule 9.8.4R can be found in the following locations:

Section of LR 9.8.4R	Topic	Location
(4)	Details of long-term incentive schemes	Directors' Remuneration Report
(12)	Shareholder waivers of dividends	Directors' Report
(13)	Shareholder waivers of future dividends	Directors' Report

The remaining disclosures required by Listing Rule 9.8.4R are not applicable to the Company.

All the information cross-referenced above is hereby incorporated by reference into this Directors' Report.

Disclosure of financial risk management objectives and policies is made on page 34 of the Strategic Report.

THE COMPANY

Legal form

The Company is incorporated in the United Kingdom with company number 00088456. Related undertakings are listed on pages 179 to 186.

Branches

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

Amendment of the Articles of Association

The Company's constitution, known as the articles of association (the Articles), is essentially a contract between the Company and its shareholders, governing the management of the Company. A copy of the Articles can be obtained on request from the Company Secretary. Amendments to the Articles must be approved by at least 75 per cent of those voting in person or by proxy at a general meeting of the Company.

FINANCIAL RESULTS

The Group's Consolidated Income Statement set out on page 106 shows Group loss before taxation of £94.1 million (2015: profit of £79.5 million). The detailed results of the Group are given in the financial statements on pages 106 to 161 and further comments on divisional results are given in the Operational Review on pages 14 to 25.

There have been no post-balance sheet events that require adjustment in the financial statements.

Directors' report continued

DIVIDENDS

An interim dividend of 8.1p per 10p ordinary share (2015: 7.9p) was paid on 21 October 2016. The directors are not recommending the payment of a final dividend, making a total distribution for the year ended 31 December 2016 of 8.1p per 10p ordinary share (2015: 24.3p).

Capita Trustees Limited, the trustee of the Interserve Employee Benefit Trust (the Trust), has waived its rights to receive dividends on any shares held by the Trust in the name of Capita IRG Trustees (Nominees) Limited. It waived its right to receive a dividend over 996,261 shares held by the Trust in respect of the dividend paid in May 2016 (May 2015: 1,570,068 shares) and 501,512 shares in respect of the dividend paid in October 2016 (October 2015: 366,703 shares).

DIRECTORS AND DIRECTORS' INTERESTS

The following have served as directors during the year:

Glyn Barker*[1] (Group Chairman from 1 March 2016)
Lord Blackwell*[2] (Group Chairman until 29 February 2016)
Adrian Ringrose (Chief Executive)
Russell King* (Senior Independent Director)
Steven Dance[3]
Anne Fahy*
Tim Haywood
Keith Ludeman*
Bruce Melizan
Nick Salmon*
Dougie Sutherland

*Non-executive director

1 Appointed to the Board on 1 January 2016

2 Resigned from the Board on 29 February 2016

3 Resigned from the Board on 4 May 2016

Since the year end, Gareth Edwards was appointed to the Board on 1 February 2017 as a non-executive director.

The biographical details of the directors of the Company are given on pages 40 to 43.

The powers of the directors, and their service contracts and terms of appointment, are described in the Corporate Governance report.

The directors' beneficial interests in, and options to acquire, ordinary shares in the Company, are set out on pages 72 to 76 of the Directors' Remuneration Report.

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.

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, 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. Gareth Edwards will therefore be standing for election at the AGM on 12 May 2017.

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 UK Corporate Governance Code, the Board has again decided that all the directors will be subject to election or 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 Companies Act 2006 (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' INDEMNITIES AND INSURANCE

As permitted by the Company's Articles, 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 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 or her. 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 consolidated financial statements. A breakdown of employee diversity, as required by the 2006 Act, can be viewed on page 23 of the Strategic Report. The Group's statement with regard to its employees, including its disclosure on employee consultation, equal opportunities, human rights and diversity, is set out within the Strategic Report on pages 22 and 23.

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.

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

On this basis, 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 operational control approach, the GHG emissions associated with the use of those same vehicles for both private and company business would have been reported.

Summary table

Global GHG emissions data for 1 January 2016 to 31 December 2016, with comparable data for 2015 and 2014, is as follows:

	Tonnes CO_2e		
	2016	2015	2014
Emissions from:			
- Combustion of fuel and operation of facilities	57,952[1]	39,107	39,231
- Electricity, heat, steam and cooling purchased for own use	15,488	17,289	14,294
Intensity measurement:			
- Emissions reported above, normalised to tonnes CO_2e per £m revenue	22.63	17.63	18.37

[1] Increase predominantly relates to the consumption of 6 million litres of gas oil/diesel associated with specific contracts undertaken by The Oman Construction Company LLC and Adyard Abu Dhabi LLC.

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 "Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance" (June 2013) issued by DEFRA and the "UK Government GHG Conversion Factors for Company Reporting" (June 2016) to calculate our emissions based on data gathered from each of our business units.

Additional information relating to the Group's GHG emissions and some of the actions being taken to mitigate our impact on the environment are set out within the Strategic Report.

POLITICAL DONATIONS

The Group made no political donations and incurred no political expenditure during the year (2015: £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.

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 page 34.

Directors' report continued

SHARE CAPITAL AND STRUCTURE

General

The Company's issued share capital as at 31 December 2016 comprised a single class of ordinary shares. All shares rank equally, are fully paid up and are quoted on the London Stock Exchange. No person holds shares carrying special rights with regard to control of the Company.

During the year 506,643 shares were issued at par fully paid to the nominee account of Capita Trustees Limited (as trustee of the Interserve Employee Benefit Trust) in order to satisfy the awards granted to participants of the Performance Share Plan 2006 (PSP 2006) in April 2013, which vested in April 2016.

As a result of the foregoing allotment, the Company's issued share capital at the end of the year stood at 145,714,120 (2015: 145,207,477) ordinary shares of 10p each (£14,571,412.00) (2015: £14,520,747.70). No further shares have been issued since the year end. The issued share capital at the date of this report therefore stands at 145,714,120 ordinary shares of 10p each (£14,571,412.00).

Details of outstanding awards and options over shares in the Company as at 31 December 2016 are set out in notes 26 and 28 to the consolidated financial statements on pages 149 and 151 respectively.

Issue of shares

Section 551 of the 2006 Act provides that the directors may not allot shares unless empowered to do so by shareholders. A resolution giving such authority was passed at the AGM held on 10 May 2016. The AGM authorities were only used in 2016 in relation to the issue of shares pursuant to the satisfaction of awards granted to participants of the PSP 2006, as described above.

The directors propose resolution 16 set out in the Notice of AGM to renew the authority granted to them at the 2016 AGM to allot shares up to an aggregate nominal value of one-third of the Company's issued share capital and, in accordance with the Investment Association's Share Capital Management Guidelines, the directors again propose to extend this by 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). In March 2015, the Pre-Emption Group issued a revised Statement of Principles for the disapplication of pre-emption rights (the Principles). In addition to the standard annual disapplication of pre-emption rights up to a maximum equal to five per cent of issued ordinary share capital, the Pre-Emption Group is now supportive of extending the general disapplication authority for an additional five per cent in connection with an acquisition or specified capital investment. In line with the Principles, the directors are again seeking approval at the 2017 AGM for the disapplication of pre-emption rights up to an aggregate nominal value of no more than five per cent of the Company's issued ordinary share capital on an unrestricted basis (resolution 17) and an additional five per cent in connection with an acquisition or specified capital investment (resolution 18). In accordance with recommended best practice, the Company has this year split the section 561 resolution into two separate resolutions. Further information is set out in the Notice of AGM.

The Principles also require 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. Pursuant to its employee share schemes, the Company issued 0.3 per cent of its issued share capital on a non-pre-emptive basis in 2016 and 2.6 per cent in the period 2014 to 2016 (calculated by reference to the Company's closing issued share capital at 31 December 2016).

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 16, 17 and 18 although they consider their renewal appropriate in order to retain maximum flexibility to take advantage of business opportunities as they arise.

Purchase of own shares

The Company has authority under a shareholders' resolution passed at the 2016 AGM to repurchase up to 14,520,747 of the Company's ordinary shares in the market. This authority expires at the conclusion of the forthcoming AGM on 12 May 2017. No shares have been repurchased by the Company under the authority granted at the 2016 AGM.

Resolution 19 set out in the Notice of AGM will be proposed as a special resolution in order to renew this authority. Although the directors have no immediate plans to do so, they believe it is prudent to seek general authority from shareholders to be able to act if circumstances were to arise in which they considered such purchases to be desirable. This power will only be exercised if and when, in the light of market conditions prevailing at that time, the directors believe that such purchases would increase expected earnings per share and would be for the benefit of shareholders generally.

The authority sets the minimum and maximum prices at which the shares may be bought and it will be limited to a maximum of 10 per cent of the Company's issued share capital calculated at the latest practicable date prior to the publication of the Notice of AGM. 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.

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

Voting

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

The right to appoint a proxy does not apply to a person who has been nominated under section 146 of the 2006 Act to enjoy information rights (a Nominated Person). He/she may, however, have a right under an agreement with the registered shareholder by whom he/she was nominated, 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 2017 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 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.

If a person fails to comply with 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. Unless the information required 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 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.

As permitted by the Company's Articles and in line with practice increasingly adopted by UK public companies, voting at the 2017 AGM will (as last year) be conducted by way of a poll rather than a show of hands. Voting by poll is considered to be a more transparent and equitable method of voting because it includes the votes of all shareholders, including those cast by proxies in advance of the meeting, rather than just the votes of those shareholders who attend the meeting. As soon as practicable following the AGM, the results of the poll will be published via the Regulatory News Service and on the Company's website at *www.interserve.com*.

Directors' report continued

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 20 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 five 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 and prevailing legislation. In accordance with the EU Market Abuse Regulation (which came into effect on 3 July 2016), 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 2016 the Company had been notified, pursuant to paragraph 5 of the DTRs, of the following notifi ble voting rights in its ordinary share capital:

Name of holder	Number of ordinary shares	Percentage of total voting rights[1]	Nature of holding
Henderson Group Plc	7,717,067	5.3	Indirect
Aberdeen Asset Managers Ltd	7,295,030	5.0	Indirect
Old Mutual Plc	7,238,006	5.0	Indirect
Mondrian Investment Partners Ltd	7,212,846	4.9	Indirect
Standard Life Investments (Holdings) Ltd	6,347,380	4.4	Direct and indirect

[1] Calculated according to the number of total voting rights as at 31 December 2016.

No notifications have been received between the year end and the date of this report (being a date not more than one month prior to the date of the AGM Notice).

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 34 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.
- Under the terms of the Note Purchase Agreement in relation to the US private placement detailed on page 34 of the Strategic Report, upon a change of control the Company is required to make an offer to all noteholders to prepay the entire unpaid principal amount of the notes, together, with interest.
- 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 85 of the Directors' Remuneration Report.

AUDITOR

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

Statement of disclosure of information to auditor

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 auditor is unaware; and

(b) they have each made such enquiries of their fellow directors and of the Company's auditor 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 auditor is aware of that information.

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

ANNUAL GENERAL MEETING

The resolutions to be proposed at the AGM to be held on 12 May 2017, together with the explanatory notes, appear in the separate Notice of AGM accompanying this Annual Report. The Notice is also available on our website at *www.interserve.com*.

APPROVAL

This report was approved by the Board of Directors on 28 February 2017 and signed on its behalf by:

Trevor Bradbury
Company Secretary
28 February 2017

Interserve House
Ruscombe Park
Twyford
Reading
Berkshire
RG10 9JU

Directors' report continued

CAUTIONARY STATEMENT

The Strategic Report, Directors' Report and Directors' Remuneration Report have been prepared solely for existing members of the Company in compliance with UK company law and the Listing, Prospectus, and DTRs of the FCA. The Company, the directors and employees accept no responsibility to any other person for anything contained in the Strategic Report, Directors' Report and Directors' Remuneration Report. The directors' liability for the Strategic Report, Directors' Report and Directors' Remuneration Report is limited, as provided in the 2006 Act.

The Company's auditor provides an opinion on:

(a) whether the information given in the Strategic Report and the Directors' Report is consistent with the financial statements;

(b) whether the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;

(c) whether in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, the auditor has identified material misstatements in the Strategic Report and the Directors' Report and, if applicable, gives an indication of the nature of each of those misstatements;

but neither the Strategic Report nor the Directors' Report are audited.

Statements made in the Strategic Report, Directors' Report and Directors' Remuneration Report reflect the knowledge and information available at the time of their preparation. The Strategic Report and the Directors' Report contain 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.

Directors' responsibility statement

The directors are responsible for preparing the Annual Report and 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), including the requirements of FRS 101 *Reduced disclosure framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss 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 the 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 Group'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 parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulations. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance statement that comply with that law and those regulations.

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

(a) the parent company and Group financial statements in this Annual Report, which have been prepared in accordance with UK GAAP, including the requirements of FRS 101 *Reduced disclosure framework* and IFRS, respectively, give a true and fair view of the assets, liabilities, financial position and profit of the parent company and of the Group taken as a whole;

(b) the management report required by paragraph 4.1.8R of the FCA's Disclosure Guidance and Transparency Rules (contained in the Strategic Report and the Directors' Report) includes a fair review of the development and performance of the business and the position of the parent 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 Group's position and performance, business model and strategy.

By order of the Board

Adrian Ringrose
Chief Executive

Tim Haywood
Group Finance Director

28 February 2017

BREATHING NEW LIFE INTO HISTORIC BUILDINGS

During the year we completed several projects to regenerate, modernise and rejuvenate historic buildings throughout the UK.

We completed a scheme to transform the iconic Grade II listed former Co-Operative department store building in Newcastle city centre from a state of disrepair into a vibrant commercial hub complete with a new 184-bed Premier Inn, which opened last year.

First developed in the late 1800s, a huge proportion of the building had been left untouched for many years and required significant renovation. The building was stripped back to reveal original architectural features which we worked collaboratively with partners, including the local history society, to protect and document.

We also completed work to improve and refurbish the historic Kirkgate Market in Leeds. Located in the heart of the city, the Grade I listed market building attracts more than 35,000 shoppers every week. Working with English Heritage and a conservation team we replaced roofs, built a new covered market, event space, restaurant area as well as adding new entrances and signage.

Both developments provided a boost to the local economies of Newcastle and Leeds; creating hundreds of jobs and supporting local businesses of all sizes.

Financial Statements

Independent auditor's report

to the members of Interserve Plc

Our opinion on the financial statements is unmodified

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 2016 and of the Group's loss 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 *Reduced disclosure framework*; 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.

Who we are reporting to

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.

What we have audited

Interserve Plc's financial statements for the year ended 31 December 2016 comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes.

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 United Kingdom Generally Accepted Accounting Practice including FRS 101 *Reduced disclosure framework*.

Overview of our audit approach

Key audit risks were identified as revenue recognition and contract accounting, the accounting treatment of exceptional items, including the exited Energy from Waste (EfW) businesses, impairment of non-current assets, and defined benefit pension schemes.

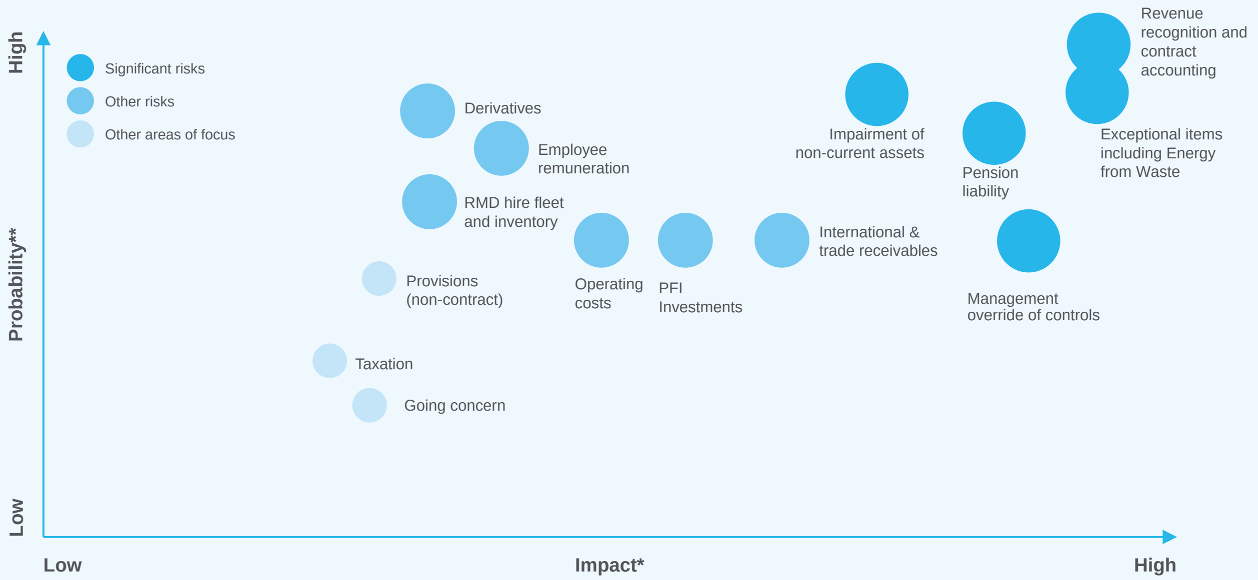
Overall Group materiality is £5.0 million which represents approximately 4.6 per cent of the Group's profit before tax excluding exceptional items and amortisation of acquired intangible assets.

We performed full-scope procedures at all operating locations in the United Kingdom, Guernsey and certain Group entities in the United Arab Emirates (UAE) and Spain. We performed targeted procedures over component locations in Oman, Qatar, the UAE, Spain, Saudi Arabia, Australia, Hong Kong, the Philippines and the United States of America.

Our assessment of risk

At the outset of our audit, we identified the risks and matters that would need to be considered in dispensing our responsibilities. The following graph illustrates the risks we identified and our assessment of those risks from our audit planning process and which were presented to the Audit Committee along with our audit approach on 5 December 2016. There were no changes to the audit risks as a result of our audit procedures.

Summary of identified audit risks



* Impact the identified risk would have on the Group or Company's financial statements

** Probability that the identified risk could occur during the year under review if not properly controlled

Independent auditor’s report continued

to the members of Interserve Plc

In arriving at our opinions set out in this report, we highlight the following risks that, in our judgement, had the greatest effect on our audit:

Audit risk	How we responded to the risk
Revenue recognition and contract accounting See note 1 on page 115, and page 57 of the Audit Committee report. Revenue is recognised throughout the Group as the fair value of consideration receivable in respect of provision of service and construction contracts and the rental and sale of equipment. Provision is made for expected contract losses as soon as they are foreseen. Determining the amount of revenue to be recognised requires management to make significant judgements and estimates including the cost to complete, and the identification of any other costs that might arise, the probability of customer acceptance of claims and variations and the recoverability of work-in-progress and receivables balances. We therefore identified revenue recognition and contract accounting as a significant risk.	Our audit work included, but was not restricted to: • testing certain key controls within the Construction division over contract execution, certification, invoicing, collections, cost approvals and cost allocations; • selecting a sample of contracts in progress determined by reference to materiality and other risk factors including loss-making contracts and contracts with aged work-in-progress and debtor balances; • testing management's application of the contractual terms and conditions, recalculating revenue recognised under the percentage of completion method based on costs incurred to date (where applicable) and testing a sample of costs recorded on projects to source documents; • challenging management's assertions relating to the expected costs to complete by reference to supporting documentation such as customer certifications, forecast models and comparing previous cost estimates against actual results and examining variation and claim agreements; • agreeing revenues to contracted amounts and reconciled differences to variations that were submitted during the period; • testing a sample of revenue items for non-contract revenue, covering both hire and sale revenue, agreeing items selected for testing through to documentation supporting existence; • reviewing management's assessment of forward loss provisions recorded on longer-term contracts, including challenging management on the judgements inherent within their contract forecasts, understanding the basis for projected claims income and cost savings, review of historical experience and comparing against expected outcomes; and • investigating the recovery of work-in-progress balances, by reference to certifications and correspondence from customers and examining the Group's historical experience of recovery.

Audit risk

Accounting treatment of exceptional items, including Energy from Waste (EfW)

See note 5 on page 125, and page 56 of the Audit Committee report.

The Group has separately presented certain items on the face of the Consolidated Income Statement as exceptional. Transactions and items that are non-recurring and significant in size or in nature have been classified as exceptional.

During 2016, management announced that it would no longer be undertaking EfW contracts where Interserve would take on the contractual responsibility for process risk. Management has grouped the six such contracts together and has classified these as an exited business. The Group has recorded a loss of £160.0 million in relation to the exited business.

Additionally, management has also undertaken a strategic review of the Equipment Services division during the year. This has resulted in the decision to restructure the division and exit operations in a number of geographies. To date management has recorded a loss on the year of £10.7 million in respect of this exceptional event.

Exceptional items are not defined by IFRSs as adopted by the European Union. Consequently, management has written an accounting policy to define exceptional items in the financial statements, which is set out in note 1. In applying this accounting policy, management exercises significant judgement in respect of what it determines as an exceptional transaction. In making this assessment, management has identified significant non-recurring transactions that by their size or nature require separate presentation. Management has also reviewed underlying presentation, restating comparative information where appropriate. Management has taken into account the Financial Reporting Council's (FRC) guidance issued in December 2013 in respect of disclosures of such transactions.

We therefore identified the presentation of exceptional items, including the exited businesses, in the income statement as a significant risk.

How we responded to the risk

In addition to the procedures noted above relating to revenue recognition and contract accounting, our audit work included, but was not restricted to:

- assessing management's determination of exceptional items and the adequacy of disclosures;
- challenging management's measurement of the loss provision in relation to the exited business, performing detailed contract reviews on each of the six EfW contracts, with a particular focus on the terminated contract for the Glasgow Recycling and Renewable Energy project;
- re-performing the calculations relating to the presentation of exited businesses as an exceptional item for both 2015 and 2016;
- assessing the impact of exited businesses on other areas of the annual report, particularly on management's assessment of going concern and continued compliance with banking covenants;
- testing expenditure related to the strategic review of the Equipment Services division and determining whether accruals of expenses were appropriate and accounted for correctly; and
- reviewing non-routine transactions throughout the audit to assess that the presentation and disclosure of exceptional items is complete.

Independent auditor's report continued

to the members of Interserve Plc

Audit risk

Impairment of non-current assets

See notes 12 and 13 on pages 130 to 132, and page 57 of the Audit Committee report.

The directors are required to make an annual assessment to determine whether the Group's goodwill and intangible assets, which stand at £437.0 million and £77.0 million, respectively, are impaired.

The process for assessing whether impairment exists under International Accounting Standard (IAS) 36 *Impairment of assets* is complex. The process of determining the value in use, through forecasting cash flows related to cash generating units (CGUs) and the determination of the appropriate discount rate and other assumptions to be applied can be highly judgemental and can significantly impact the results of the impairment review.

We therefore identified the goodwill and intangible assets impairment review as a significant risk.

How we responded to the risk

Our audit work included, but was not restricted to:

- obtaining management's assessment of the relevant CGUs used in the impairment calculation and comparing those to our understanding of the business units and operating structure of the Group and recalculating the arithmetical accuracy of those calculations including the sensitivity analyses;
- testing the assumptions utilised in the impairment models, including growth rates, discount rates and terminal values. This included utilising our internal valuation specialists to consider whether the assumptions used were appropriate to the relevant CGU's circumstances and, where possible, benchmarked these assumptions against available industry data;
- challenging management assessment of impairment indicators relating to intangible assets;
- comparing current market capitalisation to carrying value of net assets and calculated value in use for the Group; and
- testing the accuracy of management's forecasting through a comparison of budget to actual data and historical variance trends and reviewing the cash flows for exceptional or unusual items or assumptions.

Defined benefit pension schemes

See note 29 on page 153, and page 57 of the Audit Committee report.

The Group has a number of defined benefit pension schemes that provide benefits to a significant number of current and former employees. At 31 December 2016 the defined benefit pension schemes' net deficit was £52.4 million. The gross value of pension scheme liabilities and assets which form the net deficit amount to £1,044.6 million and £992.2 million respectively.

The measurement of the pension liabilities in accordance with IAS 19 *Employee benefits* involves significant judgement and their valuation is subject to complex actuarial assumptions. Small variations in those actuarial assumptions can lead to a materially different defined benefit pension scheme asset or liability being recognised within the Group financial statements.

We therefore identified defined benefit pension schemes, including their valuation, as a significant risk.

Our audit work included, but was not restricted to:

- utilising the expertise of our actuarial specialists in order to review the assumptions used, such as discount rates, growth rates and mortality rates for reasonableness and the methods employed in the calculation of the obligation;
- testing the accuracy of underlying membership data utilised by the Group's actuaries for the purpose of calculating the scheme liabilities by selecting a sample of employees and agreeing pertinent data such as date of birth, gender, date of membership to underlying records and testing a sample of net movements in that data since it was last formally prepared; and
- directly confirming the existence of pension scheme assets with all asset managers and testing the valuation of specific material pension assets including the purchased insurance contracts.

Our application of materiality and an overview of the scope of our audit

Materiality

We define materiality as the magnitude of a 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 in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

We determined materiality for the Group financial statements as a whole to be £5.0 million, which was set at the same level as for the previous year of 4.5 per cent of Group profit before tax excluding exceptional items and amortisation of acquired intangible assets at the planning stage of our audit, based upon an estimate of the full-year result. This reflects approximately 4.6 per cent of the final result. This benchmark is considered the most appropriate because this is a key performance measure used by the Board of Directors to report to investors on the financial performance of the Group. We chose not to revise our materiality threshold during the course of the audit once the final profit before tax was known as the result was not significantly different to the projected result.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75 per cent of financial statement materiality for the audit of the Group financial statements. The percentage used is the same as that set last year, which reflects our assessment of the risk inherent in the audit. We determine a lower level of materiality for certain specific areas such as directors' remuneration and related party transactions.

We determined the threshold at which we will communicate misstatements to the Audit Committee to be £249,000. In addition, we communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Overview of the scope of our audit

A description of the generic scope of an audit of financial statements is provided on the FRC's website at *www.frc.org.uk/auditscopeukprivate*.

We conducted our audit in accordance with International Standards on Auditing (ISAs) (UK and Ireland). Our responsibilities under those standards are further described in the 'Responsibilities for the financial statements and the audit' section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the Auditing Practices Board's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with those Ethical Standards.

Our audit approach was based on a thorough understanding of the Group's business and is risk-based. An interim visit was conducted before the year end at all significant components of the Group to complete advance substantive audit procedures and to evaluate the Group's internal controls environment including its IT systems. The components of the Group were evaluated by the Group Audit Team based on a measure of materiality considering each as a percentage of total Group assets, liabilities, revenues and profit before taxes, to assess the significance of the component and to determine the planned audit response. For those components that were evaluated as significant, either a full-scope or targeted audit approach was determined based on their relative materiality to the Group and our assessment of the audit risk. For significant components requiring a full-scope approach we evaluated and tested controls over the financial reporting systems identified as part of our risk assessment, reviewed the accounts production process and addressed critical accounting matters. We sought, wherever possible, to rely on the effectiveness of the Group's internal controls in order to reduce substantive testing. We then undertook substantive testing on significant transactions and material account balances.

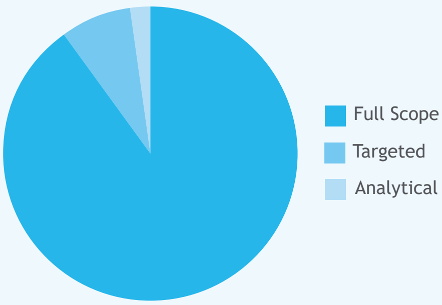
In order to address the audit risks described above as identified during our planning procedures, we performed a full-scope audit of the financial statements of the parent company, Interserve Plc, and of the Group's operations throughout the United Kingdom, Guernsey and certain Group entities in the UAE and Spain. The operations that were subject to full-scope audit procedures made up 86.5 per cent of consolidated revenues and 63.6 per cent of headline profit before tax. Statutory audits of subsidiaries, where required by local laws, were performed to lower materiality where applicable.

Independent auditor’s report continued

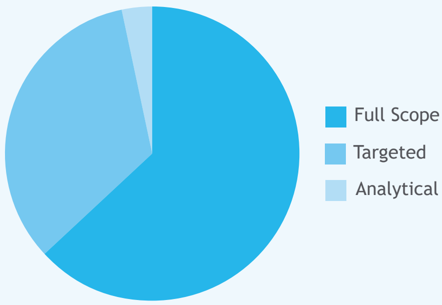
to the members of Interserve Plc

While the majority of the operations are located within the United Kingdom, the Group has material operations spanning the globe, particularly in the Equipment Services and Construction divisions. Through an analysis of these operations we determined that targeted audit procedures were to be carried out in fourteen entities located in Oman, Qatar, the UAE, Spain, Saudi Arabia, Australia, Hong Kong, the Philippines and the United States of America. These targeted procedures addressed the significant risks described above. Those components subjected to targeted audit procedures comprise 11.2 per cent of total revenues and 33.3 per cent of total headline profit before tax of the Group. The joint ventures and associates which were subjected to targeted audit procedures contributed 16.5 per cent of total profit before tax of the Group. All of the items that are presented as exceptional have been tested under a comprehensive approach.

Revenue



Headline profit before tax



The remaining operations of the Group were subjected to analytical procedures over the balance sheet and income statements of the related entities with a focus on applicable risks identified above and the significance to the Group’s balances.

Detailed audit instructions were issued to the auditors of the reporting components where a full-scope or targeted audit approach had been identified. The instructions detailed the significant risks that were to be addressed through the audit procedures and indicated the information that we required to be reported back to the Group Audit Team. The Group Audit Team performed site visits in Oman, Qatar and the UAE, which included a review of the work performed by the component auditors. Where targeted components outside of the UK were not physically visited a review of working papers was conducted remotely. The Group Audit Team communicated with all component auditors throughout the planning, fieldwork and concluding stages of the local audits.

Other reporting required by regulation

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors’ Report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors’ Remuneration Report to be audited are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules, we are required to review:

- the directors' statements in relation to going concern and longer-term viability, set out on page 36; and
- the part of the Corporate Governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Under the ISAs (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 report to you if:

- 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; or
- the annual report does not appropriately disclose those matters that were communicated to the Audit Committee which we consider should have been disclosed.

We have nothing to report in respect of any of the above matters.

We also confirm that we do not have anything material to add or to draw attention to in relation to:

- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the financial statements about whether they have considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation in the annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Responsibilities for the financial statements and the audit

What the directors are responsible for:

As explained more fully in the Directors' Responsibility Statement set out on page 95, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

What we are responsible for:

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.

Simon Lowe
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
28 February 2017

Consolidated income statement

for the year ended 31 December 2016

	Notes	Year ended 31 December 2016 Before exceptional items and amortisation of acquired intangible assets £million	Year ended 31 December 2016 Exceptional items and amortisation of acquired intangible assets £million	Year ended 31 December 2016 Total £million	Year ended 31 December 2015 Before exceptional items and amortisation of acquired intangible assets # £million	Year ended 31 December 2015 Exceptional items and amortisation of acquired intangible assets # £million	Year ended 31 December 2015 Total £million
Continuing operations							
Revenue including share of associates and joint ventures	2	3,589.9	95.3	3,685.2	3,479.0	149.9	3,628.9
Less: Share of associates and joint ventures		(440.6)	-	(440.6)	(424.3)	-	(424.3)
Consolidated revenue	2	3,149.3	95.3	3,244.6	3,054.7	149.9	3,204.6
Cost of sales		(2,713.7)	(253.1)	(2,966.8)	(2,612.4)	(169.5)	(2,781.9)
Gross profit		435.6	(157.8)	277.8	442.3	(19.6)	422.7
Administration expenses		(334.0)	(12.9)	(346.9)	(319.9)	1.6	(318.3)
Amortisation of acquired intangible assets	5	-	(29.8)	(29.8)	-	(31.0)	(31.0)
Total administration expenses		(334.0)	(42.7)	(376.7)	(319.9)	(29.4)	(349.3)
Operating profit/(loss)		101.6	(200.5)	(98.9)	122.4	(49.0)	73.4
Share of result of associates and joint ventures	15	22.6	-	22.6	22.6	-	22.6
Amortisation of acquired intangible assets	4	-	(0.1)	(0.1)	-	(0.1)	(0.1)
Total share of result of associates and joint ventures		22.6	(0.1)	22.5	22.6	(0.1)	22.5
Total operating profit/(loss)		124.2	(200.6)	(76.4)	145.0	(49.1)	95.9
Investment revenue	7	5.6	-	5.6	4.7	-	4.7
Finance costs	8	(23.3)	-	(23.3)	(21.1)	-	(21.1)
Profit/(loss) before tax		106.5	(200.6)	(94.1)	128.6	(49.1)	79.5
Tax (charge)/credit	9	(12.2)	4.7	(7.5)	(17.8)	8.5	(9.3)
Profit/(loss) for the year		94.3	(195.9)	(101.6)	110.8	(40.6)	70.2
Attributable to:							
Equity holders of the parent		92.2	(195.9)	(103.7)	109.5	(40.6)	68.9
Non-controlling interests		2.1	-	2.1	1.3	-	1.3
		94.3	(195.9)	(101.6)	110.8	(40.6)	70.2
Earnings per share	11						
Basic				(71.2p)			47.5p
Diluted				(71.2p)			47.2p

restated (note 1)

Consolidated statement of comprehensive income

for the year ended 31 December 2016

	Notes	Year ended 31 December 2016 £million	Year ended 31 December 2015 £million
Profit/(loss) for the year		(101.6)	70.2
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (losses)/gains on defined benefit pension schemes	29	(90.2)	5.6
Deferred tax on above items taken directly to equity	9	15.3	(1.1)
		(74.9)	4.5
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		67.7	7.4
Gains on cash flow hedging instruments (excluding joint ventures)		42.0	19.8
Recycling of cash flow hedge reserve to profit and loss account		(48.4)	(10.8)
Deferred tax on above items taken directly to equity	9	0.9	(1.8)
Net impact of Items relating to joint-venture entities		(5.3)	(9.1)
		56.9	5.5
Other comprehensive income/(loss) net of tax		(18.0)	10.0
Total comprehensive income/(loss)		(119.6)	80.2
Attributable to:			
Equity holders of the parent		(122.0)	78.8
Non-controlling interests		2.4	1.4
		(119.6)	80.2

Consolidated balance sheet

at 31 December 2016

	Notes	31 December 2016 £million	31 December 2015 £million	31 December 2014 £million
Non-current assets				
Goodwill	12	437.0	428.6	427.1
Other intangible assets	13	77.0	91.6	117.3
Property, plant and equipment	14	250.4	218.1	194.7
Interests in joint-venture entities	15/31	41.6	40.9	42.7
Interests in associated undertakings	15	85.3	91.0	77.2
Retirement benefit surplus	29	-	17.2	-
Deferred tax asset	16	18.6	1.3	1.7
		909.9	888.7	860.7
Current assets				
Inventories	17	36.5	40.1	48.6
Trade and other receivables	19	724.4	774.9	679.4
Derivative financial instruments	21	67.1	25.1	5.3
Cash and deposits	20	113.3	86.1	82.1
		941.3	926.2	815.4
Total assets		1,851.2	1,814.9	1,676.1
Current liabilities				
Bank overdrafts	20	(11.1)	(15.5)	(5.5)
Trade and other payables	22	(899.3)	(788.0)	(754.0)
Current tax liabilities		(2.6)	(6.1)	(1.0)
Short-term provisions	25	(21.8)	(27.4)	(35.7)
		(934.8)	(837.0)	(796.2)
Net current assets		6.5	89.2	19.2
Non-current liabilities				
Borrowings	20	(449.4)	(406.1)	(362.8)
Trade and other payables	23	(16.6)	(15.9)	(14.8)
Long-term provisions	25	(42.9)	(43.3)	(33.5)
Retirement benefit obligation	29	(52.4)	-	(4.8)
		(561.3)	(465.3)	(415.9)
Total liabilities		(1,496.1)	(1,302.3)	(1,212.1)
Net assets		355.1	512.6	464.0
Equity				
Share capital	26	14.6	14.5	14.4
Share premium account		116.5	116.5	115.3
Capital redemption reserve		0.1	0.1	0.1
Merger reserve		121.4	121.4	121.4
Hedging and revaluation reserve		(8.8)	2.0	3.9
Translation reserve		109.7	42.3	35.0
Investment in own shares		(1.9)	(1.5)	(3.0)
Retained earnings		(9.4)	205.2	165.3
Equity attributable to equity holders of the parent		342.2	500.5	452.4
Non-controlling interests		12.9	12.1	11.6
Total equity		355.1	512.6	464.0

These financial statements were approved by the Board of Directors on 28 February 2017.
Signed on behalf of the Board of Directors

A M Ringrose
Director

T P Haywood
Director

Consolidated statement of changes in equity

for the year ended 31 December 2016

	Share capital £million	Share premium £million	Capital redemption reserve £million	Merger reserve[1] £million	Hedging and revaluation reserve[2] £million	Translation reserve £million	Investment in own shares[3] £million	Retained earnings £million	Attributable to equity holders of the parent £million	Non-controlling interests £million	Total £million
Balance at 1 January 2015	14.4	115.3	0.1	121.4	3.9	35.0	(3.0)	165.3	452.4	11.6	464.0
Profit for the year	-	-	-	-	-	-	-	68.9	68.9	1.3	70.2
Other comprehensive income	-	-	-	-	(1.9)	7.3	-	4.5	9.9	0.1	10.0
Total comprehensive income	-	-	-	-	(1.9)	7.3	-	73.4	78.8	1.4	80.2
Dividends paid	-	-	-	-	-	-	-	(33.7)	(33.7)	(1.0)	(34.7)
Shares issued	0.1	1.2	-	-	-	-	-	-	1.3	-	1.3
Acquisition	-	-	-	-	-	-	-	-	-	0.1	0.1
Company shares used to settle share-based payment obligations	-	-	-	-	-	-	1.5	(0.6)	0.9	-	0.9
Share-based payments	-	-	-	-	-	-	-	0.8	0.8	-	0.8
Transactions with owners	0.1	1.2	-	-	-	-	1.5	(33.5)	(30.7)	(0.9)	(31.6)
Balance at 31 December 2015	14.5	116.5	0.1	121.4	2.0	42.3	(1.5)	205.2	500.5	12.1	512.6
Profit/(loss) for the year	-	-	-	-	-	-	-	(103.7)	(103.7)	2.1	(101.6)
Other comprehensive income	-	-	-	-	(10.8)	67.4	-	(74.9)	(18.3)	0.3	(18.0)
Total comprehensive income	-	-	-	-	(10.8)	67.4	-	(178.6)	(122.0)	2.4	(119.6)
Dividends paid	-	-	-	-	-	-	-	(35.5)	(35.5)	(1.6)	(37.1)
Shares issued	0.1	-	-	-	-	-	-	-	0.1	-	0.1
Purchase of Company shares	-	-	-	-	-	-	(0.4)	-	(0.4)	-	(0.4)
Company shares used to settle share-based payment obligations	-	-	-	-	-	-	-	(0.5)	(0.5)	-	(0.5)
Share-based payments	-	-	-	-	-	-	-	-	-	-	-
Transactions with owners	0.1	-	-	-	-	-	(0.4)	(36.0)	(36.3)	(1.6)	(37.9)
Balance at 31 December 2016	14.6	116.5	0.1	121.4	(8.8)	109.7	(1.9)	(9.4)	342.2	12.9	355.1

[1] The £121.4 million merger reserve represents £16.4 million premium on the shares issued on the acquisition of Robert M. Douglas Holdings Plc in 1991, £32.6 million premium on the shares issued on the acquisition of MacLellan Group Plc in 2006 and £72.4 million premium on the shares placed to partially fund the acquisition of Initial Facilities in 2014.

[2] The hedging and revaluation reserve includes £19.9 million relating to the revaluation of available-for-sale financial assets within the joint ventures (2015: £18.2 million).

[3] The investment in own shares reserve represents the cost of shares in Interserve Plc held by the trustees of the Interserve Employee Benefit Trust. The number of shares held at 31 December 2016 was 473,920 (2015: 494,748), with the market value of these shares at 31 December 2016 being £1.6 million (2015: £2.6 million).

Consolidated cash flow statement

for the year ended 31 December 2016

	Notes	Year ended 31 December 2016 £million	Year ended 31 December 2015 £million
Operating activities			
Total operating profit/(loss)		(76.4)	95.9
Adjustments for:			
Amortisation of acquired intangible assets	13	29.8	31.0
Amortisation of capitalised software development	13	1.4	1.3
Depreciation of property, plant and equipment	14	37.6	34.8
Pension contributions in excess of the income statement charge		(19.5)	(16.1)
Share of results of associates and joint ventures		(22.5)	(22.5)
Charge relating to share-based payments	28	(0.2)	0.5
Gain on disposal of plant and equipment - hire fleet		(16.0)	(12.7)
Gain on disposal of plant and equipment - other		-	(0.2)
Operating cash flows before movements in working capital		(65.8)	112.0
(Increase)/decrease in inventories		9.4	8.8
(Increase)/decrease in receivables		80.8	(97.9)
Increase/(decrease) in payables		75.6	37.4
Cash generated by operations before changes in hire fleet		100.0	60.3
Capital expenditure - hire fleet	14	(30.9)	(37.5)
Proceeds on disposal of plant and equipment - hire fleet		21.6	15.9
Cash generated by operations		90.7	38.7
Cash used by operations - Energy from Waste exited business		(116.9)	(10.4)
Cash used by operations - strategic review of Equipment Services		(7.7)	(2.6)
Cash generated by operations - ongoing business		215.3	51.7
Taxes paid		(10.2)	(6.8)
Net cash from operating activities		80.5	31.9
Investing activities			
Interest received		4.5	4.4
Dividends received from associates and joint ventures	15a	34.1	13.6
Proceeds on disposal of plant and equipment - non-hire fleet		8.6	1.6
Capital expenditure - non-hire fleet	13/14	(38.3)	(31.2)
Investment in joint-venture entities	15b	(9.8)	(6.7)
Proceeds on disposal of investments		4.6	-
Receipt of loan repayment - investments	15b	-	0.1
Net cash from/(used in) investing activities		3.7	(18.2)

	Notes	Year ended 31 December 2016 £million	Year ended 31 December 2015 £million
Financing activities			
Interest paid		(23.3)	(21.1)
Dividends paid to equity shareholders	10	(35.5)	(33.7)
Dividends paid to non-controlling interests		(1.6)	(1.0)
Proceeds from issue of shares and exercise of share options		0.1	2.1
Purchase of own shares		(0.4)	-
Increase in bank loans		(5.0)	32.5
Movement in obligations under finance leases		2.2	1.4
Net cash from financing activities		(63.5)	(19.8)
Net increase/(decrease) in cash and cash equivalents		20.7	(6.1)
Cash and cash equivalents at beginning of period		70.6	76.6
Effect of foreign exchange rate changes		10.9	0.1
Cash and cash equivalents at end of period		102.2	70.6
Cash and cash equivalents comprise			
Cash and deposits		113.3	86.1
Bank overdrafts		(11.1)	(15.5)
		102.2	70.6

Reconciliation of net cash flow to movement in net debt			
Net increase/(decrease) in cash and cash equivalents		20.7	(6.1)
Increase in bank loans		5.0	(32.5)
Movement in obligations under finance leases		(2.2)	(1.4)
Change in net debt resulting from cash flows		23.5	(40.0)
Effect of foreign exchange rate changes		10.9	0.1
Movement in net debt during the period		34.4	(39.9)
Net cash/(debt) - opening		(308.8)	(268.9)
Net cash/(debt) - closing	20	(274.4)	(308.8)

Notes to the consolidated financial statements

for the year ended 31 December 2016

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.

(a) Adoption of new and revised standards

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*
The impact of the sections of IFRS 9 currently issued, which will become effective for accounting periods on or after 1 January 2018, at the earliest, 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".

IFRS 15 *Revenue from contracts with customers*
The new standard will replace IAS 18 *Revenue* and IAS 11 *Construction contracts*. It will become effective for accounting periods on or after 1 January 2018, at the earliest. The main impact of the standard will be to require the recognition and disclosure of revenue to be based around the principle of disaggregation of discrete performance obligations.

IFRS 16 *Leases*
The new standard will replace IAS 17 *Leases*. It will become effective for accounting periods on or after 1 January 2019, at the earliest. It will require nearly all leases to be recognised on the balance sheet as liabilities, with corresponding assets being created.

In advance of the adoption of IFRS 9, IFRS 15 and IFRS 16, the Group will conduct a systematic review to ensure that the impact and effect of the new standards are fully understood, and changes to the current accounting procedures are highlighted and acted upon. Any impact is not known at this time.

Except for IFRS 9, IFRS 15 and IFRS 16 noted above, the directors do not currently anticipate that the adoption of any other standard and interpretation that has been issued but is not yet effective will have a material impact on the financial statements of the Group in future periods.

(b) 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
Determining the amount of any revenue to be recognised, costs to complete and assessment of any other costs arising, the impact of any changes in scope of work, together with the level of recoverable work-in-progress and receivables requires significant management judgements and estimates. The policy for revenue recognition on long-term construction and service contracts is set out in notes 1(d) and (e). As acknowledged in note 1(e), no margin is recognised on construction contracts until the outcome of the contract can be assessed with reasonable certainty - this assessment in itself is highly judgemental (and is generally not achieved until the project has achieved substantial progress). This assessment is aided by the use of benchmark, but rebuttable, assumptions that are used to aid consistency but remain subject to regular management challenge and review for appropriateness.

Further judgements are made on an ongoing basis with regard to the recoverability of amounts due from customers and other relevant parties, liabilities arising and the requirement for forward loss provisions. Regular forecasts are compiled on the outcomes of these types of contracts (including variations and claims), which require assessments and judgements relating to the value of work performed, changes in work scopes, contract programmes and maintenance obligations. In the current period a particular focus has been judgements of this nature relating to estimates made in respect of our exited Energy from Waste business (see note 5).

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 judgements and estimates relate to whether the appropriate cut-off for sales and period of hire has been applied and the recoverability of receivables.

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 risk 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 and intangible assets
As set out in notes 1(b) and (h) the carrying value of goodwill and intangible assets 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 29 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 and discount rates have been made. Small changes in these assumptions can lead to significant changes to the overall scheme liabilities, as disclosed in note 29.

Judgement is also exercised in establishing the fair value of retirement benefit assets, most notably the valuation of the buy-in contract to insure some of the benefits of a subset of the pension membership of the scheme provided by the insurer. This requires judgement of the proportion of the buy-in contract that exactly matches the amount and timing of benefits payable and the choice of an appropriate valuation technique in accordance with IFRS 13.

The Group has assessed that no further liability arises under IFRIC 14 *IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction*. This conclusion was reached because the trustees of the Interserve Pension Scheme and the Landmarc Pension Scheme, which together represented 97% of the Group's total defined benefit obligations at 31 December 2016, do not have a unilateral power to wind up the schemes and the schemes' rules allow the Group an unconditional right to refunds assuming the gradual settlement of plan liabilities over time until all members have left the scheme.

Property, plant and equipment
The rental fleet in Equipment Services has a significant carrying value (see note 14). The great majority of equipment in the rental fleet is depreciated on a straight-line basis to a residual value of 30% of cost 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 the worldwide fleet (not country by country) but it is on an asset by asset 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.

Acquisition accounting
A number of judgements and estimates are necessary in establishing the opening net asset position, obligations in place at acquisition, fair value adjustments and the value of intangible assets in respect of businesses acquired. These include estimates of future revenue, growth rates, customer retention rates and discount rates.

Notes to the consolidated financial statements continued

for the year ended 31 December 2016

1. Basis of preparation and accounting policies continued

(b) Critical accounting judgements and key sources of estimation and uncertainty continued

Exceptional items

IAS 1 requires material items to be disclosed separately in a way that enables users to assess the quality of a company's profitability. In practice, these are commonly referred to as "exceptional" items, but this is not a concept defined by IFRS and therefore there is a level of judgement involved in determining what to include in headline profit. We consider items which are non-recurring and significant in size or in nature to be suitable for separate presentation (see note 5).

(c) Restatement of comparatives

The construction of Energy from Waste facilities, where there was contractual responsibility taken for process risk, and business streams exited as a result of the strategic review of Equipment Services, along with directly associated costs, are considered to be exited businesses. Exited businesses are presented as exceptional items (see note 5) and are excluded from the calculation of headline earnings per share (see note 11). The presentation of comparative information has been restated to be consistent with this presentation. There is no impact on comparative net assets or statutory profit before taxation.

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 36 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.

Non-controlling interests in the net assets of the consolidated subsidiaries are identified separately from the Group's equity interest therein. Non-controlling 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 level of non-controlling interests 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 other comprehensive income.

(d) Revenue

Revenue is measured at the fair value of the consideration received or receivable for goods and services provided, net of trade discounts, value added and similar sales based taxes, after eliminating revenue within the Group.

Revenue is recognised as follows:

- Construction contracts - by reference to services performed to date as a percentage of total services to be performed (see note 1(e)).
- Service contracts – the value of work carried out during the year as services are provided, including amounts not invoiced. Service contracts are billed as work is performed on either a fixed monthly fee plus additional services performed during the month (on a schedule of rates), or hours worked/tasks performed, again on a schedule of rates basis, in the month. As service contracts may be based on hours of work performed, and this information is processed from timesheets, accruing of income at the period end is necessary with invoicing occurring shortly afterwards. Some client billing arrangements do not coincide with month end or we are contractually entitled to invoice in advance and such income is deferred and recognised in the period in which it is earned.
- Equipment sales – at the time of delivery.
- Equipment hire – on a straight-line basis over the hire period in accordance with contractual arrangements.

Notes to the consolidated financial statements continued

for the year ended 31 December 2016

1. Basis of preparation and accounting policies continued

(e) Construction 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 (determined by surveys of work performed by quantity surveyors in conjunction with clients). 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. Revenue in respect of variations to contracts and incentive payments is recognised when it is probable it will be agreed by the customer. Revenue in respect of claims is recognised when negotiations have reached an advanced stage such that it is probable that the customer will accept the claim and the probable amount can be measured reliably. Profit is only recognised on a construction contract when the final outcome can be assessed with reasonable certainty. Expected losses are recognised immediately.

(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 to their presumed residual value 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 7%	-
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 12). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

(i) Investments

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

(j) Inventories

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

(k) Borrowing costs

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

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

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

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

(m) Leases

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

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

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

(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. 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.

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. Borrowings are measured at amortised cost.

Notes to the consolidated financial statements continued

for the year ended 31 December 2016

1. Basis of preparation and accounting policies continued

(o) Financial instruments continued

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 other comprehensive income 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 other comprehensive income are transferred from other comprehensive income 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 other comprehensive income at that time is retained in other comprehensive income until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, any cumulative gain or loss recognised in other comprehensive income 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*.

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 Sharesave Scheme. A stochastic model has been used to value the Performance Share Plan.

(q) PFI projects

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

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

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

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

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

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. The Group's research and development activities allow it to claim R&D tax credits from HMRC in respect of qualifying expenditure; these credits are reflected in the income statement in cost of sales. 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 considers to be non-recurring and significant in size or nature. Exceptional items include, but are not limited to: transaction and integration costs relating to the acquisition of businesses, earnout arrangements that are accounted for as remuneration for post-combination services, non-recurring results of exited businesses and costs associated with significant strategic reviews.

(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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2016

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	
	2016 £million	2015 £million	2016 £million	2015 £million
Continuing operations				
Provision of services	2,045.9	2,100.2	1,957.2	1,989.6
Revenue from construction contracts	1,384.6	1,294.1	1,032.7	980.4
Equipment sales and leasing income	254.7	234.6	254.7	234.6
	3,685.2	3,628.9	3,244.6	3,204.6

3. Business and geographical segments

(a) Business segments

The Group is organised into three 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 internationally.

- Construction: design, construction and maintenance of buildings and infrastructure, both in the UK and internationally.

- Equipment Services: design, hire and sale of formwork, falsework and associated access equipment.

Costs of central services, including the financial impact of our PFI investments, are shown in "Group Services".

	Revenue including share of associates and joint ventures		Consolidated revenue		Result	
	2016 £million	2015 # £million	2016 £million	2015 # £million	2016 £million	2015 # £million
Support Services - UK	1,798.4	1,881.5	1,775.0	1,834.4	80.8	92.2
Support Services - International	267.9	224.3	211.9	170.4	6.2	8.2
Support Services	2,066.3	2,105.8	1,986.9	2,004.8	87.0	100.4
Construction - UK	971.4	894.9	971.4	894.9	(3.1)	10.7
Construction - International	296.9	279.0	-	-	16.9	13.0
Construction	1,268.3	1,173.9	971.4	894.9	13.8	23.7
Equipment Services	224.1	207.0	224.1	207.0	48.6	44.5
Group Services	81.3	53.9	17.0	9.6	(25.2)	(23.6)
Inter-segment elimination	(50.1)	(61.6)	(50.1)	(61.6)	-	-
	3,589.9	3,479.0	3,149.3	3,054.7	124.2	145.0
Exceptional items and amortisation of acquired intangible assets (note 5)	95.3	149.9	95.3	149.9	(200.6)	(49.1)
Revenue/total operating profit/(loss)	3,685.2	3,628.9	3,244.6	3,204.6	(76.4)	95.9
Investment revenue					5.6	4.7
Finance costs					(23.3)	(21.1)
Profit/(loss) before tax					(94.1)	79.5
Tax					(7.5)	(9.3)
Profit/(loss) for the year					(101.6)	70.2

restated (note 1)

	Segment assets		Segment liabilities		Net assets/(liabilities)	
	2016 £million	2015 £million	2016 £million	2015 £million	2016 £million	2015 £million
Support Services - UK	372.4	402.0	(383.5)	(344.2)	(11.1)	57.8
Support Services - International	128.6	112.1	(73.4)	(57.1)	55.2	55.0
Support Services	501.0	514.1	(456.9)	(401.3)	44.1	112.8
Construction - UK	255.4	266.1	(434.6)	(318.7)	(179.2)	(52.6)
Construction - International	63.6	62.1	-	-	63.6	62.1
Construction	319.0	328.2	(434.6)	(318.7)	(115.6)	9.5
Equipment Services	290.8	262.3	(64.4)	(48.2)	226.4	214.1
	1,110.8	1,104.6	(955.9)	(768.2)	154.9	336.4
Group Services, goodwill and acquired intangible assets	553.9	609.0	(92.2)	(136.1)	461.7	472.9
	1,664.7	1,713.6	(1,048.1)	(904.3)	616.6	809.3
Net debt					(274.4)	(308.8)
Net assets (excluding non-controlling interests)					342.2	500.5

Notes to the consolidated financial statements continued

for the year ended 31 December 2016

3. Business and geographical segments continued

(a) Business segments continued

	Depreciation and amortisation		Additions to property, plant and equipment and intangible assets	
	2016 £million	2015 £million	2016 £million	2015 £million
Support Services - UK	12.4	12.0	29.5	15.7
Support Services - International	4.5	3.7	2.1	3.9
Support Services	16.9	15.7	31.6	19.6
Construction - UK	3.1	2.6	3.7	3.6
Construction - International	-	-	-	-
Construction	3.1	2.6	3.7	3.6
Equipment Services	17.8	17.2	28.4	36.0
	37.8	35.5	63.7	59.2
Group Services	31.1	31.7	5.5	9.4
	68.9	67.2	69.2	68.6

(b) Geographical segments

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

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	
	2016 £million	2015 # £million	2016 £million	2015 # £million	2016 £million	2015 # £million
United Kingdom	2,738.0	2,751.6	2,714.6	2,704.5	80.6	108.5
Rest of Europe	54.1	47.9	54.1	47.9	3.1	0.7
Middle East & Africa	675.4	612.1	322.5	279.2	45.6	46.1
Australasia	29.4	24.1	29.4	24.1	6.4	3.8
Far East	26.0	23.6	26.0	23.6	11.7	9.7
Americas	35.8	27.4	35.8	27.4	2.0	(0.2)
Group Services	81.3	53.9	17.0	9.6	(25.2)	(23.6)
Inter-segment elimination	(50.1)	(61.6)	(50.1)	(61.6)	-	-
	3,589.9	3,479.0	3,149.3	3,054.7	124.2	145.0
Exceptional items and amortisation of acquired intangible assets (note 5)	95.3	149.9	95.3	149.9	(200.6)	(49.1)
	3,685.2	3,628.9	3,244.6	3,204.6	(76.4)	95.9

restated (note 1)

	Non-current assets	
	2016 £million	2015 £million
United Kingdom	124.8	108.7
Rest of Europe	4.9	3.5
Middle East & Africa	186.6	177.4
Australasia	17.9	13.4
Far East	17.8	12.7
Americas	34.1	26.4
Group Services, goodwill and acquired intangible assets	505.2	528.1
	891.3	870.2
Retirement benefit surplus	-	17.2
Deferred tax asset	18.6	1.3
	909.9	888.7

Included in consolidated revenue above are revenues of approximately £106 million (2015: £105 million) which arose from sales to the Group's largest contract customer.

4. Profit for the year

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

	Notes	2016 £million	2015 £million
Depreciation of property, plant and equipment:			
On owned assets	14	36.8	34.4
On assets held under finance leases	14	0.8	0.4
Amortisation of capitalised software development	13	1.4	1.3
Gain on disposal of plant and equipment - hire fleet		(16.0)	(12.7)
Gain on disposal of plant and equipment - other		-	(0.2)
Amortisation of acquired intangible assets (subsidiary undertakings)	13	29.8	31.0
Amortisation of acquired intangible assets (associated undertakings)	15	0.1	0.1
Rentals under operating leases:			
Hire of plant and machinery		43.5	46.5
Other lease rentals		44.4	29.8
Cost of inventories recognised in cost of sales		36.3	40.2
Staff costs	6	1,153.7	1,117.4
Auditors' remuneration for audit services (see overleaf)		1.1	1.0

Notes to the consolidated financial statements continued

for the year ended 31 December 2016

4. Profit for the year continued

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

	2016 £million	2015 £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	0.9	0.8
Total audit fees	1.1	1.0
Audit-related assurance services	0.1	0.1
Other services	0.1	-
Total non-audit fees	0.2	0.1
Total fees paid to the Company's auditors	1.3	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 58.

5. Exceptional items and amortisation of acquired intangible assets

	2016					2015				
	Exited businesses[1]					Exited businesses[1]				
	Energy from Waste £million	Strategic review of Equipment Services £million	Transaction and integration costs £million	Amortisation of acquired intangible assets £million	Total £million	Energy from Waste £million	Strategic review of Equipment Services £million	Transaction and integration costs £million	Amortisation of acquired intangible assets £million	Total £million
Consolidated revenue	91.0	4.3	-	-	95.3	145.9	4.0	-	-	149.9
Cost of sales	(251.0)	(2.1)	-	-	(253.1)	(167.4)	(2.1)	-	-	(169.5)
Gross profit/(loss)	(160.0)	2.2	-	-	(157.8)	(21.5)	1.9	-	-	(19.6)
Administration expenses	-	(12.9)	-	-	(12.9)	10.9	(4.5)	-	-	6.4
Amortisation of acquired intangible assets	-	-	-	(29.8)	(29.8)	-	-	-	(31.0)	(31.0)
Transaction costs on acquisitions	-	-	-	-	-	-	-	(0.2)	-	(0.2)
Integration costs on acquisitions	-	-	-	-	-	-	-	(2.8)	-	(2.8)
Earnout arrangements on the acquisition of Paragon Management UK Ltd	-	-	-	-	-	-	-	(1.8)	-	(1.8)
Total administration expenses	-	(12.9)	-	(29.8)	(42.7)	10.9	(4.5)	(4.8)	(31.0)	(29.4)
Operating profit/(loss)	(160.0)	(10.7)	-	(29.8)	(200.5)	(10.6)	(2.6)	(4.8)	(31.0)	(49.0)
Amortisation of acquired intangible assets of associates	-	-	-	(0.1)	(0.1)	-	-	-	(0.1)	(0.1)
Total operating profit/(loss)	(160.0)	(10.7)	-	(29.9)	(200.6)	(10.6)	(2.6)	(4.8)	(31.1)	(49.1)
Tax on exceptional items										
On exited business	-	-	-	-	-	2.1	-	-	-	2.1
Amortisation of acquired intangible assets	-	-	-	4.7	4.7	-	-	-	5.8	5.8
Transaction costs on acquisitions	-	-	-	-	-	-	-	-	-	-
Integration costs on acquisitions	-	-	-	-	-	-	-	0.6	-	0.6
Earnout arrangements on the acquisition of Paragon Management UK Ltd	-	-	-	-	-	-	-	-	-	-
Tax on exceptional items	-	-	-	4.7	4.7	2.1	-	0.6	5.8	8.5
Profit/(loss) after taxation	(160.0)	(10.7)	-	(25.2)	(195.9)	(8.5)	(2.6)	(4.2)	(25.3)	(40.6)

[1] The construction of Energy from Waste facilities, where there was contractual responsibility taken for process risk, and business streams exited as a result of the strategic review of Equipment Services, along with directly associated costs, are considered to be exited businesses. Exited businesses are presented as exceptional items and are excluded from the calculation of headline earnings per share (reflecting their material and non-recurring nature). The exited businesses do not meet the definition of discontinued operations as stipulated by IFRS 5 *Non-current assets held for sale and discontinued operations* because the business has not been disposed of and there are no assets classified as held for sale. Accordingly the disclosures within exceptional items differ from those applicable for discontinued operations.

Notes to the consolidated financial statements continued

for the year ended 31 December 2016

5. Exceptional items and amortisation of acquired intangible assets continued

Exit from Energy from Waste

During the year we took the decision to exit business where we take contractual responsibility for process risk on the construction of Energy from Waste facilities. This Exited Business comprises six contracts with aggregate whole-life revenues of £430 million that we entered into between mid-2012 and early 2015. We expect to complete substantially all of our works during 2017 and that the impact of these contracts will be contained within the £160 million exceptional loss recognised in the year.

These contracts, most notably the project in Glasgow, have been impacted by issues relating to the design, procurement and installation of the gasification plant. Progress on these issues was adversely affected by sub-contractor insolvencies and the consequential impacts on project timing and costs. On 15 November 2016, we announced that we had been served notice of termination on the Glasgow project. The termination, along with a detailed review of operational developments on the other contracts, are the main reasons for the increase in the loss over the £70 million recognised in the half-year statements.

The exceptional loss of £160 million reflects costs incurred to date, estimates of costs to complete, and damages. It is stated net of expectations for further contractual income entitlements from our customers and recoveries from professional indemnity insurance policies on a number of separate issues relating to design. Cash outflows of c£60 million are expected during 2017 as the income statement charge is utilised, the majority of which is included within accruals at the year end. The amounts recognised are inherently judgemental but are based on legal and professional advice received and reflect our current best estimates of the most probable net outflows. We will vigorously pursue our legal entitlements in closing these contracts out.

Managing the challenges of exiting from these complex projects remains the sole priority for the large, experienced team of commercial, operational and legal experts we have deployed and will remain an area of critical focus for the Board during 2017.

Strategic review of Equipment Services

In October 2016, we announced the conclusion of a strategic review of our Equipment Services operations. The review concluded that Interserve remains the best owner of the business and that it was to remain a core part of the Group but with an updated strategy.

As a direct result of the updated strategy, these results include £10.7 million of exceptional losses relating to decisions made in that review which include the exit from a number of smaller and less attractive markets and the cessation of a number of less profitable product lines. The results of markets in the process of being exited are treated as exceptional (as are their comparatives) along with closure costs, legal and professional fees and impairment charges on exited product lines.

Further closure costs (of approximately £7 million) resulting from the review are anticipated that, as at the end of 2016, do not yet meet the requirements for recognition under IAS 37 *Provisions, contingent liabilities and contingent assets* and will be recognised in 2017.

6. Staff costs

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

	2016 Number	2015 Number
Support Services	41,825	42,942
Construction	2,587	2,546
Equipment Services	1,444	1,387
Group Services	390	341
	46,246	47,216

Their aggregate remuneration comprised:

	2016 £million	2015 £million
Wages and salaries	1,038.6	1,006.5
Social security costs	88.3	82.8
Share-based payments	(0.4)	0.3
Other pension costs (see below)	27.2	27.8
	1,153.7	1,117.4

Defined benefit scheme current service costs (note 29)	5.7	7.2
Other UK - defined contribution	20.2	19.5
Other overseas - defined contribution	1.3	1.1
Pension costs	27.2	27.8

Detailed disclosures of directors' aggregate and individual remuneration and share-based payments are given in the Directors' Remuneration Report on pages 62 to 76 and should be regarded as an integral part of this note.

7. Investment revenue

	2016 £million	2015 £million
Bank interest	3.1	3.1
Interest income from joint-venture Investments	0.7	1.2
Net return on defined benefit pension assets (note 29)	1.1	0.3
Other interest	0.7	0.1
	5.6	4.7

8. Finance costs

	2016 £million	2015 £million
Borrowings and overdrafts	(23.3)	(21.1)

Notes to the consolidated financial statements continued

for the year ended 31 December 2016

9. Tax

		2016 £million	2015 £million
Current tax - UK		2.1	7.0
Current tax - overseas		6.4	5.9
Deferred tax (note 16)		(1.0)	(3.6)
Tax charge for the year	A	7.5	9.3
Tax charge before prior period adjustments		7.2	9.4
Prior period adjustments - charges/(credits)		0.3	(0.1)
	A	7.5	9.3
Profit/(loss) before tax			
Subsidiary undertakings' profit before tax, excluding one-offs	B	54.1	59.8
Non-tax-effected exceptional costs - exited businesses		(170.7)	(2.6)
Non-tax-deductible exceptional costs - transaction costs		-	(0.2)
Group share of profit after tax of associates and joint ventures		22.5	22.5
		(94.1)	79.5
Effective tax rate, excluding one-offs, on subsidiary profits before tax	A/B	13.9%	15.6%

UK corporation tax is calculated at 20.0% (2015: 20.25%) 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:

	2016		2015	
	£million	%	£million	%
Profit/(loss) before tax	(94.1)		79.5	
Tax at the UK income tax rate of 20.0% (2015: 20.25%)	(18.8)	20.0%	16.1	20.2%
Tax effect of expenses not deductible in determining taxable profit	1.2	(1.3%)	0.5	0.6%
Non-tax-effected exceptional items	34.1	(36.2%)	0.4	0.5%
Tax effect of share of results of associates	(4.5)	4.8%	(3.2)	(4.0%)
Effect of overseas tax rates and unrelieved losses	(4.2)	4.5%	(4.4)	(5.5%)
Effect of change in rate of deferred tax	(0.6)	0.6%	-	0.0%
Prior period adjustments	0.3	(0.3%)	(0.1)	(0.1%)
Tax charge and effective tax rate for the year	7.5	(8.0%)	9.3	11.7%

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

	2016 £million	2015 £million
Tax on actuarial losses/gains on pension liability	(15.3)	1.1
Tax on movements in cash flow hedging instruments	6.4	4.0
Tax on exchange movements on hedged financial instruments	(7.3)	(2.2)
Tax on the intrinsic value of share-based payments	0.1	0.9
	(16.1)	3.8

10. Dividends

	Dividend per share pence	2016 £million	2015 £million
Final dividend for the year ended 31 December 2014	15.5	-	22.2
Interim dividend for the year ended 31 December 2015	7.9	-	11.5
Final dividend for the year ended 31 December 2015	16.4	23.7	-
Interim dividend for the year ended 31 December 2016	8.1	11.8	-
Amount recognised as distribution to equity holders in the period		35.5	33.7

11. Earnings per share

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

Earnings	2016 £million	2015 # £million
Net profit attributable to equity holders of the parent (for basic and diluted basic earnings per share)	(103.7)	68.9
Adjustments:		
Exceptional items and amortisation of acquired intangible assets (note 5)	195.9	40.6
Headline earnings (for headline and diluted headline earnings per share)	92.2	109.5

restated (note 1)

Notes to the consolidated financial statements continued

for the year ended 31 December 2016

11. Earnings per share continued

Number of shares

	2016 Number	2015 Number
Weighted average number of ordinary shares for the purposes of basic and headline earnings per share	145,606,147	144,936,757
Effect of dilutive potential ordinary shares:		
Share options and awards[1]	291,221	942,442
Weighted average number of ordinary shares for the purposes of diluted basic[1] and diluted headline earnings per share	145,897,368	145,879,199

Earnings per share

	2016 pence	2015 # pence
Basic earnings per share	(71.2)	47.5
Diluted basic earnings per share	(71.2)	47.2
Headline earnings per share	63.3	75.6
Diluted headline earnings per share	63.2	75.1

[1] Due to basic earnings per share being a loss in 2016 these adjustments are anti-dilutive and are therefore ignored in calculating diluted basic earnings per share for 2016

restated (note 1)

12. Goodwill

	2016 £million	2015 £million
Cost		
At 1 January	488.6	487.1
Exchange movements	8.4	1.5
At 31 December	497.0	488.6
Accumulated impairment		
At 1 January and 31 December	60.0	60.0
Carrying amount		
At 31 December	437.0	428.6

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

	Construction £million	Support Services £million	Equipment Services £million	Total £million
At 1 January 2015	11.9	414.3	0.9	427.1
Exchange movements	-	1.5	-	1.5
At 31 December 2015	11.9	415.8	0.9	428.6
Exchange movements	-	8.3	0.1	8.4
At 31 December 2016	11.9	424.1	1.0	437.0

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 and margins are based on current Board-approved budgets and forecasts based on prevailing market conditions and expert forecasts. 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 rates used to discount the future cash flows range from 8.4% for Support Services (2015: 7.8%) to 9.4% for Construction and Equipment Services (2015: 8.8%) and are 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

for the year ended 31 December 2016

13. Other intangible assets

		Acquired		
	Computer software £million	Customer relationships £million	Other £million	Total £million
Cost				
At 1 January 2015	15.2	175.5	3.0	193.7
Additions	6.4	-	-	6.4
Exchange movements	-	0.5	-	0.5
At 31 December 2015	21.6	176.0	3.0	200.6
Additions	**16.2**	**-**	**-**	**16.2**
Exchange movements	**-**	**2.0**	**0.4**	**2.4**
At 31 December 2016	**37.8**	**178.0**	**3.4**	**219.2**
Accumulated amortisation				
At 1 January 2015	10.0	64.6	1.8	76.4
Charge for the year	1.3	30.7	0.3	32.3
Exchange movements	-	0.3	-	0.3
At 31 December 2015	11.3	95.6	2.1	109.0
Charge for the year	**1.4**	**29.5**	**0.3**	**31.2**
Exchange movements	**-**	**1.7**	**0.3**	**2.0**
At 31 December 2016	**12.7**	**126.8**	**2.7**	**142.2**
Carrying amount				
At 31 December 2016	**25.1**	**51.2**	**0.7**	**77.0**
At 31 December 2015	10.3	80.4	0.9	91.6
At 1 January 2015	5.2	110.9	1.2	117.3
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.

14. Property, plant and equipment

(a) Movements

	Land and buildings £million	Hire fleet £million	Other plant and equipment £million	Total £million
Cost				
At 1 January 2015	26.0	252.3	114.5	392.8
Additions	7.4	37.5	17.3	62.2
Disposals	(0.7)	(18.0)	(7.6)	(26.3)
Exchange differences	0.1	(1.5)	2.7	1.3
At 31 December 2015	32.8	270.3	126.9	430.0
Additions	**2.3**	**30.9**	**19.8**	**53.0**
Disposals	**(8.1)**	**(24.6)**	**(13.6)**	**(46.3)**
Exchange differences	**3.5**	**38.8**	**17.1**	**59.4**
At 31 December 2016	**30.5**	**315.4**	**150.2**	**496.1**
Accumulated depreciation				
At 1 January 2015	11.8	116.7	69.6	198.1
Charge for the year	1.8	17.2	15.8	34.8
Eliminated on disposals	(0.7)	(14.8)	(6.2)	(21.7)
Exchange differences	0.1	(1.5)	2.1	0.7
At 31 December 2015	13.0	117.6	81.3	211.9
Charge for the year	**1.7**	**18.1**	**17.8**	**37.6**
Eliminated on disposals	**(0.8)**	**(19.0)**	**(12.3)**	**(32.1)**
Exchange differences	**2.0**	**12.9**	**13.4**	**28.3**
At 31 December 2016	**15.9**	**129.6**	**100.2**	**245.7**
Carrying amount				
At 31 December 2016	**14.6**	**185.8**	**50.0**	**250.4**
At 31 December 2015	19.8	152.7	45.6	218.1
At 1 January 2015	14.2	135.6	44.9	194.7

The carrying amount of the Group's plant and equipment includes an amount of £4.6 million (2015: £2.3 million) in respect of assets held under finance leases. Details of property, plant and equipment held under finance leases are shown in note 24.

Notes to the consolidated financial statements continued

for the year ended 31 December 2016

14. Property, plant and equipment continued

(b) Carrying amount of land and buildings

	31 December 2016 £million	31 December 2015 £million
Freehold:		
Land at cost	3.3	9.5
Buildings at cost less depreciation	7.2	6.0
	10.5	15.5
Leaseholds under 50 years at cost less depreciation	4.1	4.3
	14.6	19.8

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

	31 December 2016 £million	31 December 2015 £million
Committed	0.5	4.9

15. Interests in associates and joint-venture entities

(a) Results of joint-venture entities and associated undertakings

The aggregate results of joint-venture entities and associated undertakings were as follows:

	Year ended 31 December 2016			Year ended 31 December 2015		
	Joint ventures £million	Associates £million	Total £million	Joint ventures £million	Associates £million	Total £million
Revenues	157.7	794.7	952.4	130.8	797.8	928.6
Operating profit	2.0	44.3	46.3	2.8	42.0	44.8
Net interest receivable	1.9	0.3	2.2	2.1	0.1	2.2
Taxation	(1.0)	(1.5)	(2.5)	(0.9)	(1.0)	(1.9)
Profit after tax	2.9	43.1	46.0	4.0	41.1	45.1
Less: Profit after tax attributable to non-Group interests	(1.7)	(21.7)	(23.4)	(2.4)	(20.1)	(22.5)
Profit after tax attributable to the Group	1.2	21.4	22.6	1.6	21.0	22.6
Group amortisation of acquired intangible assets	-	(0.1)	(0.1)	-	(0.1)	(0.1)
Contribution to Group total operating profit	1.2	21.3	22.5	1.6	20.9	22.5
Dividends paid to the Group	(0.4)	(33.7)	(34.1)	(0.9)	(12.7)	(13.6)
Retained result for the period attributable to the Group	0.8	(12.4)	(11.6)	0.7	8.2	8.9

(b) Joint-venture entities

(i) Results and net assets

The aggregate results of joint ventures were as follows:

	Year ended 31 December 2016			Year ended 31 December 2015		
	Support Services £million	Group Services £million	Total £million	Support Services £million	Group Services £million	Total £million
Revenues	13.7	144.0	157.7	19.6	111.2	130.8
Operating profit	0.6	1.4	2.0	1.4	1.4	2.8
Net interest receivable	-	1.9	1.9	-	2.1	2.1
Taxation	-	(1.0)	(1.0)	-	(0.9)	(0.9)
Profit after tax	0.6	2.3	2.9	1.4	2.6	4.0
Less: Profit after tax attributable to non-Group interests	(0.3)	(1.4)	(1.7)	(0.7)	(1.7)	(2.4)
Profit after tax attributable to the Group	0.3	0.9	1.2	0.7	0.9	1.6
Group amortisation of acquired intangible assets	-	-	-	-	-	-
Contribution to Group total operating profit	0.3	0.9	1.2	0.7	0.9	1.6
Dividends paid to the Group	(0.3)	(0.1)	(0.4)	(0.7)	(0.2)	(0.9)
Retained result for the period attributable to the Group	-	0.8	0.8	-	0.7	0.7

There are no significant restrictions on the ability of joint ventures to pay dividends or repay loans if agreed by the shareholders.

The net assets of joint-venture entities were as follows:

	Year ended 31 December 2016			Year ended 31 December 2015		
	Support Services £million	Group Services £million	Total £million	Support Services £million	Group Services £million	Total £million
Non-current assets	-	225.0	225.0	0.1	322.6	322.7
Current assets	2.3	300.3	302.6	3.1	282.7	285.8
Current liabilities	(2.3)	(23.5)	(25.8)	(3.2)	(21.6)	(24.8)
Non-current liabilities	-	(409.8)	(409.8)	-	(491.2)	(491.2)
Net assets	-	92.0	92.0	-	92.5	92.5
Less: Net assets attributable to non-Group interests	-	(50.4)	(50.4)	-	(51.6)	(51.6)
Net assets attributable to the Group	-	41.6	41.6	-	40.9	40.9
Goodwill	-	-	-	-	-	-
Acquired intangible assets	-	-	-	-	-	-
Carrying value of net assets and goodwill	-	41.6	41.6	-	40.9	40.9

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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2016

15. Interests in associates and joint-venture entities continued

(b) Joint-venture entities continued

(ii) Movements in the year

	Shares £million	Loans £million	Share of reserves £million	Total £million
At 1 January 2015	-	28.0	14.7	42.7
Acquisitions and advances	0.1	6.6	-	6.7
Repayments to the Group	-	(0.1)	-	(0.1)
Fair value adjustment to financial instruments and derivatives	-	-	(9.1)	(9.1)
Share of retained profits	-	-	0.7	0.7
At 31 December 2015	0.1	34.5	6.3	40.9
Acquisitions and advances	-	9.8	-	9.8
Repayments to the Group	-	-	-	-
Disposals	-	(4.0)	(0.6)	(4.6)
Fair value adjustment to financial instruments and derivatives	-	-	(5.3)	(5.3)
Share of retained profits	-	-	0.8	0.8
At 31 December 2016	0.1	40.3	1.2	41.6

Further details of the Group's investment in PPP/PFI schemes are included in note 31.

At 31 December 2016 the Group had a commitment for additional investment in joint-venture entities of £32.7 million (2015: £29.3 million).

(c) Associated undertakings

(i) Results and net assets

The aggregate results of the Group's various associated undertakings were as follows:

	Year ended 31 December 2016			Year ended 31 December 2015		
	Construction £million	Support Services £million	Total £million	Construction £million	Support Services £million	Total £million
Revenues	636.2	158.5	794.7	600.1	197.7	797.8
Operating profit	39.3	5.0	44.3	29.9	12.1	42.0
Net interest receivable	0.3	-	0.3	0.1	-	0.1
Taxation	(1.1)	(0.4)	(1.5)	0.1	(1.1)	(1.0)
Profit after tax	38.5	4.6	43.1	30.1	11.0	41.1
Less: Profit after tax attributable to non-Group interests	(19.4)	(2.3)	(21.7)	(14.0)	(6.1)	(20.1)
Profit after tax attributable to the Group	19.1	2.3	21.4	16.1	4.9	21.0
Group amortisation of acquired intangible assets	-	(0.1)	(0.1)	-	(0.1)	(0.1)
Contribution to Group total operating profit	19.1	2.2	21.3	16.1	4.8	20.9
Dividends paid to the Group	(31.0)	(2.7)	(33.7)	(8.8)	(3.9)	(12.7)
Retained result for the period attributable to the Group	(11.9)	(0.5)	(12.4)	7.3	0.9	8.2

There are no significant restrictions on the ability of associates to pay dividends or repay loans if agreed by the shareholders.

Total net assets of the associated undertakings were as follows:

	Year ended 31 December 2016			Year ended 31 December 2015		
	Construction £million	Support Services £million	Total £million	Construction £million	Support Services £million	Total £million
Non-current assets	57.1	3.3	60.4	45.7	27.5	73.2
Current assets	518.7	79.7	598.4	469.4	70.4	539.8
Current liabilities	(388.3)	(45.8)	(434.1)	(336.1)	(38.5)	(374.6)
Non-current liabilities	(44.8)	(4.8)	(49.6)	(35.7)	(4.5)	(40.2)
Net assets	142.7	32.4	175.1	143.3	54.9	198.2
Less: Net assets attributable to non-Group interests	(80.2)	(14.3)	(94.5)	(82.4)	(29.6)	(112.0)
Net assets attributable to the Group	62.5	18.1	80.6	60.9	25.3	86.2
Goodwill	1.2	3.5	4.7	1.2	3.5	4.7
Acquired intangible assets	-	-	-	-	0.1	0.1
Carrying value of net assets and goodwill	63.7	21.6	85.3	62.1	28.9	91.0

(ii) Movements in the year

	Shares £million	Loans £million	Share of reserves £million	Total £million
At 1 January 2015	5.9	8.9	62.4	77.2
Share of retained profits net of amortisation	-	-	8.2	8.2
Exchange differences	-	-	5.6	5.6
At 31 December 2015	5.9	8.9	76.2	91.0
Share of retained profits net of amortisation	-	-	(12.4)	(12.4)
Exchange differences	-	-	6.7	6.7
At 31 December 2016	5.9	8.9	70.5	85.3

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for the year ended 31 December 2016

16. 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 temporary differences £million	Total £million
At 1 January 2015	6.7	(21.5)	2.2	1.7	12.6	1.7
(Charge)/credit to income	(6.1)	5.6	6.1	(0.5)	(1.5)	3.6
(Charge)/credit to equity	(1.1)	-	-	-	(2.7)	(3.8)
Exchange differences	-	-	-	-	(0.2)	(0.2)
At 31 December 2015	(0.5)	(15.9)	8.3	1.2	8.2	1.3
(Charge)/credit to income	(6.0)	6.9	(2.5)	2.8	(0.2)	1.0
(Charge)/credit to equity	15.3	-	-	-	0.8	16.1
Exchange differences	-	-	-	-	0.2	0.2
At 31 December 2016	8.8	(9.0)	5.8	4.0	9.0	18.6

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

	31 December 2016 £million	31 December 2015 £million
Deferred tax liabilities	(9.0)	(16.4)
Deferred tax assets	27.6	17.7
	18.6	1.3

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 £41.5 million (2015: £14.9 million) on gross losses of £244.2 million (2015: £74.6 million).

17. Inventories

	31 December 2016 £million	31 December 2015 £million	31 December 2014 £million
Goods held for resale	28.7	32.1	40.1
Materials	7.8	8.0	8.5
	36.5	40.1	48.6

18. Construction contracts

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

	31 December 2016 £million	31 December 2015 £million	31 December 2014 £million
Amounts due from contract customers included in trade and other receivables (note 19)	116.9	127.3	81.5
Amounts due to contract customers included in trade and other payables (note 22)	(41.6)	(35.5)	(34.0)
	75.3	91.8	47.5
Contract costs incurred plus recognised profits less recognised losses to date	2,176.4	1,529.6	1,432.7
Less: progress billings	(2,101.1)	(1,437.8)	(1,385.2)
	75.3	91.8	47.5

At 31 December 2016, retentions held by customers for contract work amounted to £44.6 million (2015: £38.4 million) of which £10.7 million (2015: £6.1 million) is receivable after one year. Advances received were £41.6 million (2015: £35.5 million) of which £nil is repayable after one year (2015: £nil).

19. Trade and other receivables

	31 December 2016 £million	31 December 2015 £million	31 December 2014 £million
Amounts recoverable from the sale of goods and services	380.7	444.5	418.0
Allowances for doubtful debts	(54.3)	(46.3)	(49.2)
	326.4	398.2	368.8
Amounts due from construction contract customers	116.9	127.3	81.5
Retentions	44.6	38.4	36.8
Other receivables	43.2	27.2	26.7
Prepayments	30.2	34.9	23.3
Accrued income	163.1	148.9	142.3
	724.4	774.9	679.4

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

	31 December 2016 £million	31 December 2015 £million	31 December 2014 £million
Retentions	10.7	6.1	8.9

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 32 days (2015: 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.

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19. Trade and other receivables continued

Ageing of trade receivables, not impaired but net of allowances for doubtful debt, is as follows:

	31 December 2016 £million	31 December 2015 £million	31 December 2014 £million
Not more than one month past due	49.0	76.9	65.8
Between one and three months past due	19.6	23.4	26.0
Between three and six months past due	23.3	22.5	24.5
Greater than six months	21.9	24.0	17.1
Total past due but not impaired	113.8	146.8	133.4
Not past due	212.6	251.4	235.4
Total net receivables	326.4	398.2	368.8

The average age of the receivables past due but not impaired is 96 days (2015: 82 days).

Movement in allowance for doubtful debt is as follows:

	2016 £million	2015 £million
Balance at 1 January	46.3	49.2
Amounts written off as uncollectable	(26.8)	(21.8)
Impairment losses recognised in the year	34.4	28.5
Amounts recovered during the year	(7.7)	(9.6)
Exchange differences	8.1	-
Balance at 31 December	54.3	46.3

20. Cash, deposits and borrowings

(a) Cash, deposits and borrowings

		31 December 2016 £million	31 December 2015 £million	31 December 2014 £million
Cash and deposits	A	113.3	86.1	82.1
Bank overdrafts		(11.1)	(15.5)	(5.5)
Bank loans		(165.0)	(170.0)	(137.5)
US Private Placement loan notes[1]		(284.4)	(236.1)	(225.3)
		(460.5)	(421.6)	(368.3)
Finance leases (note 24)		(4.4)	(2.2)	(0.8)
Total borrowings	B	(464.9)	(423.8)	(369.1)
Per balance sheet	A+B	(351.6)	(337.7)	(287.0)
less: Impact of hedges on US Private Placement loan notes[1]		77.2	28.9	18.1
Net debt		(274.4)	(308.8)	(268.9)

[1] The US Private Placement Loan notes are shown above after re-translating to year-end closing exchange rates in accordance with IAS 21. As discussed below these loan balances have been swapped into the fixed sterling equivalent of £207.2 million and this adjustment is to pro forma the statutory borrowing number back to this balance which the directors believe best represents the commercial substance of the liability. In accordance with IFRS 7, disclosures given below include the statutory amount as translated at the closing exchange rate.

Cash and deposits comprise cash held by the Group and short-term bank deposits that have an original maturity of three months or less. Where deposits earn interest, the interest rates are at floating rates related to UK base rates.

Included within cash and deposits is £38.6 million (2015: £32.3 million) which is subject to various constraints on the Group's ability to utilise these balances. These constraints relate to amounts held in project bank accounts, amounts held in accounts held in entities subject to minority interest shareholdings and the regulatory cash funding requirements relating to the Group's captive insurance company.

Total borrowings are repayable as follows:

	31 December 2016 £million	31 December 2015 £million	31 December 2014 £million
On demand or within one year	12.1	16.1	5.8
In the second year	0.9	0.4	0.3
In the third to fi th years inclusive	167.0	171.0	137.7
After more than five years	284.9	236.3	225.3
	464.9	423.8	369.1
Less: Amount due for settlement within 12 months	(12.1)	(16.1)	(5.8)
Amount due for settlement after 12 months	452.8	407.7	363.3

Amounts are drawn down against 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 £0.7 million and is all due for payment within one year (2015: £0.7 million within one year).

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

	31 December 2016 £million	31 December 2015 £million	31 December 2014 £million
Drawn facilities:			
US Private Placement loan notes	284.4	236.1	225.3
Bank loans	165.0	170.0	137.5
Undrawn facilities maturing in one to two years	-	-	-
Undrawn facilities maturing in more than two years but not more than five years	135.0	130.0	112.5
Total committed borrowing facilities	584.4	536.1	475.3

(b) Committed borrowing facilities

	31 December 2016 £million	31 December 2015 £million	31 December 2014 £million
US Private Placement loan notes	284.4	236.1	225.3
Bank facilities	300.0	300.0	250.0
Total committed borrowing facilities	584.4	536.1	475.3

20. Cash, deposits and borrowings continued

(b) Committed borrowing facilities continued

The Group has a US$ 350 million issue of US Private Placement loan notes ("loan notes"), which have a weighted average maturity length of 7.5 years. The loan notes attract differing fixed rates of interest depending on their tenor. This has been swapped to a fixed sterling equivalent of £207.2 million, along with the associated interest payments, with the use of derivatives that have been designated as cash flow hedges that are held at fair value (see note 21(b)).

The loan notes are in addition to £300 million of committed bank facilities as at the year end, which mature in 2019. Subsequent to the year end, arrangements for new bank facilities with all of our existing, and some new, lenders were put in place. As a result of this exercise, our bank debt capacity has been expanded by an additional £133 million of committed facilities. This gives the Group committed bank facilities of £433 million, in addition to the loan notes of £207 million at the swapped exchange rate, and leaves the Group with committed debt facilities of £640 million, with a weighted average expiry of April 2022.

The loan notes are subject to a fixed rate of interest. The majority of the remainder of the Group's other 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 hedges (see note 21(c)).

21. 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 2016			31 December 2015		
	Other financial assets £million	Derivatives used for hedging £million	Total £million	Other financial assets £million	Derivatives used for hedging £million	Total £million
Loans and receivables						
Cash and deposits	113.3	-	113.3	86.1	-	86.1
Trade and other receivables (excluding construction contracts, prepaid and accrued income)	369.6	-	369.6	425.4	-	425.4
Currency exchange rate hedge	-	67.6	67.6	-	25.2	25.2
Total financial assets	482.9	67.6	550.5	511.5	25.2	536.7

	31 December 2016			31 December 2015		
	Other financial liabilities £million	Derivatives used for hedging £million	Total £million	Other financial liabilities £million	Derivatives used for hedging £million	Total £million
Borrowings, overdrafts and finance leases	180.5	-	180.5	187.7	-	187.7
Loan notes	284.4	-	284.4	236.1	-	236.1
Trade and other payables (excluding construction contracts, accruals, deferred income and other tax and social security)	368.5	-	368.5	249.3	-	249.3
Interest rate hedge (non-PFI investments)	-	0.5	0.5	-	0.1	0.1
Total financial liabilities	833.4	0.5	833.9	673.1	0.1	673.2

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 recorded at fair value at each balance sheet date.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into three levels based on the degree to which the fair value is observable, as defined by IFRS 7:

- Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets and liabilities;

- Level 2 fair value measurements are those derived from inputs, other than quoted prices included within "Level 1", that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

Classification of financial assets/(liabilities) held at fair value according to the definitions set out in IFRS 7:

	31 December 2016 £million	31 December 2015 £million
Level 2	67.1	25.1

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. The Level 2 financial derivatives are classified within other receivables and other payables.

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

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

(a) Currency exposures

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

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

	31 December 2016				31 December 2015			
	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	60.6	-	250.2	310.8	58.1	-	311.0	369.1
US dollar	14.6	-	38.9	53.5	10.7	-	39.1	49.8
Euro	3.7	-	12.4	16.1	3.5	-	8.6	12.1
Australian dollar	3.4	-	4.8	8.2	1.3	-	2.5	3.8
Dirham	6.8	-	24.6	31.4	0.8	-	28.2	29.0
Other	24.2	-	38.7	62.9	11.7	-	36.0	47.7
	113.3	-	369.6	482.9	86.1	-	425.4	511.5

21. Financial risk management continued

(a) Currency exposures continued

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

	31 December 2016				31 December 2015			
	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	174.0	4.4	299.1	477.5	185.1	0.8	204.7	390.6
US dollar	-	284.4	38.5	322.9	-	236.1	24.8	260.9
Euro	-	-	2.0	2.0	-	-	1.2	1.2
Australian dollar	-	-	1.6	1.6	-	-	0.9	0.9
Dirham	-	-	10.9	10.9	-	-	9.8	9.8
Other	2.1	-	16.4	18.5	1.8	-	7.9	9.7
	176.1	288.8	368.5	833.4	186.9	236.9	249.3	673.1
Weighted average interest rates excluding amortisation of arrangement fees and bank margin	0.3%	5.3%			0.5%	5.3%		

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 2016.

The Group does not hedge anticipated future sales and purchases.

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

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

	31 December 2016 £million	31 December 2015 £million
A 1% change in exchange rates results in:		
Change in profit	0.4	0.4
Change in reserves/net assets	2.2	1.9

A 1% change in the Qatari rial exchange rate would result in a £0.1 million change in profit and a £0.6 million change in reserves/net assets.

(b) Market price risk - currency exchange rate hedges

The Group seeks to control its exposure to changes in currency rates by using currency 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 2016			31 December 2015		
	Nominal value US$ million	Maturity	Exchange rate	Nominal value US$ million	Maturity	Exchange rate
Currency exchange rate hedges	85.0	2021	1.69	85.0	2021	1.69
	155.0	2024	1.69	155.0	2024	1.69
	110.0	2026	1.69	110.0	2026	1.69
	350.0			350.0		

The fair value of currency exchange rate hedges at 31 December 2016 is estimated at £67.6 million (2015: £25.2 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 other comprehensive income. The fair values of the hedge instruments are calculated and provided by respective counterparty banks. No charges have gone through the income statement in the year (2015: no charges) in respect of changes in the fair value of the hedges. A gain of £42.0 million (2015: £19.8 million gain) was booked to other comprehensive income in respect to changes in fair value of the hedges.

(c) 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 2016				31 December 2015			
		Nominal value £million	Maturity	Strike price		Nominal value £million	Maturity	Strike price
Interest rate swaps	Current	20.0	2017	1.09%	Current	20.0	2017	1.09%
	Current	20.0	2019	1.54%	Current	20.0	2019	1.54%

The fair value of interest rate hedges at 31 December 2016 is estimated at (£0.5) million (2015: (£0.1) 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 other comprehensive income. 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 (2015: £nil) in respect of changes in the fair value of the hedges. No gains (2015: no gain) was charged through other comprehensive income in respect to changes in fair value of the hedges.

21. Financial risk management continued

(c) Market price risk - interest rate hedges continued

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 2016 £million	31 December 2015 £million
A 1% change in interest rates results in:		
Change in profit	1.4	1.5

(d) 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 and letters of credit 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.

(e) 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. Some of the facilities require us to comply with certain financial covenants, which are calculated excluding exceptional items. We continue to remain in compliance with these covenants.

The maturity of financial assets and liabilities, with the exception of interest rate hedges above, are discussed in the specific asset and liability footnotes.

(f) 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 20), 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.

22. Trade and other payables - amounts falling due within one year

	31 December 2016 £million	31 December 2015 £million	31 December 2014 £million
Obligations under finance leases (note 24)	1.0	0.6	0.3
Trade payables	290.7	166.5	151.4
Advances received	41.6	35.5	34.0
Other taxation and social security	45.4	85.3	73.6
Other payables	64.6	68.5	68.9
Accruals	422.5	388.0	375.3
Deferred income	33.5	43.6	50.5
	899.3	788.0	754.0

23. Trade and other payables - amounts falling due after more than one year

	31 December 2016 £million	31 December 2015 £million	31 December 2014 £million
Obligations under finance leases (note 24)	3.4	1.6	0.5
Trade payables	0.6	0.2	0.5
Other payables	12.6	14.1	13.8
	16.6	15.9	14.8

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

The average credit period taken for trade purchases is 50 days (2015: 53 days).

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

	31 December 2016 £million	31 December 2015 £million	31 December 2014 £million
Less than one year	400.7	320.3	293.9
Between one and two years	13.2	14.3	14.3
	413.9	334.6	308.2

Notes to the consolidated financial statements continued

for the year ended 31 December 2016

24. Obligations under finance and operating leases

(a) Finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2016 £million	2015 £million	2016 £million	2015 £million
Amounts payable under finance leases:				
Within one year	1.1	0.6	1.0	0.6
In the second to fi th years inclusive	3.0	1.5	2.9	1.4
After five years	0.6	0.3	0.5	0.2
	4.7	2.4	4.4	2.2
Less: future finance charges	(0.3)	(0.2)	n/a	n/a
Present value of lease obligations	4.4	2.2	4.4	2.2

Certain of the Group's plant and equipment is held under finance leases. The average lease term is six to seven years. For the year ended 31 December 2016 the average effective borrowing rate was 1.8% (2015: 1.9%). 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 2016			31 December 2015		
	Land and buildings £million	Other £million	Total £million	Land and buildings £million	Other £million	Total £million
Within one year	20.9	16.4	37.3	15.1	15.9	31.0
In the second to fi th years inclusive	34.9	17.8	52.7	28.9	17.9	46.8
After five years	8.5	-	8.5	8.5	-	8.5
	64.3	34.2	98.5	52.5	33.8	86.3

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.

25. Provisions

	Contract provisions £million	Other £million	Total £million
At 1 January 2015	54.0	15.2	69.2
Additional provision in the year	14.4	19.3	33.7
Release	(14.1)	(0.7)	(14.8)
Utilisation of provision	(12.7)	(5.1)	(17.8)
Exchange differences	0.2	0.2	0.4
At 31 December 2015	41.8	28.9	70.7
Additional provision in the year	12.5	9.4	21.9
Release	(15.2)	(0.5)	(15.7)
Utilisation of provision	(10.5)	(3.5)	(14.0)
Exchange differences	0.2	1.6	1.8
At 31 December 2016	28.8	35.9	64.7

	31 December 2016 £million	31 December 2015 £million	31 December 2014 £million
Included in current liabilities	21.8	27.4	35.7
Included in non-current liabilities	42.9	43.3	33.5
	64.7	70.7	69.2

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.

Other provisions include self-insured risk retained by the Group's captive insurance company and other similar balances.

26. Share capital

	31 December 2016 £million	31 December 2015 £million	31 December 2014 £million
Issued and fully paid:			
145,714,120 ordinary shares of 10p each (2015: 145,207,477 ordinary shares of 10p each)	14.6	14.5	14.4

	Shares thousands	Share capital £million
At 1 January 2015	143,917.6	14.4
Share awards issued in 2015	1,289.9	0.1
At 31 December 2015	145,207.5	14.5
Share awards issued in 2016	506.6	0.1
At 31 December 2016	145,714.1	14.6

Notes to the consolidated financial statements continued

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26. Share capital continued

Awards were granted during the year as indicated below. Exercise and vesting details are stated in the Directors' Remuneration Report on pages 72 to 75. Outstanding options and awards over shares in the Company at 31 December 2016 were as follows:

			31 December 2016		31 December 2015	
	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) Performance Share Plan	11 April 2012	Nil	5	8,153	20	75,696
	9 April 2013	Nil	17	40,117	93	1,492,309
	13 May 2014	Nil	114	1,385,104	116	1,393,086
	27 May 2014	Nil	2	15,828	2	15,828
	1 June 2015	Nil	134	1,775,036	137	1,801,118
	5 April 2016	Nil	136	2,162,868	-	-
				5,387,106		4,778,037
(b) Sharesave Scheme	5 April 2012	238.0p	-	-	6	1,965
	4 April 2013	398.0p	11	2,124	1,122	247,821
	9 April 2014	511.0p	1,319	410,635	1,815	564,236
	30 September 2014	529.0p	1,217	361,139	1,717	510,480
	14 October 2015	467.0p	2,034	688,291	2,645	897,498
	12 October 2016	317.0p	1,995	1,696,073	-	-
				3,158,262		2,222,000

27. 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	
	2016 £million	2015 £million	2016 £million	2015 £million
Joint ventures and associates				
Borrowings	17.7	14.9	-	-
Bonds and guarantees	284.2	224.3	172.2	132.8
	301.9	239.2	172.2	132.8

28. Share-based payments

Under the Group's share-based incentive schemes the following expense was charged/(credited):

	31 December 2016 £million	31 December 2015 £million
Performance Share Plan	(0.6)	-
Sharesave Scheme	0.4	0.5
Total charge/(credit)	(0.2)	0.5
Cash settled	0.2	0.1
Equity settled	(0.4)	0.4
Total charge/(credit)	(0.2)	0.5

The cash settled element of the charge relates to cash payments equivalent to the dividends which would have accrued to Performance Share Plan participants had their vested shares been awarded at the grant date.

(a) Performance Share Plan

The Performance Share Plan is a "free" share award with an effective exercise price of £nil. For certain participants, one-third of their award is subject to a Total Shareholder Return (TSR) performance condition with performance compared to a comparator group. All awards are subject to an Earnings per Share (EPS) performance condition. The performance period is three years. Further details of these conditions are set out in the Directors' Remuneration Report on pages 73 and 74. Awards are normally forfeited if the employee leaves the Group before the awards vest.

	2016 Awards number	2015 Awards number
Outstanding at beginning of period	4,778,037	5,557,322
Granted during the period	2,162,868	1,816,023
Exercised during the period	(535,171)	(977,244)
Lapsed during the period	(1,018,628)	(1,618,064)
Outstanding at the end of the period	5,387,106	4,778,037
Exercisable at the end of the period	48,270	75,696

The remaining weighted average contractual life is 3.5 years (2015: 3.5 years).

Notes to the consolidated financial statements continued

for the year ended 31 December 2016

28. Share-based payments continued

(a) Performance Share Plan 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:

	2016 grants	2015 grants	2014 grants
Weighted average share price	419.6p	619.5p	694.0p
Weighted average exercise price	0p	0p	0p
Expected volatility	26.2%	24.4%	23.1%
Expected life	3 years	3 years	3 years
Risk-free rate	0.5%	0.7%	1.1%
Expected dividend yield	0.0%	0.0%	0.0%
Average fair value of award per share	134.6p	303.0p	462.5p

(b) Sharesave Scheme

The Sharesave Scheme is an all-employee HMRC tax-advantaged 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 grants from 2012 onwards was set at a 20% discount of the average share price over five days trading prior to the offer date of the scheme.

	2016		2015	
	Options number	Weighted average exercise price £	Options number	Weighted average exercise price £
Outstanding at beginning of period	2,222,000	4.85	1,932,502	4.51
Granted during the period	1,709,574	3.17	903,964	4.67
Exercised during the period	(13,951)	3.64	(338,522)	2.50
Lapsed during the period	(759,361)	4.64	(275,944)	4.76
Outstanding at the end of the period	3,158,262	3.99	2,222,000	4.85
Exercisable at the end of the period	2,124	3.98	1,965	2.38

The shares exercised during the year had exercise prices from £2.38 to £5.29. The outstanding options at the end of the period had a weighted average exercise price of £3.99 (2015: £4.85) and had a remaining weighted average contractual life of 2.6 years (2015: 2.6 years).

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

	2016 grants	2015 grants	2014 grants
Share price at date of grant	348.0p	592.5p	646.5p
Exercise price	317.0p	467.0p	520.3p
Expected volatility	30.0%	23.3%	23.2%
Expected life	3 years	3 years	3 years
Risk-free rate	0.8%	0.8%	0.7%
Expected dividend yield	4.1%	4.3%	4.9%
Fair value of award per share	62.3p	114.7p	113.5p

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.

29. Defined benefit retirement schemes

The principal pension schemes within the Group have been valued for the purposes of IAS 19 *Employee benefits*. For each of these pension schemes valuation information has been updated by Lane Clark & Peacock LLP, qualified independent actuaries, to take account of the requirements of IAS 19 in order to assess the liabilities of the various schemes as at 31 December 2016.

Actuarial gains and losses are recognised in full in the period in which they occur. As permitted by IAS 19, actuarial gains and losses are recognised outside profit or loss and presented in other comprehensive income. The liability recognised in the balance sheet represents the present value of the various defined benefit obligations, as reduced by the fair value of plan assets. The cost of providing benefits is determined using the Projected Unit Credit Method.

The 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.

During 2016, a scheme merger took place whereby the entire contents of the Landmarc Pension Scheme were transferred into a segregated section of the Interserve Pension Scheme. The Interserve Pension Scheme now comprises two segregated sections (referred to as the Interserve and Landmarc sections), with assets and liabilities ring-fenced; as such, there is no change in the accounting treatment compared with the position when they were separate schemes.

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 assumptions used to assess the present value of the defined benefit obligation. The discount rate and inflation assumptions shown below are the single equivalent rates for the full-yield curves assumed for the Interserve section of the Interserve Pension Scheme, which represents 91% 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 makes it appropriate to do so. The weighted average duration of the expected benefit payments for the schemes is around 17 years.

	2016	2015	2014
Significant actuarial assumptions			
Retail price inflation (pa)	3.3%	3.1%	3.1%
Discount rate (pa)	2.8%	3.8%	3.6%
Post-retirement mortality (expectancy of life in years)			
Male currently aged 65	87.6	87.6	87.5
Female currently aged 65	89.5	89.4	89.5
Male aged 65 in 20 years' time	89.4	89.3	89.3
Female aged 65 in 20 years' time	91.0	90.9	91.0
Other related actuarial assumptions			
Consumer price index price inflation (pa)	2.3%	2.1%	2.1%
Pension increase assumptions (pa)			
LPI/RPI	3.1%/3.3%	3.0%/3.1%	3.0%/3.1%
Fixed 5%	5.0%	5.0%	5.0%
3% or RPI if higher (capped at 5%)	3.7%	3.6%	3.6%
General salary increases (pa)	2.8%	2.6%	2.1%-2.6%

Notes to the consolidated financial statements continued

for the year ended 31 December 2016

29. 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:

	2016 £million	2015 £million	2014 £million
Present value of defined benefit obligation	1,044.6	880.9	924.9
Fair value of schemes' assets	(992.2)	(898.1)	(920.1)
(Asset)/liability recognised in the balance sheet	52.4	(17.2)	4.8

The change in the net liabilities recognised in the balance sheet is comprised as follows:

	2016 £million	2015 £million
Opening net (asset)/liability	(17.2)	4.8
Expense charges to profit and loss	2.8	7.7
Amount recognised in other comprehensive income	90.2	(5.6)
Employer contributions	(23.4)	(24.1)
Closing net (asset)/liability	52.4	(17.2)

The Group has assessed that no further liability arises under IFRIC 14 *IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction*. This conclusion was reached because the trustees of the Interserve Pension Scheme and the Landmarc Pension Scheme, which together represented 97% of the Group's total defined benefit obligations at 31 December 2016, do not have a unilateral power to wind up the schemes and the schemes' rules allow the Group an unconditional right to refunds assuming the gradual settlement of plan liabilities over time until all members have left the scheme.

		Indicative change in defined benefit obligation	
	Sensitivity	2016 £million	2015 £million
Sensitivity to significant actuarial assumptions			
Price inflation	+0.5% pa	+65	+54
Discount rate	+0.5% pa	-85	-70
Post-retirement mortality (expectancy of life in years)	1 year increase	+34	+29

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/(asset) is therefore likely to be lower than the amounts above.

The amounts recognised in the income statement are as follows:

	2016 £million	2015 £million
Employer's part of current service cost	5.7	7.2
Administration costs	0.9	1.9
Past service cost/(credit)	(2.6)	-
Losses/(gains) on settlements	(0.1)	(1.1)
Net interest (income)/expense on the net pension liability/(asset)	(1.1)	(0.3)
Total expense recognised in the income statement	2.8	7.7

The current service cost and administration costs are included within operating profit. The interest cost is included within financing costs.

During 2016 the Company and Trustee amended the Interserve Pension Scheme to introduce additional standard options for members reaching retirement, including facilitating the new “Freedom and Flexibility” options introduced by the Government. This amendment is expected to change the way in which a proportion of members take their benefits and, consequently, generated a past service credit of £2.6 million, as at the effective date of the rule amendment.

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

	31 December 2016		31 December 2015		31 December 2014	
	Current allocation	Fair value £million	Current allocation	Fair value £million	Current allocation	Fair value £million
Equities (quoted)	28%	271.7	23%	207.4	21%	190.7
Alternative investments (primarily unquoted)	17%	168.6	16%	144.9	13%	120.7
Property (unquoted)	0%	3.1	2%	22.5	4%	37.4
Liability Driven Investment (LDI) (unquoted)	12%	117.7	0%	-	0%	-
Insurance policies (unquoted)	37%	368.7	39%	347.9	40%	371.6
Government bonds (quoted)	0%	2.1	13%	115.8	11%	96.8
Corporate bonds (quoted)	0%	2.7	0%	2.3	0%	2.7
Infrastructure (unquoted)	5%	52.0	6%	51.7	10%	90.0
Cash and other (primarily unquoted)	1%	5.6	1%	5.6	1%	10.2
	100%	992.2	100%	898.1	100%	920.1

Alternative investments include diversified growth funds, fund of hedge funds and emerging market multi-asset funds (primarily unquoted).

The Trustee of the Interserve section of the Interserve Pension Scheme holds an insurance policy to protect the Group from certain risks associated with approximately 35% of that section's defined benefit obligation. The policy aims to closely match the pension payments to the pensioner members who were above age 65 in July 2014. The policy is not an exact match for the benefits in certain areas, notably: pension increases if price inflation falls below 0%; differences between the increase in the Consumer Prices Index and the Retail Prices Index; and the eligibility criteria for dependants’ pensions. The element of the policy that does not provide an exact match for the benefits covers £309.6 million of the defined benefit obligation at 31 December 2016. The policy covers a further £9.4 million of the defined benefit obligation which precisely matches the benefits in respect of certain dependants in receipt of pension.

Except for the element of the policy which precisely matches the benefits (around 3% of the total policy value), the policy has been valued as the estimated replacement cost at the accounting date by the Group’s actuarial advisers, LCP, in accordance with the fair value requirements of IFRS 13. The small matching element has been valued at the same amount as the defined benefit obligation in respect of the matched benefits.

During 2016 the Interserve Pension Scheme invested in a bespoke pooled LDI fund. The LDI portfolio provides a broad 45% hedge of the Interserve section's interest rate and inflation exposure not covered by the insurance policy above. The LDI manager invests in a combination of gilts and swaps, depending on the relative attractiveness of each instrument at each maturity.

The infrastructure holding predominantly consists of the remaining portfolio of PFI investments originally transferred by Interserve Plc to the Interserve Pension Scheme in November 2009 and 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.

29. Defined benefit retirement schemes continued

A reconciliation of the present value of the defined benefit obligation is as follows:

	2016 £million	2015 £million
Opening defined benefit obligation	880.9	924.9
Employer's part of current service cost	5.7	7.2
Interest cost	32.7	32.6
Contributions by schemes' participants	0.4	0.5
Actuarial loss/(gain) due to:		
Changes in financial assumptions	176.0	(28.4)
Changes in demographic assumptions	-	(2.3)
Experience on defined benefit obligations	(8.6)	(9.8)
Benefits paid	(39.1)	(36.7)
Past service cost/(credit)	(2.6)	-
Curtailments and settlements	(0.8)	(7.2)
Bulk transfers	-	0.1
Closing defined benefit obligation	1,044.6	880.9

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

	2016 £million	2015 £million
Opening fair value of the schemes' assets	898.1	920.1
Interest on schemes' assets	33.8	32.9
Actual return on schemes' assets less interest on schemes' assets	77.2	(34.9)
Contributions by the employer	23.4	24.1
Contributions by schemes' participants	0.4	0.5
Benefits paid	(39.1)	(36.7)
Curtailments and settlements	(0.7)	(6.1)
Administration costs	(0.9)	(1.9)
Bulk transfers	-	0.1
Closing fair value of the schemes' assets	992.2	898.1

Based on current contribution rates and payroll, the Group expects to contribute £19.5 million to the various defined benefit arrangements during 2017. This includes deficit contributions to the Interserve section of the Interserve Pension Scheme of £13.7 million.

30. 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	
	2016 £million	2015 £million	2016 £million	2015 £million	2016 £million	2015 £million	2016 £million	2015 £million
Joint-venture entities	118.1	120.7	-	-	7.8	3.7	-	-
Associates	11.6	47.8	1.2	1.1	4.6	12.0	0.5	0.7

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 £0.3 million (2015: £0.2 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 Directors' Remuneration Report on pages 62 to 76.

Notes to the consolidated financial statements continued

for the year ended 31 December 2016

31. Investments in joint ventures - arrangements

The composition of investment in joint ventures can be summarised as follows:

(a) PFI/PPP arrangements that have reached financial close at 31 December 2016

	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	no	73	operational	mid-2006	late 2008	2033	33	2.9	100.0
Central/local government										
Derby Waste	yes	no	145	construction	Q3 2014	-	2042	50	17.5	190.8
Health										
Alder Hey Hospital	no	yes	100	operational	Q2 2013	mid-2015	2045	20	4.0	200.0
Scottish National Blood Transfusion	yes	yes	43	construction	Q4 2014	-	2042	50	1.6	43.0
Education										
Hertford, Luton and Reading Schools	yes	yes	160	construction	Q1 2015	-	2042	45	6.1	147.0
									32.1	
Invested to date										
Shares									0.1	
Loans									14.5	
Remaining commitment									17.5	
									32.1	

Interserve's share of the capital commitments of the joint ventures above amounts to £25.8 million (2015: £88.5 million).

(b) Non-PFI/PPP arrangements

		Share of equity/ sub-debt	
Contract	Description	%	£million
Haymarket	Property development venture in central Edinburgh	50/100	41.0
Rehab Jobfit	Employment-related support services to the Department for Work and Pensions	49/n/a	-
			41.0
Invested to date			
Shares			-
Loans			25.8
Remaining commitment			15.2
			41.0

Interserve's share of the capital commitments of the joint ventures above amounts to £15.2 million (2015: £5.0 million).

32. 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

	2016 £million	2015 £million	2014 £million
Profit/(loss) before tax	(94.1)	79.5	61.9
Adjusted for:			
Amortisation of acquired intangible assets	29.8	31.0	24.4
Share of associates amortisation of acquired intangible assets	0.1	0.1	0.1
Exceptional items - transaction and integration costs	-	4.8	19.8
Exceptional items - exited business	160.0	10.6	-
Exceptional items - strategic review of Equipment Services	10.7	2.6	0.5
Investment revenue	(5.6)	(4.7)	(5.0)
Finance costs	23.3	21.1	16.0
Headline pre-tax profit	124.2	145.0	117.7

(b) Operating cash flow

	2016 £million	2015 £million	2014 £million
Cash generated by operations	90.7	38.7	10.9
Adjusted for:			
Cash used by operations - exited business	116.9	10.4	(7.7)
Cash used by operations - strategic review of Equipment Services	7.7	2.6	0.9
Pension contributions in excess of income statement charge	19.5	16.1	18.2
Other exceptional items cash impact	-	3.0	18.4
Proceeds on disposal of plant and equipment - non-hire fleet	8.6	1.6	0.9
Capital expenditure - non-hire fleet	(38.3)	(31.2)	(24.9)
Operating cash flow	205.1	41.2	16.7

(c) Free cash flow

	2016 £million	2015 £million	2014 £million
Operating cash flow	205.1	41.2	16.7
Adjusted for:			
Pension contributions in excess of income statement charge	(19.5)	(16.1)	(18.2)
Taxes paid	(10.2)	(6.8)	(10.2)
Dividends received from associates and joint ventures	34.1	13.6	17.8
Interest received	4.5	4.4	4.7
Interest paid	(23.3)	(21.1)	(16.0)
Effect of foreign exchange rate change	10.9	0.1	0.8
Free cash flow	201.6	15.3	(4.4)

Notes to the consolidated financial statements continued

for the year ended 31 December 2016

32. Reconciliation of non-statutory measures continued

(d) Operating cash conversion

	2016 £million	2015 £million	2014 £million
Operating cash flow	**205.1**	41.2	16.7
Operating profit, before exceptional items and amortisation of acquired intangible assets	**101.6**	122.4	101.5
Full-year operating cash conversion	**201.9%**	33.7%	16.5%
Three-year rolling operating cash flow	**263.0**	101.5	119.7
Three-year rolling operating profit, before exceptional items and amortisation of acquired intangible assets	**325.5**	295.0	227.4
Operating cash conversion, three-year rolling average	**80.8%**	34.4%	52.6%

(e) Gross operating cash conversion

	2016 £million	2015 £million	2014 £million
Operating cash flow	**205.1**	41.2	16.7
Dividends received from associates and joint ventures	**34.1**	13.6	17.8
Gross operating cash flow	**239.2**	54.8	34.5
Operating profit, before exceptional items and amortisation of acquired intangible assets	**101.6**	122.4	101.5
Share of results of associates and joint ventures, before exceptional items and amortisation of acquired intangible assets	**22.6**	22.6	16.6
Total operating profit, before exceptional items and amortisation of acquired intangible assets	**124.2**	145.0	118.1
Full-year gross operating cash conversion	**192.6%**	37.8%	29.2%
Three-year rolling gross operating cashflow	**328.5**	146.6	171.0
Three-year rolling total operating profit before exceptional items and amortisation of acquired intangible assets	**387.3**	351.5	286.7
Gross operating cash conversion, three-year rolling average	**84.8%**	41.7%	59.6%

(f) Gross revenue

	2016 £million	2015 £million	2014 £million
Consolidated revenue	**3,244.6**	3,204.6	2,913.0
Share of revenues of associates and joint ventures	**440.6**	424.3	392.3
Gross revenue	**3,685.2**	3,628.9	3,305.3

(g) Net debt

		2016 £million	2015 £million	2014 £million
Cash and deposits	A	113.3	86.1	82.1
Bank overdrafts		(11.1)	(15.5)	(5.5)
Bank loans		(165.0)	(170.0)	(137.5)
US Private Placement Loans		(284.4)	(236.1)	(225.3)
		(460.5)	(421.6)	(368.3)
Finance leases		(4.4)	(2.2)	(0.8)
Total borrowings	B	(464.9)	(423.8)	(369.1)
Per balance sheet	A+B	(351.6)	(337.7)	(287.0)
less: Impact of hedges on US Private Placement loan notes		77.2	28.9	18.1
Net debt		(274.4)	(308.8)	(268.9)

33. Events after the balance sheet date

Subsequent to the year end, arrangements for new bank facilities with all of our existing, and some new, lenders were put in place. As a result of this exercise, our bank debt capacity has been expanded by an additional £133 million of committed facilities. This gives the Group committed bank facilities of £433 million, in addition to the loan notes of £207 million at the swapped exchange rate, and leaves the Group with committed debt facilities of £640 million, with a weighted average expiry of April 2022.

Company balance sheet

at 31 December 2016

	Notes	2016 £million	2015 £million
Fixed assets			
Tangible assets	E	10.2	12.6
Investments in subsidiaries	F	462.9	462.9
Investments in associates	G	2.7	2.7
Retirement benefit surplus	L	-	15.2
Other investments	H	0.3	0.3
		476.1	493.7
Current assets			
Debtors:			
Due within one year	I	114.5	50.6
Due after one year	I	7.5	-
Cash at bank and in hand		5.3	48.5
		127.3	99.1
Creditors: amounts falling due within one year	J	(37.4)	(110.9)
Net current assets/(liabilities)		89.9	(11.8)
Total assets less current liabilities		566.0	481.9
Creditors: amounts falling due after more than one year	K	(4.8)	(7.1)
Retirement benefit obligation	L	(39.5)	-
Provisions for liabilities	M	(15.9)	(11.6)
Net assets		505.8	463.2
Capital and reserves			
Called-up share capital	O	14.6	14.5
Share premium account		116.5	116.5
Capital redemption reserve		0.1	0.1
Merger reserve		180.9	180.9
Profit and loss account		193.7	151.2
Total shareholders' funds		505.8	463.2

Interserve Plc reported a profit after taxation for the financial year ended 31 December 2016 of £32.9 million (2015: £14.9 million).

The financial statements of Interserve Plc (registered number 00088456) were approved by the Board of Directors on 28 February 2017.

Signed on behalf of the Board of Directors

A M Ringrose
Director

T P Haywood
Director

Company statement of changes in equity

for the year ended 31 December 2016

	Called-up share capital £million	Profit and loss account £million	Share premium account £million	Capital redemption reserve £million	Merger reserve £million	Total £million
Balance as at 1 January 2015	14.4	153.1	115.3	0.1	180.9	463.8
Profit for the year	-	14.9	-	-	-	14.9
Other comprehensive income for the year	-	15.0	-	-	-	15.0
Total comprehensive income for the year	-	29.9	-	-	-	29.9
Issue of share capital	0.1	-	1.2	-	-	1.3
Dividends	-	(33.7)	-	-	-	(33.7)
Fair value adjustment	-	0.4	-	-	-	0.4
Investment in own shares	-	0.7	-	-	-	0.7
Share-based payments	-	0.8	-	-	-	0.8
Transactions with owners	0.1	(31.8)	1.2	-	-	(30.5)
Balance as at 31 December 2015	14.5	151.2	116.5	0.1	180.9	463.2
Profit for the year	-	34.1	-	-	-	34.1
Other comprehensive income for the year	-	43.8	-	-	-	43.8
Total comprehensive income for the year	-	77.9	-	-	-	77.9
Issue of share capital	0.1	-	-	-	-	0.1
Dividends	-	(35.5)	-	-	-	(35.5)
Fair value adjustment	-	-	-	-	-	-
Investment in own shares	-	-	-	-	-	-
Share-based payments	-	0.1	-	-	-	0.1
Transactions with owners	0.1	(35.4)	-	-	-	(35.3)
Balance as at 31 December 2016	14.6	193.7	116.5	0.1	180.9	505.8

The share premium reserve includes proceeds from share issues over and above the nominal value of the 10p ordinary shares.

The merger reserve includes premium on the shares issued on acquisition of subsidiary companies.

Notes to the Company financial statements

for the year ended 31 December 2016

A) Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

(a) Basis of accounting

These financial statements have been prepared in accordance with Financial Reporting Standard 101 *Reduced disclosure framework* and the Companies Act 2006. These financial statements have therefore been prepared under the historical cost convention.

Interserve Plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 43.

The Company meets the definition of qualifying entity under FRS 100 *Application of financial reporting requirements*. These financial statements were prepared in accordance with FRS 101 *Reduced disclosure framework* as issued by the Financial Reporting Council.

The Company's financial statements are included in the Interserve Plc consolidated financial statements for the year ended 31 December 2016. As permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account.

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 *Reduced disclosure framework*:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 *Share-based payment*;
- the requirements of IFRS 7 *Financial instruments: disclosures*;
- the requirements of paragraphs 91 to 99 of IFRS 13 *Fair value measurement*;
- the requirement in paragraph 38 of IAS 1 *Presentation of financial statements* to present comparative information in respect of:
    - paragraph 79(a)(iv) of IAS 1;
    - paragraph 73(e) of IAS 16 *Property, plant and equipment*; and
    - paragraph 118(e) of IAS 38 *Intangible assets*;
- the requirements of paragraphs 10(d), 10)(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 *Presentation of financial statements*;
- the requirements of paragraphs 134 to 136 of IAS 1 *Presentation of financial statements*;
- the requirements of IAS 7 *Statement of cash flows*;
- the requirements of paragraphs 30 and 31 of IAS 8 *Accounting policies, changes in accounting estimates and errors*;
- the requirements of paragraphs 17 and 18A of IAS 24 *Related party disclosures*;
- the requirements in IAS 24 *Related party disclosures* to disclose related party transactions entered into between two or more members of a group; and
- the requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 *Impairments of assets*.

These financial statements are separate financial statements.

Where required, equivalent disclosures are given in the Annual Report and Financial Statements of the Group as shown in notes 1 to 33.

Adoption of new and revised standards

The Company adopted FRS 101 for the first time in the prior year. There have been no changes to the Standards or Interpretations applied in the current year.

(b) 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 annual financial statements.

(c) Leases

Operating lease payments represent rentals payable by the Company for its office properties. Leases are negotiated for an average term of 10 years and rentals are fixed for an average of five years with a break option to extend at five years. Leases of land and buildings are typically subject to rent reviews at five-yearly intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

(d) Foreign currency

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Transactions denominated in currencies other than the functional currency are translated at the rates ruling at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated.

Exchange differences are recognised in profit and loss in the period in which they arise.

(e) Tangible assets

Tangible assets are carried at cost less any accumulated depreciation and any impairment losses. Depreciation is provided on a straight-line basis, calculated to write off the cost or valuation over its expected useful life, at rates ranging between:

Freehold land	Nil
Freehold buildings	2%
Leasehold property	Over period of lease
Computer hardware and software	33.3%
Furniture, office and plant equipment	10% to 33.3%

Useful lives are reviewed at the end of every reporting period.

The costs of operating leases are charged to the profit and loss account as they accrue.

(f) Provisions and contingent liabilities

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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 profit and loss 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.

Contingent liabilities are disclosed in the notes to the financial statements in respect of guarantees given to the Company's subsidiaries, associated undertakings, joint ventures and pension scheme. Due to the nature of the guarantees it would be difficult to reliably measure the Company's potential obligation and the Company considers it unlikely that there will be a requirement to make a financial settlement as a result of these guarantees.

(g) Investments

Investments are stated at cost less any impairment at the balance sheet date.

Notes to the Company financial statements continued

for the year ended 31 December 2016

A) Accounting policies continued

(h) Pensions

The Company participates in, and is the sponsoring employer of, 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 recognised in the statement of other comprehensive income.

For defined contribution schemes, the amount recognised in the profit and loss is equal to the contributions payable to the schemes during the year.

(i) Taxation

Current tax, including UK corporation tax and foreign 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. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss because is excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that is it no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is charged or credited in the profit and loss, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset where 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 Company intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year
Current and deferred tax are recognised in profit and loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

(j) Finance costs

Borrowing costs are recognised in the profit and loss in the period in which they are incurred. Differences between borrowing costs payable in the year and costs actually paid are shown in accruals in the balance sheet.

(k) Financial Instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument. Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Debtors
Debtors are initially measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss 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 and other borrowings
Interest-bearing bank loans, intercompany 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 profit and loss 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 initially measured at fair value and subsequently measured at amortised cost.

Equity instruments
Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments
Transactions in derivative financial instruments are for risk management purposes only. The Company uses derivative financial instruments to hedge its exposure to foreign currency risk. 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. These derivative instruments are designated as fair value through the profit and loss.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

(l) Share-based payments

The Company issues equity-based and cash-settled 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 28 to the Annual Report and Financial Statements of the Group sets out details of the share-based payments. 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.

For cash-settled share-based payments a liability is recognised based on the fair value of the payment earned by the balance sheet date. For equity-settled share-based payments the corresponding credit is recognised directly in reserves.

Notes to the Company financial statements continued

for the year ended 31 December 2016

A) Accounting policies continued

(m) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company accounting policies, which are described above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period which the estimate is revised if the revisions affect only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no critical judgements, apart from those involving estimates (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of investments in subsidiaries
Determining whether the Company's investments in subsidiaries have been impaired requires judgement. In making these judgements, net assets of subsidiaries at the balance sheet date and Board-approved budgets for the next three years are taken into consideration. The carrying amount of the investments in subsidiaries at the balance sheet date was £462.9 million (2015: £462.9 million) with £nil (2015: £1 million) of impairment losses recognised in 2016.

Retirement benefit obligations
In accordance with IAS 19 *Employee benefits*, the Company has disclosed in note L 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 and discount rates have been made. Small changes in these assumptions can lead to significant changes to the overall scheme liabilities, as disclosed in note L. Judgement is also exercised in establishing the fair value of retirement benefit assets, most notably the valuation of the buy-in contract to insure some of the benefits of a subset of the pension membership of the scheme provided by the insurer.

B) Profit on ordinary activities after taxation

Interserve Plc reported a profit after taxation for the financial year ended 31 December 2016 of £32.9 million (2015: £14.9 million).

The auditors' remuneration for audit services to the Company was £0.2 million (2015: £0.2 million).

C) Employees

The costs incurred in respect of these employees were:

	2016 £million	2015 £million
Wages and salaries	17.0	15.2
Social security costs	1.7	1.2
Share-based payments	(0.8)	-
Pension costs	1.1	1.0
	19.0	17.4

	2016 £million	2015 £million
Share-based payments to employees of the Company	(0.8)	-
Share-based payments to employees of subsidiaries	0.6	0.5
Group share-based payment charge	(0.2)	0.5
Cash-settled	0.2	0.1
Equity-settled	(0.4)	0.4
Group share-based payment charge	(0.2)	0.5

The average number of persons employed, being full-time equivalents, by the Company during the year, including directors, was 300 (2015: 239).

Share-based payments are issued to certain employees of the Company and its wider Group. All schemes referenced in the Group accounts are applicable to the Company. The division of costs across the Group has resulted in no charge to the Company. Further details can be found in note 28 to the Group consolidated financial statements on pages 151 and 152.

Directors' remuneration

Detailed disclosures of directors' aggregated individual remuneration and share-based payments included in the above analysis are given in the Directors' Remuneration Report on pages 62 to 76 and should be regarded as an integral part of this note.

D) Dividends

	2016 £million	2015 £million
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2015 of 16.4p (2014: 15.5p) per share	23.7	22.3
Interim dividend for the year ended 31 December 2016 of 8.1p (2015: 7.9p) per share	11.8	11.4
	35.5	33.7

The directors do not recommend the payment of a final dividend for the year ended 31 December 2016.

Notes to the Company financial statements continued

for the year ended 31 December 2016

E) Tangible fixed assets

(a) Movement during the year

	Land and buildings £million	Computers £million	Other £million	Total £million
Cost				
At 1 January 2016	12.1	7.2	0.8	20.1
Additions	0.4	4.9	0.2	5.5
Disposals	(6.7)	(2.0)	-	(8.7)
At 31 December 2016	5.8	10.1	1.0	16.9
Depreciation				
At 1 January 2016	2.5	4.4	0.6	7.5
Charge in year	0.2	1.0	-	1.2
Disposals	-	(2.0)	-	(2.0)
At 31 December 2016	2.7	3.4	0.6	6.7
Net book value				
At 31 December 2016	3.1	6.7	0.4	10.2
At 31 December 2015	9.6	2.8	0.2	12.6

(b) Land and buildings

	2016 £million	2015 £million
Net book value of land and buildings		
Freehold:		
Land at cost	1.3	8.0
Buildings at cost less depreciation	1.1	0.7
	2.4	8.7
Leaseholds over 50 years at cost less depreciation	0.7	0.9
	3.1	9.6

(c) Operating leases

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Land and buildings		Other	
	2016 £million	2015 £million	2016 £million	2015 £million
Within one year	1.2	1.3	0.2	0.1
Between two to five years	3.6	3.7	0.2	0.1
After five years	5.1	6.4	-	-
	9.9	11.4	0.4	0.2

F) Investments in subsidiaries

	£million
Cost	
At 1 January 2016	477.4
Additions	-
Disposals	-
At 31 December 2016	477.4
Provisions	
At 1 January 2016	14.5
Additions	-
Disposals	-
At 31 December 2016	14.5
Carrying value	
At 31 December 2016	462.9
At 31 December 2015	462.9

Details of the Company's subsidiaries at 31 December 2016 are given on pages 179 to 183, which form part of these financial statements. Direct subsidiaries are annotated with a superscript note 3.

Notes to the Company financial statements continued

for the year ended 31 December 2016

G) Investments in associates

	£million
Cost	
At 1 January 2016	2.7
Additions	-
Disposals	-
At 31 December 2016	2.7
Provisions	
At 1 January 2016	-
Additions	-
Disposals	-
At 31 December 2016	-
Carrying value	
At 31 December 2016	2.7
At 31 December 2015	2.7

The Company's direct associate at 31 December 2016 is Al Binaa Contracting Company W.L.L. (incorporated in Qatar). Both the proportion of ownership interest and proportion of voting power held is 49%. Of the total investment, £17,565 relates to investment in shares and the remainder is a loan.

H) Other investments

	2016 £million	2015 £million
Bonds	0.3	0.3

I) Debtors

	2016 £million	2015 £million
Amounts falling due within one year		
Trade debtors	0.2	0.4
Amounts owed by Group undertakings	95.7	34.6
Corporation tax	11.4	8.2
Prepayments and accrued income	7.2	7.4
	114.5	50.6
Amounts falling due after more than one year		
Deferred taxation (note N)	7.5	-
	7.5	-

J) Creditors: amounts falling due within one year

	2016 £million	2015 £million
Bank loans and overdrafts	14.5	59.7
Trade creditors	2.6	1.5
Amounts owed to Group undertakings	4.6	3.6
Other taxation and social security	1.1	34.1
Other creditors	5.7	6.0
Accruals and deferred income	8.9	6.0
	37.4	110.9

K) Creditors: amounts falling due after one year

	2016 £million	2015 £million
Other creditors	4.8	5.9
Deferred tax (note N)	-	1.2
	4.8	7.1

L) Retirement benefit schemes

The principal pension scheme the Company participates in and acts as sponsor for has been valued for the purposes of IAS 19 *Employee benefits*. The pension scheme valuation information has been updated by Lane Clark & Peacock LLP, qualified independent actuaries, to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme as at 31 December 2016.

Actuarial gains and losses are recognised in full in the period in which they occur. As permitted by IAS 19, actuarial gains and losses are recognised outside profit and 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 Company contributes to a defined benefit pension scheme in the UK, the Interserve Pension Scheme, where benefits are generally related to service and final salary. The Company 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.

During 2016, a scheme merger took place whereby the entire contents of the Landmarc Pension Scheme were transferred into a segregated section of the Interserve Pension Scheme. The Interserve Pension Scheme now comprises two segregated sections (referred to as the Interserve and Landmarc sections), with assets and liabilities ring-fenced; as such, there is no change in the accounting treatment compared with the position when they were separate schemes.

The current funding target for the Company's defined benefit scheme 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 the Company 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 Company that adverse experience could lead to a requirement for the Company to make considerable contributions to recover any deficit.

Notes to the Company financial statements continued

for the year ended 31 December 2016

L) Retirement benefit schemes continued

The following table sets out the key IAS 19 assumptions used to assess the present value of the defined benefit obligation. The discount rate and inflation assumptions shown below are the single equivalent rates for the full-yield curves assumed for the Interserve section of the Interserve Pension Scheme, which represents 91% of the total defined benefit obligation. Alternative assumptions have been used for the less material sections where the specific nature of the schemes makes it appropriate to do so. The weighted average duration of the expected benefit payments for the schemes is around 17 years.

	2016	2015	2014
Significant actuarial assumptions			
Retail price inflation (pa)	3.3%	3.1%	3.1%
Discount rate (pa)	2.8%	3.8%	3.6%
Post-retirement mortality (expectancy of life in years)			
Male currently aged 65	87.6	87.6	87.5
Female currently aged 65	89.5	89.4	89.5
Male aged 65 in 20 years' time	89.4	89.3	89.3
Female aged 65 in 20 years' time	91.0	90.9	91.0
Other related actuarial assumptions			
Consumer price index price inflation (pa)	2.3%	2.1%	2.1%
Pension increase assumptions (pa)			
Retail price inflation	3.3%	3.1%	3.1%
5% LPI	3.1%	3.0%	3.0%
Fixed 5%	5.0%	5.0%	5.0%
3% or RPI if higher (capped at 5%)	3.7%	3.6%	3.6%
General salary increases (pa)	2.8%	2.6%	2.1%-2.6%

The amount included in the balance sheet arising from the Company's obligations in respect of the pension scheme is as follows:

	2016 £million	2015 £million	2014 £million
Present value of defined benefit obligation	950.8	807.2	850.0
Fair value of scheme's assets	(911.3)	(822.4)	(846.5)
Net (asset)/liability in balance sheet	39.5	(15.2)	3.5

The change in net liabilities recognised in the balance sheet is comprised as follows:

	2016 £million	2015 £million
Opening net asset	(15.2)	3.5
Expense charged to profit and loss	0.4	4.3
Amount recognied outside profit and loss	74.7	(3.6)
Employer contributions	(20.4)	(19.4)
Closing net (asset)/liability	39.5	(15.2)

	Sensitivity	Indicative change in defined benefit obligation 2016 £million	2015 £million
Price inflation	+0.5% pa	+56	+47
Discount rate	+0.5% pa	-76	-62
Post-retirement mortality (expectancy of life in years)	1 year increase	+31	+26

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/(asset) is therefore likely to be lower than the amounts above.

The amounts recognised in the profit and loss are as follows:

	2016 £million	2015 £million
Employer's part of current service cost	3.1	3.7
Net interest on the net pension liability/(asset)	(0.9)	(0.2)
Administration costs	0.9	1.9
Past service cost/(credit)	(2.6)	-
Loss/(gain) on settlements	(0.1)	(1.1)
Total expense recognised in the profit and loss	0.4	4.3

The current service cost and administration costs are included within operating profit. The interest cost is included within financing costs.

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

	2016		2015		2014	
	Current allocation	Fair value £million	Current allocation	Fair value £million	Current allocation	Fair value £million
Equities (quoted)	26%	238.1	22%	178.2	19%	163.6
Alternative investments (primarily unquoted)	17%	156.3	15%	128.1	12%	105.0
Property (unquoted)	0%	-	2%	19.4	4%	34.4
Liability Driven Investment (LDI) (unquoted)	13%	117.7	0%	-	0%	-
Insurance policies (unquoted)	37%	342.9	41%	336.0	43%	359.1
Government bonds (quoted)	0%	-	13%	105.3	10%	86.3
Corporate bonds (quoted)	0%	-	0%	-	0%	-
Infrastructure (unquoted)	6%	51.5	6%	50.9	11%	88.9
Cash and other (primarily unquoted)	1%	4.8	1%	4.5	1%	9.2
	100%	911.3	100%	822.4	100%	846.5

Alternative investments include diversified growth funds, fund of hedge funds and emerging market multi-asset funds (primarily unquoted).

The Trustee of the Interserve section of the Interserve Pension Scheme holds an insurance policy to protect the Company from certain risks associated with approximately 35% of that section's defined benefit obligation. The policy aims to closely match the pension payments to the pensioner members who were above age 65 in July 2014. The policy is not an exact match for the benefits in certain areas, notably: pension increases if price inflation falls below 0%; differences between the increase in Consumer Prices Index and the Retail Prices Index; and the eligibility criteria for the dependants' pensions. The element of the policy that does not provide an exact match for the benefits covers £309.6 million of the defined benefit obligation at 31 December 2016. The policy covers a further £9.4 million of the defined benefit obligation which precisely matches the benefits in respect of certain dependants in receipt of pension.

Notes to the Company financial statements continued

for the year ended 31 December 2016

L) Retirement benefit schemes continued

Except for the element of the policy which precisely matches the benefits (around 3% of the total policy value), the policy has been valued as the estimated replacement cost at the accounting date by the Company's actuarial advisers Lane, Clarke and Peacock in accordance with the fair value requirements of IFRS 13. The small matching element has been valued at the same amount as the defined benefit obligation in respect of the matched benefits.

During 2016 the Interserve Pension Scheme invested in a bespoke pooled LDI fund. The LDI portfolio provides a broad 45% hedge of the Interserve section's interest rate and inflation exposure not covered by the insurance policy above. The LDI manager invests in a combination of gilts and swaps, depending on the relative attractiveness of each instrument at each maturity.

The infrastructure holding predominantly consists of the remaining portfolio of PFI investments originally transferred by Interserve Plc to the Interserve Pension Scheme in November 2009 and January 2013. The schemes have not directly invested in any of the Company's other financial instruments nor in other assets or properties used by the Company.

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

	2016 £million	2015 £million
Opening defined benefit obligation	807.2	850.0
Employer's part of current service cost	3.1	3.7
Interest cost	30.0	30.0
Contributions by schemes' participants	0.3	0.3
Actuarial loss/(gain) due to:		
Changes in financial assumptions	158.8	(25.9)
Changes in demographic assumptions	-	(2.3)
Experience on defined benefit obligations	(9.4)	(8.5)
Benefits paid	(35.8)	(33.0)
Past service cost/(credit)	(2.6)	-
Curtailments and settlements	(0.8)	(7.2)
Bulk transfers	-	0.1
Closing defined benefit obligation	950.8	807.2

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

	2016 £million	2015 £million
Opening fair value of the schemes' assets	822.4	846.5
Interest on schemes' assets	30.9	30.2
Actual return on schemes' assets less interest on schemes' assets	74.7	(33.1)
Contributions by the employer	20.4	19.4
Contributions by schemes' participants	0.3	0.3
Benefits paid	(0.9)	(1.9)
Administration costs	(35.8)	(33.0)
Curtailments and settlements	(0.7)	(6.1)
Bulk transfers	-	0.1
Closing fair value of the schemes' assets	911.3	822.4

Based on current contribution rates and payroll, the Company expects its subsidiaries to contribute £19.5 million to the defined benefit arrangement during 2017. This includes deficit contributions to the Interserve Pension Scheme of £13.7 million.

M) Provisions for liabilities

	2016 £million			2015 £million		
	Insurance	Other	Total	Insurance	Other	Total
At 1 January	(11.6)	-	(11.6)	(14.3)	(0.4)	(14.7)
Charged to the profit and loss account	(4.3)	-	(4.3)	2.7	-	2.7
Charged to other comprehensive income	-	-	-	-	-	-
Released unused	-	-	-	-	0.4	0.4
Utilisation of provision	-	-	-	-	-	-
At 31 December	(15.9)	-	(15.9)	(11.6)	-	(11.6)

Insurance provisions are made for claim events that have been incurred, but not reported based on claims history as a guide to best estimate the level of provision. The timing and outflow of these provisions will depend on when claims are settled. The Company aims to close out old insurance years on a regular basis if favourable pricing can be obtained from the market in order to avoid holding on to unnecessary provisions.

N) Deferred taxation asset

	Accelerated tax depreciation £million	Retirement benefit obligation £million	Share-based payments £million	Revaluation of financial assets £million	Other £million	Total £million
At 1 January 2015	0.2	0.7	2.8	0.1	0.3	4.1
Charge/(credit) to the profit and loss	0.2	0.5	(1.7)	(0.1)	-	(1.1)
Charge to other comprehensive income	-	(4.2)	-	-	-	(4.2)
Charge direct to equity	-	-	-	-	-	-
At 1 January 2016	0.4	(3.0)	1.1	-	0.3	(1.2)
Charge/(credit) to the profit and loss	0.1	(0.1)	(1.0)	-	(0.1)	(1.1)
Charge to other comprehensive income	-	9.8	-	-	-	9.8
Charge direct to equity	-	-	-	-	-	-
At 31 December 2016	0.5	6.7	0.1	-	0.2	7.5

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes.

	2016 £million	2015 £million
Deferred tax liabilities (note K)	-	(1.2)
Deferred tax assets (note I)	7.5	-
	7.5	(1.2)

Deferred tax is calculated at 17% (2015: 20%).

Notes to the Company financial statements continued

for the year ended 31 December 2016

O) Share capital

	2016 £million	2015 £million
Authorised		
Ordinary shares of 10p each	Unlimited	Unlimited
Allotted, called-up and fully paid		
Ordinary shares of 10p each		
At 1 January	14.5	14.4
Issued on exercise of share options	0.1	0.1
At 31 December	14.6	14.5

Awards were granted during the year as indicated in note 26 to the Group consolidated financial statements.

P) Contingent liabilities

At 31 December 2016, 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 2016, these amounted to £2.1 million (2015: £1.7 million). The Company has provided a guarantee to the Interserve Pension Scheme for future contributions due from subsidiary undertakings amounting to £250.0 million (2015: £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 £14.6 million (2015: £12.4 million) in respect of borrowings and £241.5 million (2015: £189.3 million) in respect of guarantees. At 31 December 2016, £nil (2015: £nil) had been utilised in borrowings and £149.3 million (2015: £115.4 million) in guarantees.

Related undertakings

In accordance with section 409 of the Companies Act 2006, a full list of the related undertakings of Interserve Plc, as at 31 December 2016, is disclosed below. Unless otherwise stated:

(a) the principal operations of each related undertaking are conducted in its country of incorporation or registration;

(b) the shareholding of each related undertaking relates to ordinary, common or unclassified share capital and is equivalent to the percentage of voting rights held by the Group;

(c) the equity capital of each related undertaking is held through an intermediate holding company rather than Interserve Plc;

(d) the results of each related undertaking are consolidated within these financial statements; and

(e) the consolidated financial state ents include the results for the twelve months to 31 December even if the accounting reference date is different.

Subsidiary undertakings	Principal activity	Group holding
Incorporated in the United Kingdom		
England and Wales: Interserve House, Ruscombe Park, Twyford, Reading, Berkshire RG10 9JU		
Advantage Healthcare Ltd	Dormant company	100.0%
Advantage Healthcare Nursing and Care Ltd	Dormant company	100.0%
Advantage Healthcare Payroll Ltd	Dormant company	100.0%
Advantage Healthcare (QHRS) Ltd	Dormant company	100.0%
Advantage Healthcare (QHS) Ltd	Dormant company	100.0%
Axiam (UK) Ltd	Dormant company	100.0%
Baker Blythe & Company Ltd	Dormant company	100.0%
Bandt Holdings Ltd	Holding company	100.0%
Bandt P J H Ltd	Dormant company	100.0%
Bandt Properties Ltd	Property management	100.0%
Bateman's Cleaning Services Ltd	Dormant company	100.0%
Broadreach Group Ltd[1]	Holding company	100.0%
Broomco (4110) Ltd[2]	Dormant company	100.0%
ESG Corporate Services Ltd	Central support to fellow subsidiary companies	100.0%
ESG Holdings Ltd	Holding company	100.0%
ESG Intermediate Holdings Ltd	Holding company	100.0%
ESG (Skills) Ltd	Vocational training services	100.0%
How Engineering Services Northern Ltd	Dormant company	100.0%
How Group Ltd	Holding company	100.0%
How Group Trust Company Ltd	Corporate trustee of employee benefit trust	100.0%
How Investments Ltd	Dormant company	100.0%
Industrial Services International Ltd	Dormant company	100.0%
Interserve Building Ltd	Dormant company	100.0%
Interserve Developments No.1 Ltd	Holding company	100.0%
Interserve Developments No.2 Ltd	Holding company	100.0%
Interserve Developments No.3 Ltd	Property development management	100.0%
Interserve Developments No.4 Ltd	Holding company	100.0%
Interserve Developments No.6 Ltd	Holding company	100.0%
Interserve Energy Renewable Solutions Ltd	Dormant company	100.0%
Interserve Engineering Ltd	Holding company	100.0%
Interserve Finance Ltd	Intra-group financing company	100.0%
Interserve Finance (Switzerland) Holdings Ltd	Holding company	100.0%
Interserve Group Holdings Ltd[3]	Holding company	100.0%
Interserve Group Holdings (Qatar) Ltd	Dormant company	100.0%
Interserve Healthcare Holdings Ltd[4]	Holding company	100.0%
Interserve Healthcare Ltd	Healthcare services	100.0%
Interserve Holdings Ltd	Holding company	100.0%
Interserve International Ltd	Holding company	100.0%
Interserve Investments Ltd	Holding company	100.0%
Interserve Project Services Ltd[2]	Dormant company	100.0%
Interserve Service Futures Holdings Ltd	Holding company	100.0%
Interserve Service Futures Ltd	Holding company	100.0%
Interserve Strategic Partnerships Ltd	Holding company	100.0%
Interserve Support Services Ltd	Dormant company	100.0%
Interserve Trustees Ltd[2 3 5]	Pension trustee company	33.0%
Interserve Working Futures Ltd	Welfare-to-work services	100.0%
Kwikform Holdings Ltd[1]	Holding company	100.0%
Kwikform UK Ltd[3]	Dormant company	100.0%
MacLellan Group Ltd	Holding company	100.0%
MacLellan Integrated Services Ltd	Dormant company	100.0%
Montpellier Health Care Ltd	Dormant company	100.0%
Orient Gold Ltd	Vocational training services	100.0%
Professional Healthcare Services Ltd	Dormant company	100.0%
Purple Futures LLP[6]	Management of five Community Rehabilitation Companies	80.0%
RMD Kwikform Holdings Ltd	Holding company	100.0%
R M Douglas Construction Ltd	Dormant company	100.0%
Ruscombe Ltd[3]	Dormant company	100.0%
Sencia Ltd[1]	Training and employment services	100.0%

Related undertakings continued

Subsidiary undertakings continued	**Principal activity**	**Group holding**
Strand Nurses Bureau Ltd	Dormant company	100.0%
T D Construction Ltd[1]	Dormant company	100.0%
The Cheshire and Greater Manchester Community Rehabilitation Company Ltd	Probation and rehabilitation services	80.0%
The Courtyard (Bristol) Management Company Ltd[3,7]	Dormant company	33.3%
The Hampshire and Isle of Wight Rehabilitation Company Ltd	Probation and rehabilitation services	80.0%
The Humberside, Lincolnshire and North Yorkshire Community Rehabilitation Company Ltd	Probation and rehabilitation services	80.0%
The Merseyside Community Rehabilitation Company Ltd	Probation and rehabilitation services	80.0%
The Ramoneur Company Ltd	Dormant company	100.0%
The West Yorkshire Community Rehabilitation Company Ltd	Probation and rehabilitation services	80.0%
Tilbury Developments Ltd[1,3]	Dormant company	100.0%
Tilbury Douglas Construction Ltd	Dormant company	100.0%
Tilbury Douglas Projects Ltd	Property rental	100.0%
Tilbury Estates Ltd[3]	Dormant company	100.0%
Transcoast Ltd[3]	Dormant company	100.0%
Triangle Training Holdings Ltd	Holding company	100.0%
Triangle Training Ltd	Vocational training services	100.0%
Unique Cleaning Services Ltd	Dormant company	100.0%
West's Group International Ltd[1]	Holding company	100.0%
England and Wales: Capital Tower, 91 Waterloo Road, London SE1 8RT		
Benchmark Carpet Care Ltd	Dormant company	100.0%
Building & Property (Holdings) Ltd	Holding company	100.0%
Building & Property Trustees Ltd	Dormant company	100.0%
Central Window Cleaning Company Ltd	Dormant company	100.0%
Clough Williams Power Ltd[2]	Dormant company	100.0%
Euro AS Ltd	Dormant company	100.0%
Fincham Industrial Services Ltd[8]	Dormant company	100.0%
First Security Group Ltd[9]	Dormant company	100.0%
First Security (Guards) Ltd[10]	Security manpower and associated support services	100.0%
Global Protect Ltd	Dormant company	100.0%
Hi-Tech Cleaning Solutions Ltd	Dormant company	100.0%
How Engineering Services Ltd	Dormant company	100.0%
Insitu Cleaning Company Ltd	Non-trading company	100.0%
Interserve Building Services (UK) Ltd	Dormant company	100.0%
Interserve Catering Services Ltd[2]	Catering services	100.0%
Interserve (Defence) Ltd	Support services to defence sector	100.0%
Interserve Environmental Services Ltd	Asbestos services	100.0%
Interserve (Facilities Management) Ltd	Facilities management services	100.0%
Interserve (Facilities Services) Ltd	Dormant company	100.0%
Interserve (Facilities Services-Slough) Ltd[8]	Management/maintenance services for Slough Borough Council	100.0%
Interserve Fire Services Ltd	Dormant company	100.0%
Interserve*fm* (Holdings) Ltd	Holding company	100.0%
Interserve*fm* Ltd[11]	Holding company	100.0%
Interserve FS (UK) Ltd	Contract cleaning and related services	100.0%
Interserve Hospital Services Ltd	Dormant company	100.0%
Interserve Industrial Services Ltd	Industrial support services	100.0%
Interserve Integrated Services Ltd	Support services	100.0%
Interserve Security (Fire & Electronics) Ltd	Dormant company	100.0%
Interserve Security Ltd	Dormant company	100.0%
Interserve Specialist Services (Holdings) Ltd	Holding company	100.0%
Interserve Technical Services Ltd	Mechanical and electrical engineering services	100.0%
KGL Business Services Ltd	Dormant company	100.0%
Knightsbridge Guarding Holdings Ltd[9]	Holding company	100.0%
Knightsbridge Guarding Ltd	Manned guarding security services	100.0%
Lancaster Employment Business Ltd	Dormant company	100.0%
Lancaster Office Cleaning Company Ltd	Dormant company	100.0%
Lancaster Payroll Company Ltd	Dormant company	100.0%
Landmarc Pension Scheme Trustees Ltd	Pension trustee company	51.0%
Landmarc Solutions Ltd	Share plan trustee	100.0%
Landmarc Support Services Ltd[12]	Management/maintenance services for MoD Army Training Estate	51.0%
MacLellan International Airport Services Ltd	Dormant company	100.0%
MacLellan International Ltd	Facilities management services	100.0%
MacLellan Ltd	Dormant company	100.0%
MacLellan Management Services Ltd	Personnel and management services	100.0%
Modus FM Ltd	Maintenance and facilities management services	100.0%
MSS Facilities Management Ltd	Dormant company	100.0%
Perception UK LLP[6]	Dormant company	100.0%
Phoenix Fire Services Ltd	Fire suppression and detection systems	100.0%
Phonotas Services Ltd	Dormant company	100.0%
Quadro Specialist Cleaning Services Ltd	Dormant company	100.0%

Subsidiary undertakings continued	Principal activity	Group holding
R & D Holdings Ltd	Dormant company	100.0%
Ramoneur Cleaning and Support Services Ltd	Dormant company	100.0%
Retail Cleaning Services Ltd[2]	Dormant company	100.0%
SSD UK Ltd	Specialist window cleaning	100.0%
St James Cleaning and Support Services Ltd	Dormant company	100.0%
TASS (Europe) Ltd	Dormant company	100.0%
THK Insulation Ltd	Dormant company	100.0%
Tilbury (City) Ltd[3]	Dormant company	100.0%
England and Wales: 395 George Road, Erdington, Birmingham, West Midlands B23 7RZ		
CI-ONE Construction Ltd	Dormant company	100.0%
Interserve Construction Ltd	Sustainable solutions for building/infrastructure projects	100.0%
Interserve Engineering Services Ltd	Mechanical, electrical and engineering services	100.0%
Interserve Piling Ltd	Non-trading company	100.0%
Interserve Rail Ltd[1 3]	Dormant company	100.0%
Paragon Management UK Ltd	Fitting out and refurbishment of offices and other buildings	100.0%
Tilbury Water Treatment Ltd	Dormant company	100.0%
Whittle Contracts Ltd[3]	Dormant company	100.0%
England and Wales: Brickyard Road, Aldridge, Walsall, West Midlands WS9 8BW		
Rapid Metal Developments Ltd	Dormant company	100.0%
RMD Kwikform Ltd	Equipment hire and sales	100.0%
Scotland: 35 North Canal Bank Street, Glasgow G4 9XQ		
Bandt Ltd	Holding company	100.0%
Tilbury Homes (Glasgow) Ltd[3]	Dormant company	100.0%
Tilbury Homes (Scotland) Ltd[3]	Dormant company	100.0%
Incorporated in the Rest of Europe		
Channel Islands: Mill Court, La Charroterie, St Peter Port, Guernsey GY1 4ET		
Interserve Insurance Company Ltd	Insurance	100.0%
Poland: Plac Konstytucji 6/55, 01-553 Warszawa		
Tilbury Douglas Polska Sp zoo	In liquidation	100.0%
Portugal: Avenida Antonio Augusto Aguiar, No.66, 4th esq, 1050-018 Lisboa		
RMD Kwikform Ibérica – Cofragens e Construçôes Metálicas, Unipessoal, Lda	Equipment hire and sales	95.0%
Republic of Ireland: Ballyboggan Road, Finglas, Dublin 11		
Interserve Industrial Services (Ireland) Ltd	Dormant company	100.0%
RMD Kwikform Ireland Ltd	Equipment hire and sales	100.0%
Spain: Calle San Miguel 25, Bajo 1, Azuqueca de Henares, Guadalajara 19200		
Interserve Centro Especial de Empleo, SL	Supply of labour for Spanish contracts	100.0%
Spain: Calle Juan Ignacio Luca de Tena 8, Madrid 28027		
Interserve Facilities Services, SA	Dormant company	100.0%
Translimp Contract Services, SA	Supply of labour for Spanish contracts	100.0%
Spain: Avenida de Europa, 19 – Ed 2 – 2o D, Pozuelo de Alarcon, Madrid 28224		
RMD Kwikform Ibérica, SA	Equipment hire and sales	95.0%
The Indium Division Company, SL	Property leasing	100.0%
Tilbury Ibérica, SA[3]	Holding company	100.0%
Switzerland: Avenue Jean-Jacques-Rousseau 7, Neuchatel 2000		
Interserve Finance (Switzerland) Sàrl	Intra-group financing company	100.0%
Incorporated in the Middle East & Africa		
India: 6202/2, 3rd Floor, Shiv Sakthi Mansion, Block 1, Dev Nagar, Karol Bagh, Delhi 110005		
RMD Kwikform India Private Ltd	Equipment hire and sales	100.0%
Kingdom of Bahrain: Flat 34, Building 5, Road 3001, Block 330, Manama		
RMD Kwikform Almoayed Bahrain WLL[13]	Equipment hire and sales	49.0%
Kingdom of Saudi Arabia: 7536, Unit No 39, AR Riyadh 12472-4304		
ESG (Saudi Arabia) LLC	Education, training and employment services	100.0%
Kingdom of Saudi Arabia: PO Box 62982, Riyadh 11595		
Interserve Saudi Arabia LLC	Building maintenance and cleaning	100.0%
Kingdom of Saudi Arabia: Office No.4A, Gulf Star Building, near Hotel Meridien, Prince Turkey Road, Al Khobar 31952		
RMD Kwikform Saudi Arabia LLC	Equipment hire	100.0%
Mauritius: Axis Fiduciary Ltd, 2nd Floor, The Axis, 26 Cybercity, Ebene 72201		
Interserve International Equipment Ltd	Rental of plant and machinery	85.0%
Republic of South Africa: 52 Jakaranda Street, Plot 22, Hennopspark, Centurion		
RMD Kwikform (South Africa) (Proprietary) Ltd	Equipment hire and sales	100.0%
State of Qatar: PO Box 405, Doha		
RMD Kwikform (Al Maha) Qatar WLL[14]	Equipment hire and sales	49.0%

Related undertakings continued

Subsidiary undertakings continued	Principal activity	Group holding
Sultanate of Oman: PO Box 1639, Hay Al-Mina, Muscat, Postal Code 114		
Interserve Oman LLC[15]	Facilities management	70.0%
Sultanate of Oman: PO Box 152, Muscat, Postal Code 103		
RMD Kwikform Oman LLC	Equipment hire and sales	70.0%
Sultanate of Oman: PO Box 142, Muscat, Postal Code 100		
The Oman Construction Company LLC[16]	Transport and maintenance services to oil and gas industry	70.0%
United Arab Emirates: PO Box 7604, Plot M10, Musaffah Industrial, Oil Services Area, Sector 10, MW2, Musaffah, Abu Dhabi		
Adyard Abu Dhabi LLC[17]	Engineering works for oil and gas industry	49.0%
United Arab Emirates: No.104, Arjan Emirates Real Estate – Branch 1, PO Box 129354, Al Hilal Building, Al Falah Road, Abu Dhabi		
Landmarc Gulf Consultancy Management LLC[18]	Administrative consultancy	25.0%
United Arab Emirates: PO Box 5801, Sharjah		
RMD Kwikform Middle East LLC[19]	Equipment hire and sales	49.0%
United Arab Emirates: No.5, Level 7, West Tower, Trade Centre Towers, Abu Dhabi		
RMD Kwikform Oil & Gas Services LLC[20]	Equipment hire and sales	49.0%
Incorporated in Australasia		
Australia: PO Box 169, Melrose Park, South Australia 5039		
Rapid Metal Developments (Australia) Proprietary Ltd	Equipment hire and sales	100.0%
New Zealand: PO Box 22.316, 101 Station Road, Otahuhu, Auckland 6, New Zealand		
Rapid Metal Developments (NZ) Ltd	Equipment hire and sales	100.0%
Incorporated in the Far East		
Hong Kong: Suite 3806, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong		
RMD Kwikform Hong Kong Ltd[3]	Equipment hire and sales	100.0%
Republic of Indonesia: 2nd Floor, Suite 202B, Wisma Pondok Indah, Jl Sultan Iskandar Muda V-TA, Pondok Indah, Jakarta		
PT Rapid Metal Development Indonesia	Equipment hire and sales	100.0%
Republic of the Philippines: Unit 2406-09 Raffles Corporate Center, F.Ortigas Jr. Ave., Ortigas Center, Pasig City, Metro Manila		
RMD Kwikform Philippines, Inc[3]	Equipment hire and sales	100.0%
Republic of Singapore: 77 Robinson Road, #13-00 Robinson 77, Singapore 068896		
RMD Kwikform Singapore Pte Ltd	Equipment hire and sales	100.0%
Incorporated in the Americas		
Bermuda: PO Box HM 1022, Clarendon House, 2 Church Street, Hamilton, HM11		
Interserve Engineering & Construction (UAE) Ltd	Oil-field maintenance, fabrication and construction services	100.0%
Canada: Suite 1001, 275 Slater Street, Ottawa, ON, K1P5H9		
Interserve Canada Ltd	Support services to defence sector	100.0%
Cayman Islands: Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005		
Interserve Engineering & Construction Ltd	Holding company	100.0%
Guam: Suite 101, Orlean Pacific Plaza, 865 South Marine Corps Drive, Tamuning 96913		
RMD Kwikform Guam, LLC	Equipment hire and sales	100.0%
Republic of Chile: La Estera 811, Valle Grande, Lampa, Santiago 9390433		
RMD Kwikform Chile SA	Equipment hire and sales	100.0%
Republic of Colombia: Calle 98, No 18-71 of 805, Bogota		
RMD Kwikform Colombia SAS	Equipment hire and sales	100.0%
Republic of Panama: Calle A, Km 1.0 desde Transitsmica, Villa Zaita, Panama City		
RMD Kwikform Panama, SA	Equipment hire and sales	100.0%
Republic of Peru: Calle Los Zorzales No.160, Distrito de San Isidro, Lima		
RMD Kwikform Peru SAC	Equipment hire and sales	100.0%
United States of America: 2711 Centerville Road, Suite 400, Wilmington, New Castle, DE 19808		
RMD Kwikform North America Holdings Inc	Holding company	100.0%
RMD Kwikform North America Inc	Equipment hire and sales	100.0%

Notes - subsidiary undertakings

[1] Ownership held in ordinary and preference shares.

[2] Ownership held in ordinary A and ordinary B shares.

[3] Shareholding directly held by Interserve Plc.

[4] Ownership held in ordinary A, ordinary B, preference A, preference B and deferred shares.

[5] The Group has the right to appoint the majority of the directors of Interserve Trustees Limited by virtue of provisions contained in its Articles of Association and is therefore deemed to be a subsidiary undertaking.

[6] No share capital.

[7] The Group exercises dominant infl ence and control over The Courtyard (Bristol) Management Company Ltd by virtue of provisions contained in its Articles of Association. It is therefore consolidated in the Group financial statements as a wholly-owned subsidiary undertaking. Ownership is held in ordinary and developer's shares.

[8] Ownership held in ordinary and deferred shares.

[9] Ownership held in ordinary and ordinary A shares.

[10] Ownership held in ordinary, deferred A and deferred B shares.

[11] Ownership held in ordinary, redeemable ordinary and deferred shares.

[12] Ownership held in ordinary A and ordinary C shares.

[13] The Group has the right to appoint and remove the Board of Managers and therefore exercises dominant infl ence and control over RMD Kwikform Almoayed Bahrain LLC. It is therefore consolidated in the Group financial statements as a wholly-owned subsidiary undertaking.

[14] The Group has the right to appoint and remove the General Manager and therefore exercises dominant infl ence and control over RMD Kwikform (Al Maha) Qatar WLL. It is therefore consolidated in the Group financial statements as a wholly-owned subsidiary undertaking.

[15] The Group has a 70% equity shareholding in Interserve Oman LLC. It is consolidated in the Group financial statements as an 85%-owned subsidiary undertaking on the basis of contractual arrangements.

[16] The Group has a 70% equity shareholding in The Oman Construction Company LLC. It is consolidated in the Group financial statements as an 85%-owned subsidiary undertaking on the basis of contractual arrangements.

[17] The Group exercises dominant infl ence and control over Adyard Abu Dhabi LLC by virtue of provisions contained in its Memorandum of Association. It is therefore consolidated in the Group financial statements as a wholly-owned subsidiary undertaking.

[18] The Group has the right to appoint the majority of the directors of Landmarc Gulf Consultancy Management LLC by virtue of provisions contained in its Memorandum of Association. It is therefore consolidated in the Group financial statements as a 51%-owned subsidiary undertaking.

[19] The Group has the right to appoint and remove the Manager and therefore exercises dominant infl ence and control over RMD Kwikform Middle East LLC. It is therefore consolidated in the Group financial statements as a wholly-owned subsidiary undertaking.

[20] The Group has the right to appoint and remove the Manager and therefore exercises dominant infl ence and control over RMD Kwikform Oil & Gas Services LLC. It is therefore consolidated in the Group financial statements as a wholly-owned subsidiary undertaking.

Associated undertakings[1]	Principal activity	Group holding
Accounted for as Associates within the financial statements		
Incorporated in the Middle East & Africa		
Kingdom of Saudi Arabia: Alsroor Building, Kilo 1, Mecca Road, Jeddah		
Al-Esayi Saif Noman Douglas Ltd	In liquidation	49.0%
State of Qatar: PO Box 1811, Building No.334, C Ring Road, Street 230, Zone 24, Doha		
Al Binaa Contracting Company WLL[2]	Contracting and investment	49.0%
State of Qatar: PO Box 3886, Building No.309, 230 C Ring Road, Area/Zone 40, Doha		
Gulf Contracting Co WLL	Civil engineering, building and maintenance services	49.0%
State of Qatar: Zone 39, Al Saad Street No.340, Building 55 United Tower, 2nd Floor, PO Box 24176, Doha		
How United Services WLL	Mechanical, engineering and plumbing services	49.0%
State of Qatar: PO Box 20459, Doha		
Madina Group WLL	Mechanical engineering fabrication contractor	49.0%
Qatar Inspection Services WLL	Non-destructive testing and inspection services	49.0%
Severn Glocon (Qatar) WLL	Supply of valves and valve maintenance services	49.0%
State of Qatar: PO Box 23651, Doha		
Qatar International Safety Centre WLL	Safety training for oil, gas and petrochemical industries	49.0%
State of Qatar: PO Box 22715, Doha		
United Industrial Services WLL	Holding company	49.0%
Sultanate of Oman: PO Box 1639, Hay Al-Mina, Muscat, Postal Code 114		
Douglas OHI LLC	Civil engineering and building	49.0%
Sultanate of Oman: Flat No 31, PO Box 889, Building No.2522, Way No.3830, Al Ghubra Tower, Al Ghubra, Muscat 100		
Khansaheb Civil Engineering LLC	Road construction	46.4%
Sultanate of Oman: PO Box 375, Muscat, Postal Code 114, Jibroo		
Occupational Training Institute LLC	Health & safety, environment and educational services	49.0%
United Arab Emirates: PO Box 2716, Dubai		
Khansaheb Civil Engineering LLC	Civil engineering, building and maintenance services	45.0%
Khansaheb Group LLC	Facilities management and maintenance services	49.0%
United Arab Emirates: PO Box 259, Abu Dhabi		
Khansaheb Hussain LLC	Civil engineering, building and maintenance services	49.0%
United Arab Emirates: PO Box 4722, Abu Dhabi		
Khansaheb UKCon International LLC	Dormant company	49.0%

Related undertakings continued

Associated undertakings[1] continued	Principal activity	Group holding
Accounted for as Joint Ventures within the financial statements		
Incorporated in the United Kingdom		
England and Wales: Interserve House, Ruscombe Park, Twyford, Reading, Berkshire RG10 9JU		
Harmondsworth Detention Services Ltd	Dormant company	49.0%
Rehab Jobfit LLP[5]	Employment-related support services	49.0%
England and Wales: Capital Tower, 91 Waterloo Road, London SE1 8RT		
Axiam Ltd	Dormant company	50.0%
PriDE (SERP) Ltd[4]	MoD estate management services	50.0%
Sussex Estates and Facilities LLP[5]	Facilities management services	35.0%
England and Wales: 8 White Oak Square, London Road, Swanley, Kent BR8 7AG		
Alder Hey Holdco 1 Ltd	Holding company	20.0%
Alder Hey Holdco 2 Ltd	Holding company	20.0%
Alder Hey Holdco 3 Ltd	Holding company	20.0%
Alder Hey (Special Purpose Vehicle) Ltd	Hospital construction/operation	20.0%
England and Wales: 55 Baker Street, London W1U 8EW		
HLR Schools Holding Ltd	Holding company	45.0%
HLR Schools Ltd	School/college construction/operation	45.0%
England and Wales: 5 The Triangle, Wildwood Drive, Worcester WR5 2QX		
Interserve Prime Solutions Ltd[4]	Holding company	50.0%
Partnering Solutions (Southampton) Ltd	Hospital construction/operation	50.0%
Partnering Solutions (Yeovil) Ltd	Hospital construction/operation	50.0%
Southampton CEDP LLP[5]	Hospital construction/operation	25.0%
Southampton CEDP Project Co Ltd	Hospital construction/operation	25.0%
Yeovil Estates Partnership LLP[5]	Hospital construction/operation	25.0%
England and Wales: Dunedin House, Auckland Park, Mount Farm, Milton Keynes, Buckinghamshire MK1 1BU		
Resource Recovery Solutions (Derbyshire) Holdings Ltd[3]	Holding company	50.0%
Resource Recovery Solutions (Derbyshire) Ltd	Construction/operation of new waste treatment facility	50.0%
Scotland: 35 North Canal Bank Street, Glasgow G4 9XQ		
Addiewell Prison (Holdings) Ltd	Holding company	33.3%
Addiewell Prison Ltd	Prison construction/operation	33.3%
Scotland: Interserve House, Almondview Business Park, Almondview, Livingston EH54 6SF		
Edinburgh Haymarket Developments Ltd[3]	Property development	50.0%
Seacole National Centre (Holding) Ltd[3]	Holding company	50.0%
Seacole National Centre Ltd	Construction/maintenance of new National Centre for Scottish National Blood Transfusion Service	49.5%

Notes - associated undertakings

[1] Accounted for using the equity method of consolidation.

[2] Shareholding directly held by Interserve Plc.

[3] Ownership held in ordinary B shares.

[4] Ownership held in ordinary A shares.

[5] No share capital.

Joint ventures[1]	Principal activity	Group holding
Incorporated in the United Kingdom		
England and Wales: Brunswick House, Hindley Green Business Park, Leigh Road, Hindley Gree, Wigan WN2 4TN		
KMI Plus Water	Water project framework for United Utilities	30.8%
KMI Water	Water project framework for United Utilities	33.3%
Incorporated in the Rest of Europe		
Spain: Avenida de Europa, 18 Parque Empresarial La Moraleja, 28108 Alcobendas, Madrid		
Acciona Agua SAU	Water desalination project for Thames Water Utilities Ltd	47.0%

Notes - joint ventures

[1] Accounted for as joint operations within the financial statements.

The following entities were part of the Group's former PFI portfolio and have now been transferred to the trustee of the Interserve Pension Scheme or Dalmore Capital. Whilst the Group has retained the legal interest shown, it no longer has any beneficial interest in these entities and they have no impact on the consolidated financial statements.

Other holdings	Principal activity	Group holding
Incorporated in the United Kingdom		
England and Wales: Interserve House, Ruscombe Park, Twyford, Reading, Berkshire RG10 9JU		
Ashford Prison Services Holdings Ltd	Holding company	5.5%
Ashford Prison Services Ltd	Prison construction/operation	5.5%
Dudley Summit PLC	Investment company	16.7%
Environments for Leaning Leeds Holdco Four Ltd[1]	Holding company	8.3%
Environment for Learning Leeds Holco One Ltd[2]	Holding company	6.6%
Environments for Learning Leeds Holdco Three Ltd[1]	Holding company	7.5%
Environments for Learning Leeds Holdco Two Ltd[2]	Holding company	6.6%
Environments for Learning Leeds PFI Four Ltd	Leisure centre construction/operation	8.3%
Environments for Learning Leeds PFI One Ltd	School/college construction/operation	6.6%
Environments for Learning Leeds PFI Three Ltd	Leisure centre construction/operation	7.5%
Environments for Learning Leeds PFI Two Ltd	School/college construction/operation	6.6%
Environments for Learning Leeds PSP Ltd[3]	Holding company	8.3%
Environments for Learning Ltd[4]	Holding company	8.3%
Environments for Learning Sandwell PFI Holdco One Ltd[2]	Holding company	6.6%
Environments for Learning Sandwell PFI One Ltd	School/college construction/operation	6.6%
Environments for Learning Sandwell PSP Ltd[3]	Holding company	8.3%
Environments for Learning St Helens Holdco Ltd[5]	Holding company	8.2%
Environments for Learning St Helens Partnership Ltd[4]	Management services	7.5%
Environments for Learning St Helens PFI Ltd	School/college construction/operation	8.2%
Environments for Learning St Helens PSP Ltd	Holding company	8.3%
Falcon Support Services (Holdings) Ltd	Holding company	25.1%
Falcon Support Services Ltd	Construction/operation of MoD accommodation facilities	25.1%
ICB Holdings Ltd[4]	Holding company	10.0%
Inteq Services (Holdings) Ltd	Holding company	8.3%
Inteq Services Ltd	Construction/operation of MoD accommodation and office facilities	8.3%
Interserve Developments No.10 Ltd	Holding company	50.1%
Interserve PFI 2003 Ltd	Holding company	50.1%
Interserve PFI 2005 Ltd	Holding company	16.6%
Interserve PFI Holdings Ltd[6]	Holding company	50.1%
Interserve PFI Holdings 2003 Ltd[6]	Holding company	33.1%
Interserve PFI Holdings 2014 Ltd	Holding company	50.1%
Investors in the Community (Buxton) Ltd	Construction/operation of Health & Safety Laboratory	10.0%
Kent and East Sussex Weald Hospital Holdings Ltd	Holding company	4.2%
Kent and East Sussex Weald Hospital Ltd	Hospital construction/operation	4.2%
Leeds D&B One Ltd	School/college construction/operation	6.6%
Leeds LEP Ltd[7]	School/college operation/management	6.6%
Minerva Education and Training (Holdings) Ltd	Holding company	22.5%
Minerva Education and Training Ltd	Construction/operation of Defence Sixth Form College for MoD	22.5%
Peterborough Prison Management Holdings Ltd	Holding company	5.5%
Peterborough Prison Management Ltd	Prison construction/operation	5.5%
PFI Custodial (Holdings) Ltd	Holding company	16.6%
PFI Para (Holdings) Ltd	Holding company	16.6%
Pyramid Accommodation Services (Cornwall) Holdings Ltd	Holding company	25.1%
Pyramid Accommodation Services (Cornwall) Ltd	Fire station construction/operation	25.1%
Pyramid Schools (Cornwall) Holdings Ltd	Holding company	25.1%
Pyramid Schools (Cornwall) Ltd	School/college construction/operation	25.1%
Pyramid Schools (Hadley) Holdings Ltd	Holding company	25.1%
Pyramid Schools (Hadley) Ltd	School/college construction/operation	25.1%
Pyramid Schools (Plymouth) Design & Build Ltd	Dormant company	8.3%
Pyramid Schools (Plymouth) Holdings Ltd	Holding company	8.3%
Pyramid Schools (Plymouth) Ltd	School/college construction/operation	8.3%
Pyramid Schools (Southampton) Holdings Ltd	Holding company	25.1%
Pyramid Schools (Southampton) Ltd	School/college construction/operation	25.1%
Pyramid Schools (Tameside) Holdings Ltd	Holding company	25.1%
Pyramid Schools (Tameside) Ltd	School/college construction/operation	25.1%
Sandwell Futures Ltd[7]	School/college management/operation	6.6%
Summit Healthcare (Dudley) Ltd	Hospital construction/operation	16.7%
Summit Holdings (Dudley) Ltd	Holding company	16.7%
UCLH Investors (Holdings) Ltd[2]	Holding company	8.3%
Victory Support Services (Portsmouth) Holdings Ltd	Holding company	50.1%
Victory Support Services (Portsmouth) Ltd	Day care/respite care centre construction/operation	50.1%
West Yorkshire PFI Operational Training & Accommodation (Holdings) Ltd	Holding company	25.1%
West Yorkshire PFI Operational Training & Accommodation Ltd	Construction/operation of three new facilities for West Yorkshire Police Authority	25.1%

Related undertakings continued

Other holdings continued	Principal activity	Group holding
England and Wales: 8 White Oak Square, London Road, Swanley, Kent BR8 7AG		
Healthcare Support (Newcastle) Finance Plc	Investment company	3.3%
Healthcare Support (Newcastle) Holdings Ltd	Holding company	3.3%
Healthcare Support (Newcastle) Ltd	Hospital construction/operation	3.3%
England and Wales: Third Floor, Broad Quay House, Prince Street, Bristol BS1 4DJ		
Health Management (Carlisle) Holdings Ltd	Holding company	8.3%
Health Management (Carlisle) Ltd[5]	Hospital construction/operation	8.3%
Health Management (UCLH) Holdings Ltd	Holding company	5.0%
Health Management (UCLH) Ltd	Hospital construction/operation	5.0%
UCLH Investors Ltd[3]	Holding company	6.6%
Northern Ireland: Carnbane House, Shepherd's Way, Newry, Co Down BT35 6EE		
Belfast Educational Services (Derry) Holdings Ltd	Holding company	8.3%
Belfast Educational Services (Derry) Ltd	School/college construction/operation	8.3%
Belfast Educational Services (Down & Connor) Holdings Ltd	Holding company	8.3%
Belfast Educational Services (Down & Connor) Ltd	School/college construction/operation	8.3%
Belfast Educational Services (Downpatrick) Holdings Ltd	Holding company	8.3%
Belfast Educational Services (Downpatrick) Ltd	School/college construction/operation	8.3%
Belfast Educational Services (Dungannon) Holdings Ltd	Holding company	25.1%
Belfast Educational Services (Dungannon) Ltd	School/college construction/operation	25.1%
Belfast Educational Services (Holdings) Ltd	Holding company	16.7%
Belfast Educational Services Ltd	School/college construction/operation	16.7%
Belfast Educational Services (Omagh) Holdings Ltd	Holding company	25.1%
Belfast Educational Services (Omagh) Ltd	School/college construction/operation	25.1%
Belfast Educational Services (Strabane) Holdings Ltd	Holding company	8.3%
Belfast Educational Services (Strabane) Ltd	School/college construction/operation	8.3%
Northern Ireland: At the offices of Tughans, Marlborough House, 30 Victoria Street, Belfast BT1 3GS		
NIHG Ltd	Holding company	6.1%
NIHG South West Health Partnership Ltd	Hospital construction/operation	6.1%

Notes - other holdings

[1] Ownership held in ordinary A, ordinary C and preferred shares.
[2] Ownership held in ordinary A and ordinary C shares.
[3] Ownership held in ordinary A shares.
[4] Ownership held in ordinary B shares.
[5] Ownership held in ordinary A and ordinary B shares.
[6] Ownership held in an ordinary and a Special Rights share.
[7] Ownership held in ordinary C shares.

Five-year analysis

(unaudited)

	2016 £million	2015 £million	2014 £million	2013 £million	2012 £million
Revenue including share of associates and joint ventures					
Support Services - UK	1,798.4	1,881.5	1,786.0	1,292.5	1,215.4
Support Services - International	267.9	224.3	157.2	100.5	31.3
Support Services	2,066.3	2,105.8	1,943.2	1,393.0	1,246.7
Construction - UK	1,062.4	1,040.8	970.7	802.2	737.2
Construction - International	296.9	279.0	207.9	215.9	201.6
Construction	1,359.3	1,319.8	1,178.6	1,018.1	938.8
Equipment Services	228.4	211.0	195.5	169.6	167.5
Group Services	81.3	53.9	46.7	41.6	81.0
Inter-segment elimination	(50.1)	(61.6)	(58.7)	(40.4)	(64.4)
	3,685.2	3,628.9	3,305.3	2,581.9	2,369.6
Consolidated revenue					
Support Services - UK	1,775.0	1,834.4	1,679.9	1,196.6	1,118.1
Support Services - International	211.9	170.4	117.5	57.5	-
Support Services	1,986.9	2,004.8	1,797.4	1,254.1	1,118.1
Construction - UK	1,062.4	1,040.8	970.7	802.2	737.2
Construction - International	-	-	-	-	-
Construction	1,062.4	1,040.8	970.7	802.2	737.2
Equipment Services	228.4	211.0	195.5	169.6	167.5
Group Services	17.0	9.6	8.1	7.1	-
Inter-segment elimination	(50.1)	(61.6)	(58.7)	(40.4)	(64.4)
	3,244.6	3,204.6	2,913.0	2,192.6	1,958.4
Headline profit					
Support Services - UK	80.8	92.2	81.4	56.0	44.3
Support Services - International	6.2	8.2	7.4	4.1	3.7
Support Services	87.0	100.4	88.8	60.1	48.0
Construction - UK	(3.1)	10.7	15.4	14.7	14.6
Construction - International	16.9	13.0	10.8	13.1	14.3
Construction	13.8	23.7	26.2	27.8	28.9
Equipment Services	48.6	44.5	27.5	21.8	17.8
Group Services	(25.2)	(23.6)	(24.4)	(21.3)	(14.5)
Total operating profit	124.2	145.0	118.1	88.4	80.2
Investment revenue	5.6	4.7	5.0	3.6	8.4
Finance costs	(23.3)	(21.1)	(16.0)	(9.2)	(11.5)
	106.5	128.6	107.1	82.8	77.1
Earnings per share, pence					
Basic EPS	(71.2)	47.5	32.2	39.1	130.0
Headline EPS	63.3	75.6	59.4	49.1	46.7
Dividend per share, pence					
Interim	8.1	7.9	6.8	6.4	6.0
Final	-	16.4	15.5	14.1	13.0

Five-year analysis continued

(unaudited)

	2016 £million	2015 £million	2014 £million	2013 £million	2012 £million
Balance sheet					
Intangible assets	514.0	520.2	544.4	286.6	265.8
Property, plant and equipment	250.4	218.1	194.7	155.9	137.8
Interests in joint ventures	41.6	40.9	42.7	20.6	7.6
Interests in associated undertakings	85.3	91.0	77.2	73.9	76.6
Retirement benefit surplus	-	17.2	-	-	-
Deferred tax asset	18.6	1.3	1.7	21.0	33.5
Non-current assets	909.9	888.7	860.7	558.0	521.3
Assets held for sale	-	-	-	-	51.2
Inventories	36.5	40.1	48.6	30.7	24.6
Trade and other receivables	724.4	774.9	679.4	486.1	432.0
Derivative financial instruments	67.1	25.1	-	-	-
Cash and deposits	113.3	86.1	82.1	79.7	76.8
Bank overdrafts and loans	(11.1)	(15.5)	(5.5)	(27.4)	(19.8)
Trade and other payables	(901.9)	(794.1)	(755.0)	(597.6)	(559.7)
Short-term provisions	(21.8)	(27.4)	(35.7)	(18.1)	(24.2)
Net current assets/(liabilities)	6.5	89.2	13.9	(46.6)	(19.1)
Bank loans	(449.4)	(406.1)	(362.8)	(90.0)	(30.0)
Trade and other payables	(16.6)	(15.9)	(14.8)	(13.5)	(13.2)
Long-term provisions	(42.9)	(43.3)	(33.5)	(29.9)	(27.1)
Retirement benefit obligation	(52.4)	-	(4.8)	(7.7)	(101.1)
Non-current liabilities	(561.3)	(465.3)	(415.9)	(141.1)	(171.4)
Net assets	355.1	512.6	458.7	370.3	330.8
Cash flow					
Operating cash flows before movements in working capital	(65.8)	112.0	94.5	74.7	39.5
Movement in working capital	165.8	(51.7)	(53.3)	(19.7)	0.2
Changes in hire fleet	(9.3)	(21.6)	(30.3)	(11.8)	(6.0)
Taxes paid	(10.2)	(6.8)	(10.2)	(5.7)	(10.7)
Net cash from operating activities	80.5	31.9	0.7	37.5	23.0
Acquisitions and investments	(5.2)	(6.6)	(253.8)	(59.9)	63.0
Net capital expenditure - non-hire fleet	(29.7)	(29.6)	(24.0)	(21.9)	(8.9)
Dividends from joint ventures and associates	34.1	13.6	17.8	13.7	19.8
Interest received	4.5	4.4	4.7	3.5	8.4
Net cash used in investing activities	3.7	(18.2)	(255.3)	(64.6)	82.3
Interest paid	(23.3)	(21.1)	(16.0)	(7.8)	(9.6)
Dividends paid	(37.1)	(34.7)	(34.4)	(29.1)	(27.0)
Other (including share issues)	(0.3)	2.1	73.9	0.6	1.5
Net cash used in financing activities excluding debt	(60.7)	(53.7)	23.5	(36.3)	(35.1)
Effect of foreign exchange	10.9	0.1	0.8	(1.0)	(0.2)
Movement in net debt	34.4	(39.9)	(230.3)	(64.4)	70.0
Closing net cash/(debt)	(274.4)	(308.8)	(268.9)	(38.6)	25.8

Shareholder information

Financial calendar 2017

Final results announcement for the year ended 31 December 2016	28 February 2017
Publication of Annual Report and Financial Statements	30 March 2017
Annual General Meeting	12 May 2017
Half-year results announcement for the six months ended 30 June 2017	9 August 2017
Publication of Half-Year Report	Late August 2017

The Company will keep under review the appropriateness of issuing other trading updates to the market during the course of the year.

Share price

As at 31 December 2016	341.75p
Lowest for the year ended 31 December 2016	221.25p
Highest for year ended 31 December 2016	518.50p

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	%
Notifi ble interests	5	0.12	35,810,329	24.57
Banks, institutions and nominees	917	20.99	99,881,081	68.55
Private shareholders	3,446	78.89	10,022,710	6.88
Total as at 28 February 2017	4,368	100.00	145,714,120	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
- Change your address
- Elect to receive shareholder communications by email rather than by post
- View your dividend payment history
- Make dividend payment choices
- 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)371 664 0300 (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

Shareholder information continued

(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) 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)371 664 0445 (calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 8.00am to 4.30pm, Monday to Friday, excluding public holidays in England and Wales).

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

Donate your shares to charity

If you have only a small number of shares which are uneconomical to sell, you may wish to donate them to charity free of charge through ShareGift (Registered Charity 1052686). Find out more at *www.sharegift.org.uk* or by telephoning +44 (0)20 7930 3737.

Beneficial owners of shares with "information rights"

Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Company's Registrar, Capita 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 2017, 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/consumers/share-fraud-boiler-room-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.

Notes

Notes