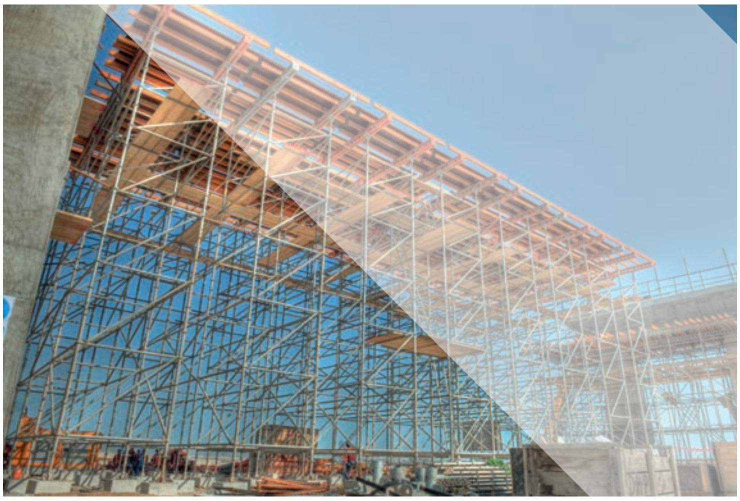
Interserve

ANNUAL REPORT 2017



INGENUITY AT WORK

INTERSERVE IS ONE OF THE WORLD'S FOREMOST SUPPORT SERVICES, CONSTRUCTION AND EQUIPMENT SERVICES COMPANIES.

WE OFFER ADVICE, DESIGN, CONSTRUCTION, EQUIPMENT, FACILITIES MANAGEMENT AND CITIZEN SERVICES. WE ARE HEADQUARTERED IN THE UK AND FTSE-LISTED.

OUR GOAL IS TO PROVIDE A COST EFFECTIVE AND EFFICIENT SOLUTION TO OUR CLIENTS' NEEDS.

WE HAVE GROSS REVENUES OF £3.7 BILLION AND A WORKFORCE OF CIRCA 75,000 PEOPLE WORLDWIDE.

WE AIM TO BE A GREAT PLACE TO WORK FOR OUR EMPLOYEES WHERE EVERYTHING WE DO IS SHAPED BY OUR CORE VALUES.

CONTENTS

The role of this report

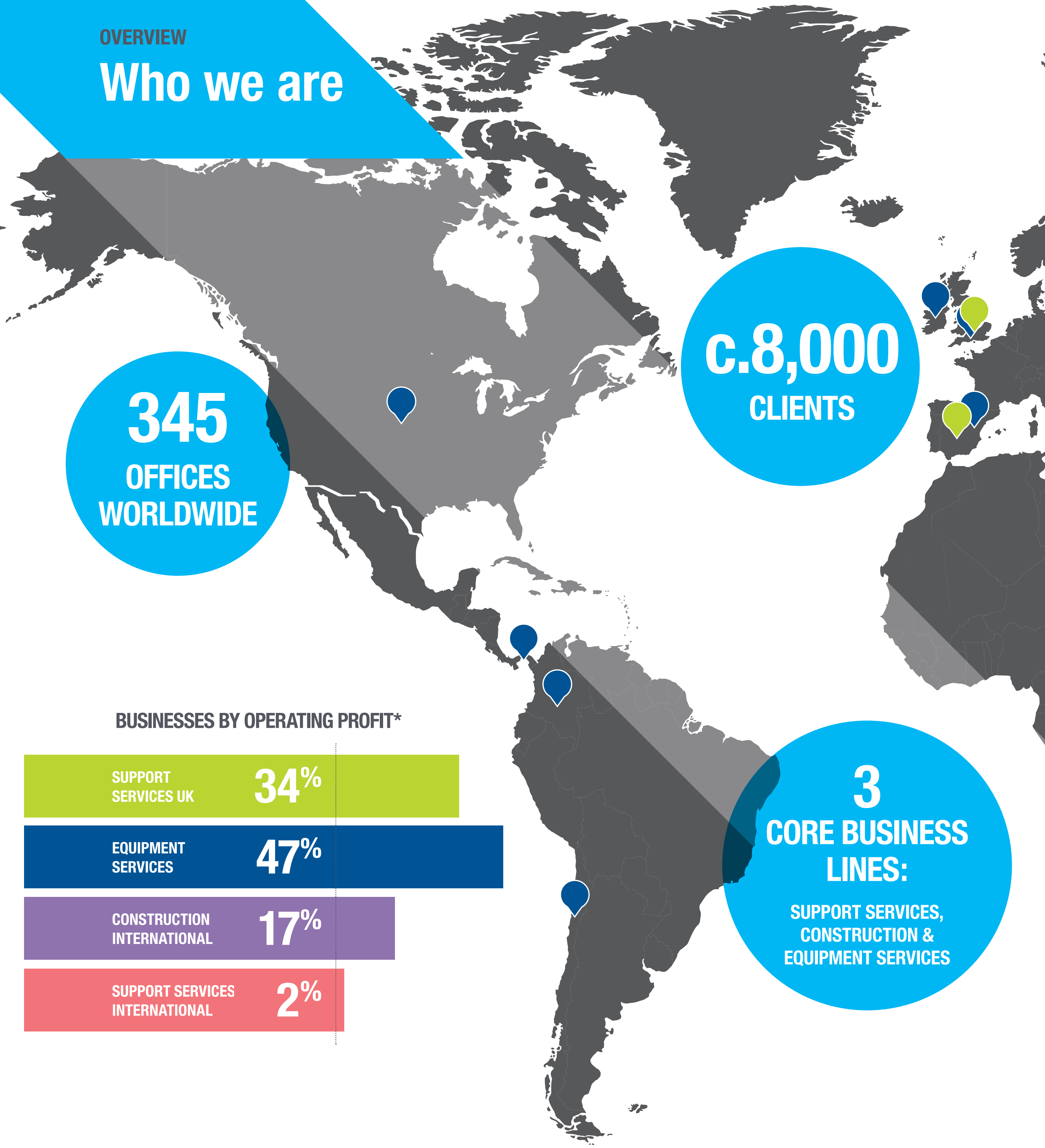
The role of the Annual Report and Accounts is to provide our shareholders and other interested parties with a clear understanding of how we create value. It should provide real insight into the Company, our strategy, our markets, and how we manage risk, as well as a comprehensive and clear report on the Company's activities in the preceding year.

FOR FURTHER INVESTOR INFORMATION:

www.interserve.com/investors

OVERVIEW

Who we are



345
OFFICES WORLDWIDE

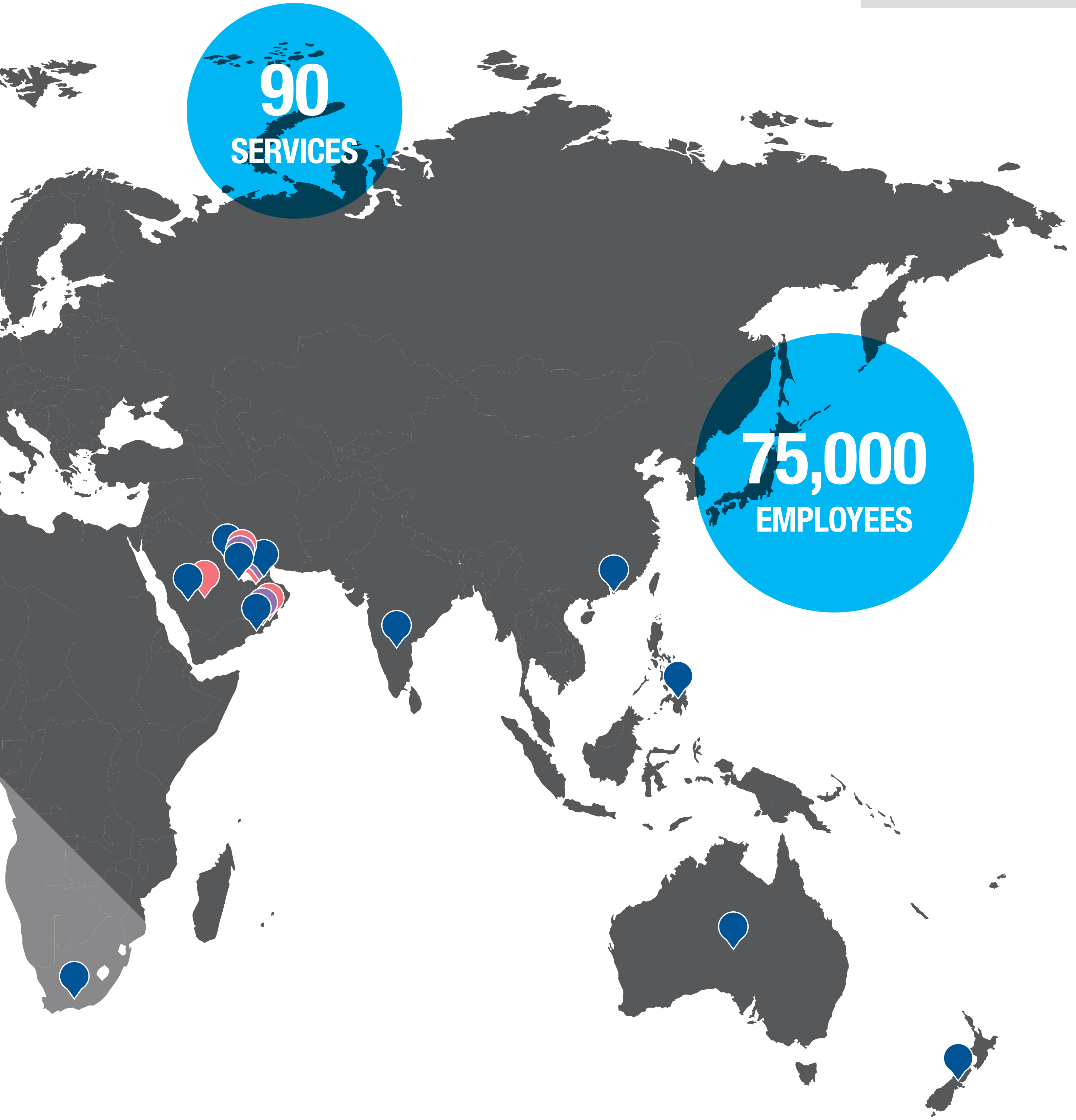
c.8,000
CLIENTS

3
CORE BUSINESS LINES:
SUPPORT SERVICES, CONSTRUCTION & EQUIPMENT SERVICES

BUSINESSES BY OPERATING PROFIT*

SUPPORT SERVICES UK	34%
EQUIPMENT SERVICES	47%
CONSTRUCTION INTERNATIONAL	17%
SUPPORT SERVICES INTERNATIONAL	2%

*Excluding UK Construction and Group Services


90
SERVICES
75,000
EMPLOYEES

GLYN BARKER
CHAIRMAN

OVERVIEW

Chairman's statement

Usually in this statement I reflect on the key matters which have occurred in the previous fiscal year. On this occasion my comments will also cover the first few months of 2018 in view of the significant events which have taken place in that period.

In the last sixteen months Interserve has suffered unprecedented levels of disruption and faced a number of significant challenges. The Company was affected by general market headwinds and external events; however, much of this resulted from self-inflicted mistakes of the past. The resulting stress and uncertainty have led to anxiety amongst our staff, suppliers and customers and significant loss of value for our shareholders from the fall in our share price.

The changes in our executive team, the completion of our debt restructuring and the commencement of the 'Fit for Growth' programme are the first steps along the road to restoring stability, future financial success and underlying resilience in Interserve and to rebuilding trust with all our stakeholders.

I comment on each of these points in a little more detail below.

FINANCIAL PERFORMANCE

Overall the Group's financial performance in 2017 was extremely poor with headline profit falling to £52.4 million. An inefficient operating model and excessive cost structure left the Group exposed to weaknesses in the UK performance of Support Services and Construction, in addition to a further deterioration in Energy from Waste during the middle of the year. The combination of these issues outweighed the excellent performance from our Equipment Services division and good results from our International construction business.

Success in our business requires discipline over the selection and pricing of bid opportunities, strong operational control over margin and cash generation, and an efficient, competitive cost infrastructure. It is clear to me that these disciplines have been inadequate in Interserve for a number of years. This is reflected not only in the underlying weak performance last year, but also by the provisions in these accounts against certain contracts resulting from our recent contract review. It is of no consolation to observe that many of these issues are also reflected in the performance of some of our competitors in construction and support services.

When executed well, there are huge benefits to society from a strong and efficient outsourcing industry, bringing enhanced efficiency, predictable performance and quality to the client. It is to be hoped that events over the last year or so will encourage the necessary changes in approach from all participants in this market.

MANAGEMENT CHANGES

In March 2017 we announced that Debbie White would succeed Adrian Ringrose as Chief Executive and she joined us in September last year. A month later, our new Chief Financial Officer, Mark Whiteling, also joined us, replacing Tim Haywood. Under Debbie's leadership the team has moved swiftly to identify and begin to deal with the operational and financial challenges facing Interserve.

The Chief Executive's Statement and Operational Review in this Annual Report provide more detail, but some highlights include:

- Completion of a Group-wide strategic review
- Completion of a review of our major contracts
- Establishing the 'Fit for Growth' transformation plan to streamline the Group and improve efficiency and agility
- Development of a comprehensive and realistic three-year business plan
- Changing the leadership structure of Support Services and beginning to address the key issues described above
- Strengthening the controls around construction contract bid approval and improving management oversight of ongoing operations

Achieving so much in such a short time would be admirable in normal circumstances but, of course, Debbie, Mark and the rest of the executive team have also had to deal with one of the most complex debt refinancing negotiations in recent times and bring it to a successful conclusion. We are extremely fortunate to have secured the services of Debbie and Mark and I am hugely grateful for what they have already achieved.

DEBT REFINANCING

In 2017 we took the decision to suspend the dividend to preserve liquidity in the Group. However, ongoing deterioration in Energy from Waste combined with weakness in our Support Services and Construction businesses, meant that our liquidity came under increasing pressure towards the end of the year and there was a possibility of default on our year-end debt covenant. Furthermore, in my view, aggressive working capital management to operate within such a constrained environment is unfair on our suppliers and unsustainable.

We therefore sought temporary relief from our lenders and we were able to announce on 13 December 2017 an increase in our borrowing facilities and a deferral of our covenant testing to 31 March 2018 (subsequently extended to 30 April). This was designed to give us time to negotiate a longer-term debt structure to support the business.

I am delighted that, as we announced on 27 April 2018, these negotiations have come to a conclusion and we now have confirmed lending facilities through to September 2021. That we have been able to achieve such a complex refinancing in such a difficult environment is a testament to Debbie and her team and the integrity and robustness of their business plan.

On behalf of the Board I would like to express my gratitude to those lenders who have supported us in this refinancing.

BOARD AND GOVERNANCE

During the year Adrian Ringrose, Tim Haywood and Bruce Melizan left the Board.

Keith Ludeman has indicated that he does not wish to stand for re-election as a non-executive director at the AGM, as he is taking on increased responsibilities elsewhere and will be unable to devote appropriate time to Interserve.

I am extremely grateful to Keith for his excellent contribution to the Board and his Chairmanship of the Remuneration Committee. I am pleased to announce that Nick Salmon has agreed to take over as Chairman of the Remuneration Committee.

OUR PEOPLE

I have highlighted the challenges that the leadership team have faced in recent months, but inevitably the impact of those changes has been felt by people throughout the business. These are difficult times for the Company and the sectors it operates in. Dealing with these challenges will necessitate changes for all staff and some will be impacted personally. Across Interserve our people have shown great resilience and loyalty. They have embraced the need for change and I thank them for this and their continued support.

> **“THE CHANGES IN OUR EXECUTIVE TEAM, THE COMPLETION OF OUR DEBT RESTRUCTURING AND THE COMMENCEMENT OF THE ‘FIT FOR GROWTH’ PROGRAMME ARE THE FIRST STEPS ALONG THE ROAD TO RESTORING STABILITY, FUTURE FINANCIAL SUCCESS AND UNDERLYING RESILIENCE IN INTERSERVE.”**

LOOKING AHEAD

The turmoil of the past 16 months is behind us, but the hard work is not. We have made good progress in dealing with the challenges of completing our exit from Energy from Waste but significant risks clearly remain.

The tasks of improving Interserve’s business, restoring financial resilience to our balance sheet and rebuilding trust with, and value for, our shareholders are just beginning. I am confident that we now have the necessary leadership to succeed.

Once again, I would like to thank our staff, customers and suppliers for their support during this difficult period. I would also express my appreciation to those shareholders and lenders who have continued to support us throughout and those new stakeholders who have invested more recently.

Glyn Barker
Chairman
27 April 2018

DEBBIE WHITE
CHIEF EXECUTIVE OFFICER

OVERVIEW

Chief Executive Officer's statement

2017 was clearly an extremely challenging year for Interserve. Throughout this period the Group has benefited enormously from its underlying strengths – our dedicated and hard-working employees, the depth of our client relationships, the underlying business models, and the strong support of our financial stakeholders.

On our number one priority, the health and safety of our employees, I am pleased to say the Group's performance improved in the year. While there will always be more to do through ongoing improvements, our Accident Incident Rate[1] fell from 128 in 2016 to 95 in 2017.

Whilst the majority of my first six months as Chief Executive Officer has been spent establishing the long-term financial stability of the Group, I have had some opportunity to spend time visiting our operations. It is very clear that we have extremely strong delivery capability and client relationships. Interserve will be able to build on this as we seek to leverage the best of what we do across the Group.

During the last six months, we have completed a full strategic review and developed a three-year business plan for the Group. In the course of this, we have addressed the key questions of which markets and services we wish to be in and deliver, what capabilities we currently have and will need going forward and finally, how do we win in what is an ever-changing competitive landscape.

In terms of our markets and services, each of the main businesses of the Group has a key role to play going forward. The business and financial models are currently complementary, many of the skills and capabilities of our people are transferable between them and if we leverage our back-office activities across the business, we can gain significant synergies.

There were some good customer wins in the year, an example of which being the five-year contract we were awarded to provide facilities management services for the Department for Work and Pensions (DWP). The five-year contract is worth £227 million over its life and was successfully mobilised in 2018. In the Middle East, we were awarded major new contracts with, among others, the Jumeirah Group and Liwa Plastics.

During the course of 2018, we will refine and communicate our strategic plan further, but it is based on four strategic priorities:

1. Fit for Growth – improving cost efficiency
2. Strengthening our competitive customer value proposition
3. Standardising operational delivery
4. Developing our people and a consistent, 'One Interserve' culture

The first priority is 'Fit for Growth', our programme to ensure Interserve has the right strength, depth and level of resources going forward and leverages the scale of the Group. One of Interserve's historic fundamental issues is that the cost base of the Group has not been fit for purpose. Our purchasing practices, the organisational design and the cost choices made, will not enable us even to achieve margins consistent with our peers in the industry. We have started to address all of these issues through our transformation plan, which began with an initial cost-out programme in late 2017 and initiatives such as a Group-wide organisational design project, already underway in 2018. We anticipate that the impact of this programme will deliver £15 million to Group operating profit in 2018, and at least £40-£50 million by 2020, the majority of this benefit being in Support Services.

"THROUGHOUT THIS PERIOD THE GROUP HAS BENEFITED ENORMOUSLY FROM ITS UNDERLYING STRENGTHS – OUR DEDICATED AND HARD-WORKING EMPLOYEES, THE DEPTH OF OUR CLIENT RELATIONSHIPS, THE UNDERLYING BUSINESS MODELS, AND THE STRONG SUPPORT OF OUR FINANCIAL STAKEHOLDERS."

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

The cost of this programme in 2017 was £16.5 million and is expected to incur a further cost of circa £15 million in 2018.

Key to the long-term success of the business is our second strategic priority: it is imperative that we have a competitive customer value proposition in each of the markets we choose to operate in. This must bring a depth of expertise and knowledge to our customers enabling them to deliver their own strategic goals. In the coming months and years, these value propositions will be strengthened and leveraged creating value for our clients, employees and shareholders. We will refocus our energy on where these propositions best meet the needs of our customers; a key component of this is the deepening of our relationships with clients, moving from single-service operations to a broader, deeper span of services.

"THE COMPLETION OF OUR REFINANCING MEANS THAT THE BUSINESS NOW HAS THE PLATFORM TO EXECUTE ITS FIT FOR GROWTH PLANS AND REBUILD MOMENTUM IN ITS UNDERLYING PERFORMANCE."

In terms of operational delivery, to maintain and improve our financial performance, it is key to have a standard way of delivering what we do and to not 'reinvent the wheel'. Some progress has been made on the 'Interserve way' in the past, but this is not fully developed nor fully implemented, and embedding this is our third strategic priority.

The key to the delivery of the strategy and the business plan is our people. We must implement a standard approach to leadership, to performance management, to training and development and to reward and recognition. The historic fragmented and federalised nature of our business has not allowed for the best development opportunities for our teams. Unlocking these aspects and creating a common Interserve culture is our fourth strategic priority.

Turning to Interserve's 2017 financial results, the performance was extremely poor. A significant proportion of our Support Services business consists of high-volume, and relatively low-margin contracts. Historic selection and pricing in this sector has not been as disciplined as it will be in the future and the contract provision and poor performance is reflective of this. In addition, the operational discipline needs to be strengthened to ensure predictable and resilient results.

Having confirmed the intention to hold and further develop our Equipment Services division following the strategic review in 2016, its performance in the period was very good, with strong growth momentum contributing to a 12 per cent increase in total operating profit to £54.4 million.

Underlying performance in our UK Construction business was poor, with challenging market conditions and pockets of underperformance leading to a net loss for the year. This division has also historically suffered from poor decision making in project targeting and inadequate project control, reflected in the significant provisions we have made against a number of outstanding projects following our contract review. Internationally, we delivered a strong performance in improving markets, stimulated by local development plans and the ongoing need for infrastructure development across the region.

The outlook on some of our Energy from Waste contracts deteriorated during the year, leading to the increase in our provision announced last September. We have nevertheless made good progress in dealing with the challenges of completing our exit from the sector. Our target to complete the construction phase on all remaining projects in the first half of 2018 remains on track and, specifically, on the Derby project, we achieved the necessary Renewal Obligation Certificates (ROCs) accreditation in March 2018 as scheduled. Despite this progress, risks clearly remain and we continue to expend every effort to bring these projects to a satisfactory conclusion.

Strengthening our leadership team has been a key activity with new appointments of Mark Whiteling as Chief Financial Officer, Sally Cabrini as Director of Transformation, IT and People, and Andy McDonald as General Counsel and Company Secretary. The Group will continue to invest in strong capability in its core areas in the coming years by both the development of internal candidates and by bringing in new talent.

As we look to the future, there is significant opportunity with the new strategy and business plan and in leveraging the Interserve values to transform the Group. The result will be a more focused, higher margin, cash generative business delivering value to its customers, employees and shareholders.

OUTLOOK

The completion of our refinancing means that the business now has the platform to execute its Fit for Growth plans and rebuild momentum in its underlying performance. Whilst this refinancing has come at a considerable cost, delivery of the agreed business plan will enable us to consider options for achieving a more secure financial foundation. The Board's expectations for the current year remain broadly unchanged.

Debbie White
Chief Executive Officer
27 April 2018

OVERVIEW

Results in summary

	2017	2016
REVENUE	£3,250.8m	£3,244.6m
LOSS BEFORE TAX	£(244.4)m	£(94.1)m
GROSS OPERATING CASH FLOW	£20.1m	£253.9m
UNDERLYING EBITDA	£116.0m	£194.0m
FUTURE ORDER BOOK	£7.6bn	£7.6bn
HEADLINE EARNINGS PER SHARE[1]	29.0p	84.5p

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

OVERVIEW

Our markets

WHAT WE DO	MARKET THEMES
SUPPORT SERVICES	
• The management and delivery of outsourced operational activities across a range of sectors in both public and private markets • Provision of citizen services in the Justice, Health and Training and Employment sectors • Services provided in the UK and the Middle East	• UK outsourced FM market was £88.6 billion in 2017 and we expect fastest areas of growth to be in TFM and Mechanical and Electrical (M&E) services • Growth opportunities in Justice market from prison renewal and privatisation • Training and employment opportunities resulting from Apprenticeship Levy and fast-growing Saudi Arabia market
CONSTRUCTION	
• Provision of advice, design, construction and fit-out services for buildings and infrastructure across a range of sectors in both public and private markets	• Fragmented market with limited growth prospects • Infrastructure and private housing are forecast to grow faster than market as a whole • Fit-out market continues to offer opportunities
EQUIPMENT SERVICES	
• Provision of engineering solutions for the construction industry in the specialist field of temporary structures, i.e. formwork, falsework and shoring • Operating in over 20 countries around the world	• Continued global growth in infrastructure • Short-term headwinds from increasing regional and local competition

DURHAM UNIVERSITY WIN STRENGTHENS OUR POSITION IN THE FURTHER EDUCATION MARKET

An Interserve-led consortium was selected for an £85 million project by Durham University to finance, design, build and operate two new colleges in Durham City, strengthening our position in the further education market.

The consortium, made up of Interserve, fund and asset management firm, Equitix, and on-campus student accommodation developer and operator, Campus Living Villages UK (CLV), will finance, build and operate the two new facilities for up to 50 years.

Interserve's construction division will design and build the two new residential facilities, which will have up to 1,000 student bed spaces, plus associated academic and social college spaces on a University-owned area of land just to the south of the city. Interserve will also design and build a University hub building on the same site, comprising student facilities and administrative space.

The contract, which adds to our extensive portfolio of student accommodation projects, also builds on our 15-year relationship with Durham University, for whom we built the recently-opened Ogden Centre for Fundamental Physics.

Strategic Report

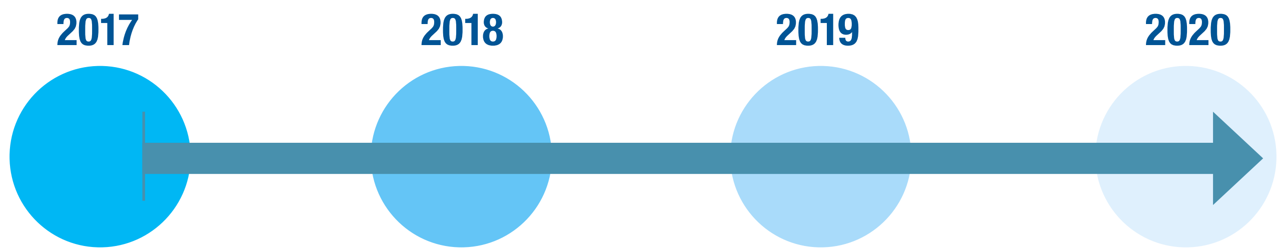
Our strategy

Divisional strategy: Strategy focus for 2018 and beyond

Interserve has developed a coherent and consistent strategy to drive the overall direction of the business

<table>
<tr><th></th><th>2018 FOCUS</th><th>2018+ STRATEGY</th></tr>
<tr><td>SUPPORT SERVICES UK</td><td rowspan="4">• Focus on select sectors, products, services and geographies
• Better pricing and bidding discipline
• Cost and risk control
• Delivery optimisation
• Reduce overhead and streamline support functions</td><td>• Standardised services
• Self-deliver the majority of services
• Grow in places we choose to play</td></tr>
<tr><td>SUPPORT SERVICES INTERNATIONAL</td><td>• Effective bidding and efficient delivery in select sectors/ regions</td></tr>
<tr><td>CONSTRUCTION UK</td><td>• Standardise services in Learning & Employment business
• Grow in carefully selected sectors with common platform</td></tr>
<tr><td>CONSTRUCTION INTERNATIONAL</td><td>• Grow share in defined high-growth sectors
• Explore expansion opportunities to other Middle Eastern countries</td></tr>
<tr><td>EQUIPMENT SERVICES</td><td>• Maximise core business and expand in existing markets
• Accelerate ground-shoring capability and delivery</td><td>• Improve cost efficiency
• Scale up sales capabilities
• Strengthen regional support</td></tr>
</table>

FIT FOR GROWTH

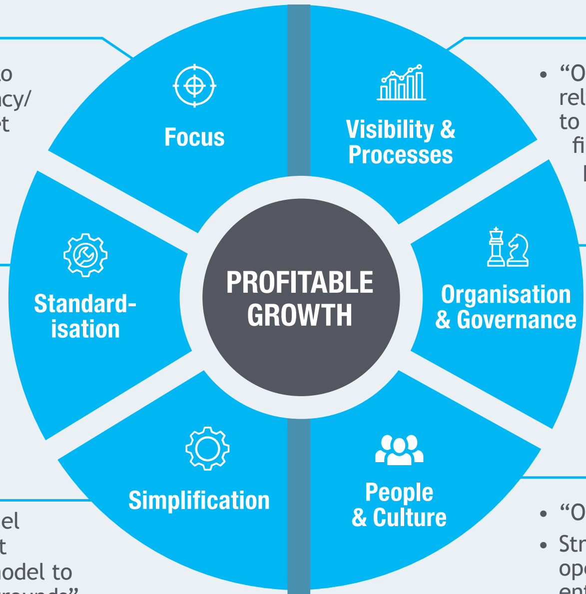


Strategy enablers

- Strategically choose where to play based on our competency/unique capability and market potential (sector and geography, etc)
- Exit/stop bidding in non-focus areas

- Standardise our offers to ensure efficient commercial activities as well as delivery
- We will only be able to achieve this if we focus on select sectors/geographies

- Simplify our operating model to create the most efficient commercial and delivery model to win on our chosen “battlegrounds”



- “One version of the truth” – reliable, accurate and timely data to allow proper Group control (e.g. finance, risks) as well as business/performance management (e.g. pipeline, margin)

- Strong leadership and ownership
- Clear governance structure with responsibilities and accountabilities clearly defined
- Shared Service Centres to support businesses efficiently

- “One Interserve” mentality
- Strong sense of ownership, openness to change, entrepreneurial and innovative
- Compelling value propositions to the talent that we want

ALL UNDERPINNED BY FOUR STRATEGIC PRIORITIES

- DELIVER THE FIT FOR GROWTH TRANSFORMATION PLAN
- DEFINE AND DELIVER A VALUE PROPOSITION FOR CUSTOMERS
- STANDARDISE OPERATIONAL DELIVERY
- ONE INTERSERVE CULTURE AND APPROACH

Business model

WHAT WE DO

A leader in innovative and sustainable outcomes for our clients and a great place to work for our people.

We deliver construction, equipment services, facilities management and citizen services. Headquartered in the UK and FTSE listed, we have gross revenues of £3.7 billion and a workforce of circa 75,000 people worldwide.

We principally deliver services and outcomes to other businesses based on longstanding and trusted relationships.

We deliver services in over 40 countries around the world.

HOW WE DO IT

THROUGH OUR PEOPLE

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.

THROUGH STRONG GOVERNANCE

Since late 2017, Interserve has evaluated which markets, products and services are critical for future success. The new governance processes for the Group will ensure the strategic approach is implemented.

HOW WE CREATE VALUE

OUR 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.

WHAT WE DO

SUPPORT SERVICES

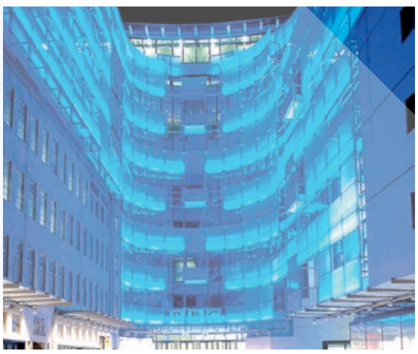
Facilities management
Frontline services
Estate management
Industrial services
Oil and gas services

CONSTRUCTION

Building
Infrastructure
Engineering services
Fit-out
Consulting

EQUIPMENT SERVICES

Design
Engineering
Propping and shoring solutions
Ground shoring



See case study on page 110

See case study on page 10

See case study on page 46

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.

INVESTORS

HEADLINE EARNINGS PER SHARE[1]

2017 29.0p

2016 84.5p

FUTURE WORKLOAD[2]

2017 67%

2016 70%

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

CLIENT RETENTION (UK Support Services)

2017 82%

2016 52%

EMPLOYEES

ACCIDENT INCIDENT RATE[3]

2017 95

2016 128

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

EMPLOYEE ENGAGEMENT INDEX SCORE (figures for 2017 not available)

2016 75%

2015 68%

APPRENTICES, TRAINEES, GRADUATES[4]

2017 535

2016 601

WORK PLACEMENTS

2017 3,387

2016 2,941

TRAINING DAYS

2017 82,713

2016 101,168

ENVIRONMENT

Natural Capital			2017 Performance vs. 2013 Absolute	2017 Performance vs. 2013 Relative	Yr on Yr Change 2017 vs. 2016 Absolute	Yr on Yr Change 2017 vs. 2016 Relative
Water consumption (m^3) (relative metric: m^3/£m)[5]	UK		-9%	-22%	2%	1%
	ROW	40% reduction by 2020	2%	-27%	-5%	3%
	Total		**1%**	**-17%**	**-5%**	**-3%**
Construction waste (tonnes) (relative metric: tonnes/£m)[5]	UK		1%	-13%	29%	27%
	ROW	40% reduction by 2020	-40%	-19%	-19%	-12%
	Total		**-33%**	**-45%**	**-10%**	**-9%**
Total carbon emissions (tonnes CO_2e) (relative metric: tonnes CO_2e/£m)[5]	UK		-21%	-33%	-11%	-12%
	ROW	60% reduction by 2025	-9%	-35%	-13%	-6%
	Total		**-12%**	**-28%**	**-13%**	**-12%**

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 2017 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 28 per cent (on a relative basis over the last four 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.

These performance metrics will be revisited as our strategy evolves.

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

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

[5] £m revenue.

Operational review

The Operational Review refers to a number of alternative performance metrics; it is considered that these better reflect the underlying performance of the business. See note 32 to the consolidated financial statements for the basis of calculation. Additional disclosure is made in the Financial Review of non-underlying items and why the directors believe it is appropriate to exclude these in considering operating performance. Certain comparatives are restated within these statements (see note 1).

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	2017	2016	Change
Revenue			
- UK	£1,687.5m	£1,718.1m	-2%
- International[1]	£193.9m	£267.9m	-28%
Contribution to total operating profit	£41.7m	£89.5m	-54%
- UK	£38.9m	£80.1m	-51%
- International[1]	£2.8m	£9.4m	-70%
Operating margin			
- UK	2.3%	4.7%	
- International[2]	1.7%	3.6%	
Future workload[3]			
- UK	£6.1bn	£5.7bn	
- International[1]	£218m	£192m	

[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.

These figures exclude non-underlying items.

UK

Support Services UK delivered a disappointing performance, largely due to the impact of regulatory changes, challenging contract mobilisations, excessive historical overheads and a cost base that has not been flexible enough.

Revenue was stable at £1.7 billion, reflecting good work winning and contract retentions but, as expected, operating profit was negatively impacted by regulatory-driven costs including the UK National Living Wage (NLW) increases (introduced in April 2016), the Apprenticeship Levy, increased IAS 19 pension service charges and changes to the application of holiday pay and travelling time on our large workforce.

Profits were specifically impacted by a number of large contract mobilisations, contract performance in the justice business and some underperforming accounts which are being remedied through 'Fit for Growth' - the three-year programme launched by the new management team in October 2017 focused on increasing the Group's organisational efficiency, improving Group-wide procurement processes and ensuring greater standardisation and simplification across the business.

New management has already taken decisive action to address the division's excessive cost base, including cutting the division's headcount as part of Fit for Growth. The margin absorbed the substantial rise in the NLW, one of the factors contributing to the fall to 2.3 per cent.

Despite the cost headwinds absorbed by the division during the year, it won £2.1 billion of new work and the division's future workload grew 7 per cent to £6.1 billion. 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 accounts during the year, demonstrating the Government's ongoing faith in our ability to continue to mobilise and deliver large-scale contracts.

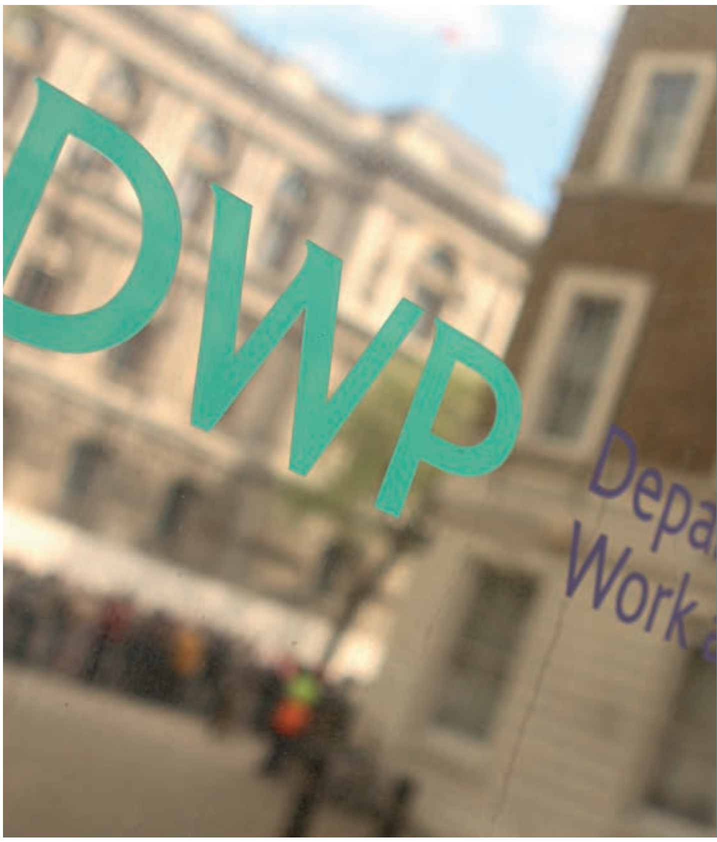
We strengthened our position as one of the Ministry of Defence's largest infrastructure partners during the period, winning a two-year contract extension worth up to £265 million to continue as the infrastructure support provider for four overseas UK Armed Forces bases (in the Falkland Islands and Ascension Island in the South Atlantic Ocean, as well as Gibraltar and Cyprus in the Mediterranean). We were also awarded a five-year contract worth £227 million to provide facilities management services for the Department for Work and Pensions, which is currently being mobilised. This contract will see us providing services to over 700 buildings throughout the UK, covering over 1.3 million square metres of space.

In the transport sector we secured a further five-year facilities management contract with Network Rail worth £65 million, which sees us deliver a range of facilities services across 11 of Network Rail's managed stations in London, Reading and Bristol, which include eight of the UK's 10 busiest stations. The new contract builds upon Interserve's existing relationship with Network Rail, which has included providing cleaning services across the organisation's estate for the last five years. We also won a new five-year contract worth £90 million to provide total facilities management services for the Department for Transport and nine of its agencies, plus the Environment Agency.

We achieved a notable contract extension, winning a £140 million contract with the BBC to continue providing facilities services until 2023. This latest four-year extension to the account, which was first awarded in 2014, will see us continue to provide services from critical broadcast engineering, energy and utilities management through to cleaning, portering and security at 150 BBC sites, including the corporation's major offices and production facilities at MediaCityUK in Salford and Broadcasting House in Portland Place, London.

More broadly in the commercial sector, we won new facilities management contracts with power generation group, RWE, travel retailer, Dufry, and law firm, Irwin Mitchell.

Our learning and skills business (Interserve Learning & Employment) had a busy year following the introduction of the UK Apprenticeship Levy and we further invested in this area to maximise the significant opportunities presented by this reform. Our capability in designing, delivering and evaluating apprenticeship training within this business is now playing 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 upskill and gain additional productivity from an increasingly costly workforce. During the year we won new contracts with DHL, Countrywide, BT Group, Stagecoach Group, Grafton and Unilever.



SUPPORTING AND MANAGING THE DWP'S UK ESTATE

We were awarded a five-year contract worth £227 million to provide facilities management services for the Department for Work and Pensions (DWP).

Interserve will provide the DWP estate with mechanical, electrical and building maintenance as well as cleaning, catering, waste disposal, removal and secure destruction of confidential waste services to over 700 buildings throughout the UK, covering over 1.3 million square metres of space.

The contract is part of an innovative 'integrator' model being launched to manage the DWP estate. The new model replaces the DWP's existing Private Finance Initiative contract, which ended in March 2018.

The model will allow DWP to focus on transformational objectives and strategic estates management, whilst being supported by Interserve and other specialist organisations to deliver the specific services needed to operate the DWP estate.

Operational review continued

In the justice sector, we won a contract to run a range of employment training schemes at Wrexham's HMP Berwyn, where inmates can improve their skills, employability and qualifications to ensure they are work-ready when they are released.

Our healthcare business, which provides nursing care in the home for high-acuity patients, delivered a resilient, profitable performance during the year and achieved a notable contract extension with healthcare firm, Baxter.

For Interserve, 2018 will principally be characterised by our transformation plans for the business and this is especially relevant to our Support Services division as we look to improve profitability. We will be reviewing organisational design, building on the work already started in 2017, to ensure an effective and efficient operating model. We will also look to improve governance and process to ensure a disciplined approach to work-winning and contract management. As part of our new strategy for Support Services, we will also focus on select sectors and service offerings.

2018 has started with major contract mobilisations for the Department for Work and Pensions and the Department for Transport and we continue to win work, building on a significant order book of £6.1 billion. While some uncertainties remain, specifically the outcome of Brexit negotiations, we remain a key strategic supplier to UK Government and we fully expect to build on this over the course of the year. Through a focus on cost reduction and stronger discipline on contract management, we would expect to see some benefits delivered in 2018.

International

The division performed creditably, delivering an improved profit performance in the second half of the year (H1 2017: £0.9 million). This follows the action taken to reduce the size and cost base of the division in 2016 which we saw the benefits of during 2017. We also diversified our operations in Qatar and Oman in response to challenging market conditions and to reflect continued low oil prices and the cumulative impact on clients' spending.

As a result, the smaller, leaner division delivered revenues of £193.9 million (YE 2016: £267.9 million) over the year. The division reported a profit of £2.8 million (YE 2016: £9.4 million), demonstrating that we can still deliver a profit with a lower cost base and reduced volumes.

Market conditions in the Middle East facilities management market – in which we delivered a profit during the period – improved during the year, enabling us to leverage our extensive UK experience and longstanding customer relationships in the region.

This was highlighted through our success in securing a £34 million facilities management contract with Musanada, which delivers maintenance and infrastructure projects for the Abu Dhabi government. We also won a £10 million contract to provide facilities management services at Qatar's Doha Festival City Mall and a £5 million support services contract with Emirates Aluminium.

We also won facilities management contracts with several private-sector firms including accounts with Ford Middle East and Africa and retail group, Al Shaya, in the UAE.

"'FIT FOR GROWTH' - THE THREE-YEAR PROGRAMME LAUNCHED BY THE NEW MANAGEMENT TEAM IN OCTOBER 2017 IS FOCUSED ON INCREASING THE GROUP'S ORGANISATIONAL EFFICIENCY, IMPROVING GROUP-WIDE PROCUREMENT PROCESSES AND ENSURING GREATER STANDARDISATION AND SIMPLIFICATION ACROSS THE BUSINESS."

The division's future workload at the end of December 2017 was up 13.5 per cent at £218 million (2016: £192 million) as the market stabilises and adapts to a 'new normal' oil price.

Given the reduction in size and cost base for our International Support Services business in 2017, we expect 2018 to be a year of consolidation, as a smaller, yet profitable business. While still a relatively small business, we still view our FM work in the Middle East to be an important medium to long-term value opportunity and we will continue to target profitable growth in this area in 2018.

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]	2017	2016	Change
Revenue	£229.0m	£224.1m	+2%
Contribution to total operating profit	£54.4m	£48.6m	+12%
Margin	23.8%	21.7%	

[1] Excluding Exited Business.

Our strong growth momentum continued as contribution to total operating profit increased by 12 per cent to £54.4 million, and margins improved to 23.8 per cent, reflecting healthy demand, strong pricing and market positioning across the broad range of global infrastructure markets in which we operate.

The division continues to have good momentum across its international markets, particularly the Middle East and UK and it was pleasing to see that we achieved growth across a broad range of our markets, rather than in any one individual territory during the period.

In Asia-Pacific, we delivered a good performance in Hong Kong, driven by our ongoing work on large-scale infrastructure projects, including the Kowloon Rail Terminus and the Hong Kong Macau Bridge, on which we completed our work during the period. We again performed well in the Middle East, with demand continuing to grow in the UAE where we won work on the Dubai Ports Bridge project, and in Saudi Arabia, where we continue to work on the Riyadh Metro scheme.

We delivered a strong performance in the UK, with work on several major projects continuing, including the Defence National Rehabilitation Centre in Loughborough and on sizeable rail improvement projects in Reading and on the Stockley Viaduct project near Heathrow airport. We also completed major long-term projects during the period, including work on the Mersey Gateway Bridge and the Medway crossing. Last year's launch of new products in the UK ground-shoring market has gone well and we expect to make further progress in this market in 2018.

As highlighted in our strategic review of the RMDK business in 2016, we have exited some of our smaller, less attractive markets including Singapore and Colombia and have also rationalised parts of the product range.

Our adaptation of new technologies sets us apart in the temporary works sector and we continue to exploit our capability in 3D design and engineering, providing rapid visualisation tools to enable customers to quickly and easily visualise our solutions.

Over the next 12 months, Equipment Services will continue to pursue the recommendations of our 2016 strategic review, developing new opportunities such as ground-shoring, while also exiting some geographies based on evolving demand for our services. Macro uncertainties, such as the Qatar trade blockade may impact trading, but we would expect to maintain a similar level of performance from the division in 2018 despite some currency headwinds.

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.

Operational review continued

Results summary	2017	2016	Change
Revenue			
- UK[1]	£1,048.2m	£870.8m	+20%
- International[2]	£290.5m	£296.9m	-2%
Contribution to total operating profit	(£0.2m)	£42.1m	
- UK[1]	(£19.4m)	£25.2m	
- International[2]	£19.2m	£16.9m	
Operating margin			
- UK[1]	-1.9%	2.9%	
- International[3]	7.0%	5.5%	
Future workload			
- UK[1]	£1.0bn	£1.2bn	
- International[2]	£236m	£365m	

[1] Excluding Exited Business.

[2] Share of associates.

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

UK

2017 was another difficult year for our UK Construction business due to the ongoing period of challenging market conditions and continued pockets of underperformance in operational delivery in a number of contracts, which resulted in a net loss result for the division.

We have continued to narrow our work-winning focus onto core sectors and activities and have refined the risk profile of work that we take on. Despite this, revenue rose 20.4 per cent during the year as we traded through legacy contracts. Revenue is expected to fall in 2018 as the shrinkage of the order book works through – during the year the order book fell 16.7 per cent to £1.0 billion. Going forward, we expect the division to be a smaller business by revenue but one capable of consistent profit margins in line with industry norms.

In the final quarter of 2017 the business conducted a contract review and balance sheet review. As part of this review the business identified the need for significant balance sheet write-downs principally in relation to work-in-progress and receivables. The majority of the value of these write-downs related to UK Construction. These write-downs were recorded as non-underlying and are not reported in the underlying numbers reported above. Please see the Financial Review section for further details.

During the year we further strengthened our cost, pricing and bidding controls and narrowed our strategic focus, restricting work-winning activity to select sectors, regions and activities and have refined our risk appetite in new work that we take on. We also instigated a number of changes to better manage the risks from future work, such as establishing a Contract and Investment Committee, which approves all contracts requiring a Parent Company Guarantee, a bond, or is worth in excess of £5 million.

Our operating model continues to combine a strong regional presence and exposure to framework agreements with infrastructure and public-sector customers, in core sectors such as defence, education and healthcare, along with a growing presence in fit-out markets.

Reflecting this increased selectivity in work winning, our future workload fell for the third year running, a substantial portion of which is focused on low-risk projects, constructing a range of buildings and infrastructure often under framework agreements with public-sector customers and utility companies.

We secured a place on a new construction framework launched by specialist healthcare property company, Prime, and Yeovil District Hospital NHS Foundation Trust (YDH). This continues our 15-year role on UK health frameworks, through which we have delivered over £1 billion of diverse healthcare facilities across more than 250 projects, which includes the UK's first Proton Beam therapy unit, currently under construction at The Christie in Manchester.

We also won a place on the Homes and Communities Agency's £8 billion Delivery Partner Panel 3 (DPP3) Framework - the four-year framework is divided into regional lots, and Interserve - a new entrant into the DPP framework - is appointed to all five. We also won a place on major highway and infrastructure frameworks in Manchester and across the Yorkshire and Humber Region, with the lots to which we have been appointed having a potential value in excess of £500 million.

In another of our longstanding core markets, education, an Interserve-led consortium was selected for an £85 million project by Durham University to finance, design, build and operate two new colleges in Durham City. The consortium, made up of Interserve, fund and asset management firm, Equitix, and on-campus student accommodation developer and operator, Campus Living Villages UK (CLV), will finance, build and operate the two new facilities for up to 50 years. We also won contracts with an average value of c£20 million to build four schools in Yorkshire and Wales.

The division was named Construction Company of the Year for the second year running at the National Centre for Diversity's annual awards.

Despite disappointing results in 2017, considerable work has been done to return the Construction business in the UK to a stable platform and this will continue through 2018. We are working to improve organisational structure and capability and we expect to improve our performance. Our focus remains on quality contracts, targeting profits and not revenue and we will restructure the cost base accordingly; the division is likely to face working capital challenges as we create efficiencies in the model, but we will manage these accordingly.

International

International Construction delivered a strong performance in improving markets stimulated by development plans such as those for Expo 2020 in the UAE and the ongoing need for infrastructure development across the region.

Contribution to operating profit in our associate businesses rose by 13.6 per cent to £19.2 million (2016: £16.9 million), with margins strengthening to 7.0 per cent (2016: 5.5 per cent). Future workload, however, fell to £236 million (2016: £365 million).

Market conditions in the UAE were largely good with key contract wins including refurbishment and fit-out work worth c£80 million with the Jumeirah Group (Jumeirah Beach Hotel) and Dubai Properties (Double Tree Hilton). We also won a range of fit-out contracts and further work on the Mall of the Emirates following the completion of our work to extend the facility last year.

In Qatar, we won a £102 million contract to build a range of substations and continue to make good progress (with our joint-venture partner ALEC) in delivering Doha Festival City. We also won a £23 million contract to build a sewage treatment plant for Hyundai Rotem and some large fit-out contracts with local retailers and private individuals.

The recent political developments in the region have led to some isolated project deferrals in Qatar and remain a risk to the business that could impact during the year. However, with the Qatari government awarding more work to local companies following the trade blockage we are optimistic that more opportunities could open up for us given our joint-venture partner in Qatar (Gulf Contracting Company) is a well-established local company.

During the period we won contracts for civil and building works for the new 445 MW combined power plant in Oman for SEPCO and for £74 million worth of buildings, civils and underground piping work on the Liwa Plastics project, which is part-funded with the support of UK Export Finance.

In our International Construction business, trading has seen an impact from political developments in Qatar, albeit to a small degree, but upcoming events such as Expo 2020 in Dubai will continue to support work winning in 2018. Our International Construction division remains a well-performing business and our experience in the Middle East region continues to stand us in good stead.

Exited Business

	2017	2016
Revenue		
- UK Exited Business (consolidated revenue)	£48.6m	£91.0m
Total pre-tax non-underlying loss	£35.1m	£160.0m

Further progress was made on our remaining Energy from Waste (EfW) contracts during the year. However, we saw a slippage in the anticipated completion date for some of the contracts and, as previously announced in October 2017, we now expect that an additional £35.1 million provision – in addition to the £160 million provided in 2016 - is required to enable us to complete the outstanding projects in Derby, Margam, Templeborough and Dunbar. We expect to substantially complete the construction of the projects in the first half of 2018, though significant uncertainty remains on the timing of commissioning.

During the period we completed the construction of the Derby EfW plant and commissioning is progressing well. The plant started receiving municipal waste in January, generating electricity in February and has now received its Renewable Obligations Certificate from OFGEM. While significant risks remain, we are making good progress towards final commissioning.

We expect cash flow during 2018 to be broadly neutral over the full year. However, we anticipate a substantial cash outflow in the first half of the year, as construction continues on these projects, which is expected to be offset by insurance and other recoveries in the second half of the year.

We remain very focused on the challenges of exiting our remaining EfW projects and we will vigorously pursue our legal entitlements in closing these contracts out and progress insurance claims and negotiated settlements where appropriate.

GROUP SERVICES

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

Group Services' net costs of £21.0 million include the financial impact of our Private Finance Initiative (PFI) investments. During the year the Group disposed of the entirety of its investment in Addiewell PFI, realising a profit on disposal of £7.5 million. Group Services' gross costs rose 5 per cent to £28.5 million (2016: £27.1 million), due principally to investment in back-office capabilities, IT infrastructure, people development and communications.

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 newsletter 'Good News Friday' 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 justifiable, on the grounds of gender (including sex, marital or civil-partner status, gender reassignment), race (including ethnic origin, colour, nationality and national origin), disability, sexual orientation, religion or belief, age, and pregnancy 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

Following our award of the National Equality Standard (NES) for equality, diversity and inclusion in 2016, our work to develop and promote equality, diversity and inclusion across the business continued throughout 2017. This included the running of events around our LGBT and women's networks and an internal and external communications campaign around creating opportunities for ex-offenders and former military personnel.

Our work was recognised by the National Centre for Diversity (NCFD), which named our Construction division its 'Construction Company of the Year' for the second year running at its annual awards earlier this year.

During the year Interserve worked with a variety of different organisations that helped 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.

At Interserve we are committed to creating a diverse and inclusive workplace where all of our people feel at ease and can progress. We take this commitment extremely seriously and have a range of programmes underway and more initiatives planned to ensure this happens.

We welcome the UK government's requirement for large companies to be more transparent on gender pay and we share our data for our 18 legal entities which employ more than 250 people.

Across all of the employing entities we have reported, there is some diversity in the statistics and this is a feature of the different types of businesses that we have, the employees they have traditionally attracted and also length of service. Our gender pay gap report can be viewed at *www.interserve.com/docs/default-source/about/policies/gender-pay-gap-march-2018.pdf*.

PROVIDING EMPLOYMENT SERVICES AT WREXHAM PRISON

We started running employment workshops at HMP Berwyn, a large new prison in North Wales, after being awarded a five-year contract by the Ministry of Justice (MoJ).

The sessions at the Category C men's prison, which opened last year, are designed to replicate a normal working environment where men will be able to improve their skills, employability and qualifications.

Interserve provides employment places for 520 men in the workshops with the men following an attendance pattern that will provide a routine similar to working life outside of prison. Work undertaken at the workshops is varied and reflects the type of opportunities those released from prison may have.

Interserve, which has delivered probation services for the MoJ since 2015, is committed to reducing re-offending through rehabilitation, which is at the very heart of what the sessions are intended to achieve.

The workshops aim to ensure that the transition from prison to the community for those released is made as smooth as possible through Interserve's close working relationship with its partners in the Community Rehabilitation Companies and the National Probation Service.

Our gender pay gap results are extremely mixed and highlight the differences in the make-up of our divisions and the sectors in which they operate. For example, our Citizen Services business, which has many women occupying senior positions, outperformed the national average, as did Group Centre.

Other parts of the Group - notably Construction and Equipment Services – have more work to do. However, it is important to note that the construction and engineering sectors – in which both businesses operate - generally attract more men than women into roles within their industries.

The gender pay gap at Interserve highlights a gender balance issue and not an equal pay issue, particularly in the more senior roles and sectors traditionally dominated by males. The gap is particularly noticeable in respect of bonuses, as our incentive schemes are targeted at more senior people in the organisation. We are aware that more needs to be done to redress the balance and have already started taking action.

To improve the gender split of our talent pipeline during the year we continued to audit recruitment and training practices across the divisions to ensure they are free of bias and to seek equal gender balance in general recruitment, apprentice and graduate applications. We are also introducing measures to address gender imbalances in those training for management roles and to ensure that mentoring and coaching programmes are provided by trained coaches who are sensitive to gender specific matters.

We also now insist on diverse recruitment shortlists and track gender balance in our headcount data and succession planning and are working on our approach towards attracting women to roles that have previously been identified as more male-dominated.

Both of our divisions working in the construction and engineering sectors (Construction and Equipment Services - where the gender pay gap is more prevalent) are now running early career initiatives around work-experience placements, apprentices and graduates. These initiatives are designed to ensure non-gender biased processes are implemented across both businesses and to ensure that balanced recruitment shortlists become the norm for all roles. Our Citizen Services business continues to promote the benefits of flexible working and is running internal campaigns to change perceptions about certain roles.

As at 31 December 2017, 29,765 of our global workforce of 55,350 were male and 25,585 were female. Further information is provided in the table below.

	Male		Female		Total	
	2017	2016	2017	2016	2017	2016
Number of persons who were directors of the Company[1]	7	8	2	1	9	9
Number of persons who were senior managers of the Group[2]	98	102	8	7	106	109
Number of persons who were employees of the Group[3]	29,660	32,945	25,575	26,951	55,235	59,896
Total	29,765	33,055	25,585	26,959	55,350	60,014

[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.

HUMAN RIGHTS

We have a Group-wide Human Rights Policy, which is available to download from our intranet. The policy states that the upholding of human rights is wholly aligned with our values, and forms part of our decision-making and the delivery of our strategy.

As a large employer with global operations, Interserve aims to make a positive difference in the communities where we operate. This is the intention behind our sustainability plan, designed to deliver social, economic and environmental benefits.

We respect internationally-recognised human rights, aiming to work within the principles set out by the UN Declaration of Human Rights as well as the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, and work hard to ensure that in all areas of interaction with our employees, clients, suppliers, third parties, interviewees and joint-venture partners that everyone is protected and treated fairly.

Our commitment means that we seek to identify, prevent or mitigate potential human rights risks, and address any shortcomings which actions within our control may have caused. In implementing this policy we are subject to the laws of the many countries in which we operate. We are committed to comply with all such applicable laws.

The policy sets out the core principles we respect and promote and is a reference point for employees, suppliers, sub-contractors, customers and joint-venture partners. These principles apply to Group subsidiaries and joint ventures where we have management control, and will be championed and promoted where we don't. The principles are applied in conjunction with our other policies on the ethical standards we expect in our business activities, which include:

- Conducting Business with Interserve
- Health and Safety Policy
- Conflicts of Interest Policy
- Code of Conduct and Competition Law Compliance Policy
- Anti Bribery and Corruption Policy
- Fraud Policy
- Whistleblowing Policy
- Sustainable Procurement Policies
- Supplier Codes of Conduct

Our Human Rights Policy is supplemented by policies relating to Modern Slavery and Business Practices, which are also available to download from our intranet.

HEALTH AND SAFETY

Interserve adopts a formal and proactive approach to the management of health and safety throughout our operations. To ensure Board-level visibility, an Executive Board member is designated as Safety Champion and senior directors are appointed with responsibility for health and safety in each operational 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 and Developments 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 81 site-safety visits during the year and across the Group over 5,810 management safety tours were recorded. As a result of these and other inspections, over 115,871 unsafe conditions were identified and corrected, preventing potential incidents. In addition, 181,048 safe conditions were observed.

We are regularly recognised for our contributions to delivering high standards of health and safety and in 2017 received 16 awards in the Royal Society for the Prevention of Accidents (RoSPA) Occupational Health and Safety Awards, taking the Group's total RoSPA honours over the last decade to more than 240. Achievements in 2017 included:

- Construction and Engineering awarded RoSPA's prestigious Order of Distinction, which is presented to companies that have received 15 or more consecutive Gold Awards for their health and safety performance. Construction has now won 17 consecutive Gold Awards and Engineering has won 16 consecutive Gold Awards.
- Support Services won a range of honours, including Guardian Angel Awards (established in 2014 to recognise and celebrate the work of individuals who have gone 'above and beyond' to improve the safety of others), three President's Awards, three Gold Medals (for receiving up to nine consecutive Gold awards) and six Gold Awards.
- RMD Kwikform also received six Gold Awards.

Overall, our reportable injury incidence rate reduced by 31 per cent with our overall accident rate for all lost-time injuries reducing by 15 per cent.

Despite this success, sadly one our colleagues suffered fatal injuries in an incident in the United Arab Emirates. The event was subject to an in-depth investigation to determine the root cause and corrective actions required to prevent future incidents of this type.

A total of 281 lost-time injuries were recorded across the Group at an incidence rate of 285 (335 in 2016). Of these a total of 94 met the RIDDOR reporting criteria at an incidence rate of 95 (128 in 2016).

ANTI-BRIBERY AND CORRUPTION

We have a detailed Anti-Bribery and Corruption Policy, which is available to download on our intranet. This sets out the expectation that individuals with whom we work will comply with the Bribery Act 2010 and any anti-corruption laws which are applicable in the countries in which we operate. This policy is reviewed annually and signed-off by the Chief Executive Officer.

Anti-Bribery and Corruption training is also provided to all staff who are issued with Interserve IT equipment and/or who are in customer or supplier-facing roles. The scope and nature of this training is regularly reviewed by our Executive Board, with appropriate measures taken to encourage individuals to complete the training.

This training is supplemented by our 'Smart Choice' mobile phone application, which was developed in conjunction with the Institute of Business Ethics, and is installed on company mobile phone devices. This gives users the ability to access key anti-bribery guidance on the move. A bowser-based version of the app is also available on our intranet.

Operation of whistleblowing procedures allow individuals to make protected disclosures to the Group without fear of retribution if they become aware of behaviour that falls short of the legal standards we uphold.

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. Given the events of 2017, we have updated the Principal Risks and Uncertainties to reflect the Group's current financial position and evolving strategy.

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 58 to 61. 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 2017 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; • changes in the UK Government's policy with regard to employment costs, expenditure on improving public infrastructure, buildings, services and modes of service delivery (including appetite to outsource services) 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 in a number of ways. These include: • by fostering long-term relationships with our clients and partners; • the development of additional capabilities to meet anticipated demand in new growth areas; • maintaining a flexible cost base; • effective supply-chain management; and • geographic diversity through the markets in which we operate. The business plan created this year included a detailed strategy review and competitive assessment. This has informed our focus on those market segments with the greatest growth opportunities and the ability for us to earn appropriate margins. As part of our competitive assessment, we assess our success rate in competitive situations. 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 have launched a major transformation programme, 'Fit for Growth', as part of ensuring that our cost base is appropriate for the services we offer and to enable us to be cost competitive. We monitor and assess levels of political risk and have contingency plans to mitigate some of these risks.
IT SYSTEMS/ SECURITY	As our IT systems become ever more critical to business success and to meet customer expectations, there is an increasing need to: • prevent service failures; • ensure confidentiality, availability and integrity of data; • protect our staff and systems from cyber-attack; and • recover critical systems in a timely and effective manner.	↑	We are committed to ensuring that our IT applications and infrastructure and the IT organisation that manages them are provided with the necessary skills and tools to maintain the health of our IT services. We operate robust monitoring and preventative maintenance regimes to minimise the potential impact of IT failures or security incidents in accordance with good industry practice. Where necessary, we also ensure that both ISO 27001 and CES certifications are obtained for key contracts.

RISK	POTENTIAL IMPACT	RISK ENVIRONMENT	MITIGATION AND MONITORING
DATA MANAGEMENT	As we continue to onboard new customers, increasingly collaborate across our organisation and its supply chain and enable mobility for our diverse workforce, there is an increasing need to ensure that our customer, supplier and employee data is: • classified appropriately; • processed securely; and • stored in accordance with legal and contractual requirements. The increasing reliance on our data to provide commercial opportunity and enhanced risk management is driving more diverse use of our data across the Group.	↑	Our Group-wide information security programme continues to improve our staff's awareness of the need for effective data management activity. Initiatives include management and end-user training, contingency planning and detailed risk-management activities that address many difference types of data loss. We have a broad programme to address the forthcoming General Data Protection Regulation (GDPR) obligations that come into force in May 2018. This will be supported by an extensive internal training programme.
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. The alignment of the Group's interests and the interests of our partners is critical to that success. 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.
FINANCIAL RISKS	The Group, due to a number of factors, has found itself with very high levels of debt relative to its earnings and cash flow. This has necessitated the refinancing of the existing debt structure and the injection of further additional debt funding. This is discussed in the Financial Review on pages 32 to 44. This high level of debt is anticipated to continue until the Group is able to achieve a deleveraging of its balance sheet and, as such, in this period of time, we are inevitably not as financially resilient.	↑	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. The Contract and Investment Committee (as discussed under 'Major Contracts' overleaf) considers the implications of new business opportunities relative to the financial constraints as part of its assessment and review process.

Principal risks and uncertainties continued

RISK	POTENTIAL IMPACT	RISK ENVIRONMENT	MITIGATION AND MONITORING
MAJOR CONTRACTS	In Support Services our strategy is to focus on offering a broad range of services to large-scale customers whilst our construction business focuses on contracts between £5 million and £50 million. Termination of large contracts which account for a significant portion of our revenue would be likely to reduce our revenue and profit. In addition, the management of such contracts entails a range of potential risks. These include: mis-pricing; inaccurate specification; poor mobilisation of new contracts leading to non-delivery of promised cost or efficiency improvements; poor control of costs or of service delivery; sub-contractor performance and/or insolvency. 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. In conjunction with our financing deal signed in December 2017, we commissioned an independent review of approximately 125 of our largest contracts. We continue to take action to minimise the consequences for those contracts with potential risks and potential underperformance. As part of our Fit for Growth programme all new tenders requiring bonding or other security instruments are referred to the Contract and Investment Committee (CIC), comprising the CEO, CFO and General Counsel, who deliberate and consider approval based on assessment of commercial terms, profitability and risk. Our Fit for Growth programme will ensure we are fit to compete in increasingly challenging environments and markets by focusing on how we can improve our governance and processes, simplify our structures and improve efficiency across the whole Group.
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.

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 change and when improvement to profitability and competitiveness is required.	↑	We are focused on engaging with all of our people at all levels and wherever they work in the organisation to ensure that they continue to deliver great customer service for our clients. As part of our Fit for Growth programme we will design and build a more effective and efficient organisation in which skilled and engaged employees can thrive. We have various incentive schemes and run a broad range of training courses for people at all stages in their careers. With active people 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. As part of our commitment to a diverse and inclusive workforce we are keen to offer ‘Opportunities for All’ and our approach focuses on how we can deliver, and work with others, to provide disadvantaged groups with the skills and employment opportunities that will help to turn their lives around.
HEALTH AND SAFETY REGIME	The nature of the businesses conducted by the Group means that employees and third parties are exposed to potential health and safety risks. Management of these risks is critical to the success of the business and they are addressed through the adoption and maintenance of occupational health and safety procedures and operating standards setting out ‘ways of working’.	↔	A commitment to Health, Safety & Environment (HS&E) is embedded in all our core values and the subject leads every Board meeting both at Group and divisional level. Group and Divisional HS&E Governance committees meet quarterly to evaluate current risks for relevance and conduct independent reviews of high potential HS&E events and investigations. Each member of the Executive Board undertakes dedicated visits to review health and safety measures in place at our operational sites and we have ongoing training and communication campaigns across the Group emphasising its importance. The new Group Head of Health, Safety & Environment has completed a review of all divisional programmes and we have now standardised our reported metrics across the business. Over the course of the current year, we are looking to increase the use of forward-looking metrics to reduce the risk of incidents.

The Group is exposed to operational currency risk in its International and Equipment Services businesses. These are not material on a net basis. In addition, the Group has foreign currency exposure in relation to its existing US Private Placement borrowings and the interest cost of servicing those borrowings. 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.

Financial review

This has been a difficult year for Interserve with a substantial reported loss and a reduced underlying trading performance. Notwithstanding these pressures, from the second half of 2017 onwards we have made significant progress to place the business on a more stable footing:

- In order to ensure an appropriate rigour and clarity in the reported numbers we have carried out a contract and balance sheet review exercise (the Contract Review). The process behind this and the results from it are discussed in further detail below.
- In April 2018 we concluded the refinancing of the Group, extending our committed borrowing facilities to £834 million (based on exchange rates at the time) and extending the maturity date to September 2021.

Having gained greater clarity on the underlying issues facing the business and secured our funding structure, we are well placed to move forward with our Fit for Growth agenda to tackle the underlying issues and improve financial performance.

The Financial Review does not deal with the underlying operating profit and revenue of each individual trading division. For commentary on these underlying operational results please refer to the Operational Review section of the Strategic Report.

REPORTED FINANCIAL PERFORMANCE

£million	2017	2016
Consolidated revenue	3,250.8	3,244.6
Total operating profit pre-amortisation and non-underlying items	74.9	155.0
Amortisation of acquired intangible assets	(21.6)	(29.9)
Goodwill and other asset impairments	(76.7)	-
Contract and balance sheet review charges	(86.1)	(30.8)
Energy from Waste	(35.1)	(160.0)
Property development	(26.0)	-
Restructuring costs	(33.2)	-
Professional adviser fees	(13.9)	-
Strategic review of Equipment Services	(7.1)	(10.7)
Total operating loss	(224.8)	(76.4)

Consolidated revenue was broadly flat at £3,250.8 million (2016: £3,244.6 million). After amortisation of acquired intangible assets, goodwill impairment and other non-underlying items, analysed in further detail in note 5 to the consolidated financial statements and discussed further below, the operating loss was £224.8 million (2016: loss £76.4 million).

“HAVING GAINED GREATER CLARITY ON THE UNDERLYING ISSUES FACING THE BUSINESS AND SECURED OUR FUNDING STRUCTURE, WE ARE WELL PLACED TO MOVE FORWARD WITH OUR FIT FOR GROWTH AGENDA TO TACKLE THE UNDERLYING ISSUES AND IMPROVE FINANCIAL PERFORMANCE. ”

GOODWILL AND OTHER ASSET IMPAIRMENTS

Management reassessed the valuation of other intangible assets and a total impairment of £60.0 million has been recognised against goodwill in the period. This follows a reassessment of the relevant cash generation units and the separate identification of delivery of support services to the private sector and its associated intangible assets that principally relate to the acquisition of Initial Facilities in 2014.

A further £16.7 million write-down has been taken with regard to capitalised IT development costs. During 2017 the associated programmes were cancelled with no future benefit expected to be derived from the work carried out to date, as such the assets have been fully written off.

CONTRACT REVIEW AND BALANCE SHEET REVIEW

The new management team, with the approval of the Board, commissioned a comprehensive Contract Review, with the independent support of PwC, which reviewed the most material balance sheet judgements in relation to long-term contract accounting, accrued income, work-in-progress and mobilisation. This Contract Review identified the need for an additional £42.4 million of balance sheet write-downs principally in relation to work-in-progress and receivables beyond existing provisions. In the main these adjustments relate to contracts that were substantially complete at the end of 2016 but where additional information has come to light since the signing of the prior-year financial statements.

These provisions and write-downs relate to 18 individual contract issues. Of these, as at the date of the signing of these financial statements, nine are regarded as financially complete. Financially complete is defined as the point at which Interserve is no longer providing significant services to the client and final account negotiations have been concluded. A further seven are regarded as operationally complete. Operationally complete is defined as the point at which Interserve has ceased to provide significant services to the client but final account negotiations have not concluded. The remaining two contracts are regarded as neither operationally nor financially complete. These same contracts contributed a loss of £33.2 million in 2016.

The Contract Review also identified the need for £43.7 million of additional provisions in respect of loss-making or onerous contracts (these same contracts contributed a profit of £2.4 million in 2016). For the avoidance of doubt, the discrete contracts included here had results in previous periods and, where relevant, will continue to report results in future periods. Any such results will be presented consistently with this treatment.

These accounts therefore include a total of £86.1 million of charges in respect of the Contract Review being £42.4 million of balance sheet write-downs plus £43.7 million in respect of onerous contract provisioning. Over half of this total cost reflects cash already expended with no future cash implications. Of the remaining balance approximately one-third will flow out during 2018 as onerous contract obligations are fulfilled with the remaining two-thirds anticipated in 2019 and beyond.

Further details of these adjustments, along with other non-underlying items not considered to be directly linked to the Contract Review, can be found in note 5 to the consolidated financial statements.

The Board notes that the results of the Contract Review have led to a number of asset impairments and large write-offs of a non-recurring nature and the difficulties this can cause in assessing underlying operating performance. This ability to assess underlying operating performance is recognised as a key focus for investors and other stakeholders. Where appropriate, the 2016 figures are adjusted for the non-underlying items to assist comparability with 2017. There is no impact on comparative net assets or statutory profit before taxation. The Group has also utilised a number of non-statutory alternative performance metrics to further increase transparency and comparability. See note 32 for further details.

Financial review continued

ENERGY FROM WASTE

During 2016 we took the decision to exit business where we take contractual responsibility for process risk on the construction of Energy from Waste (EfW) 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. 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. During 2016 we recognised a non-underlying loss of £160 million and restated 2015 comparatives to show a gross loss of £21.5 million. These losses reflected costs incurred to that date, estimates of costs to complete, and damages. This was 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.

During 2017, as announced in October, a further £35.1 million of losses have been recognised on these contracts, taking the aggregate 2015-2017 losses to £216.6 million. As previously stated, these losses reflect costs incurred to date, estimates of costs to complete, and damages. This 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. During 2017 significant insurance payments were received in respect of claims on the Glasgow project. The receipt of further insurance income remains a key judgement for the Group; see note 1 to the financial statements for further details on key judgements. The increase in loss from 2016 is predominantly due to an acceleration of certain projects to achieve key milestone dates.

We continue to expect to complete substantially all of our works during 2018 and that the impact of these contracts will be contained within the non-underlying losses recognised to date. We expect cash flow during 2018 to be broadly neutral over the full year. There is likely to be a substantial cash outflow in the first half of the year, as construction continues on these projects, which is expected to be offset by insurance and other recoveries in the second half of the year. These amounts 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 2018.

PROPERTY DEVELOPMENT

During the year, as part of a review of assets held, we took the decision to exit the business of Property Development. As a result of that decision, and a review of carrying value of property assets, it has become necessary to impair those carrying values by £26.0 million to bring them into line with estimated net recoverable amounts.

In March 2018 we commenced the marketing of our remaining development asset (the Haymarket site in Edinburgh). Encouragingly, we have received a number of indicative offers. We anticipate being able to complete a deal in connection with this site within the next six months and anticipate gross proceeds in excess of £40 million, depending upon the final offer which is accepted.

RESTRUCTURING COSTS

The Group has embarked on a three-year plan, 'Fit for Growth', to increase the Group's organisational efficiency, improve Group-wide procurement processes and ensure greater standardisation and simplification across the business. During the year it incurred termination costs of £16.5 million (2016: £nil) in respect of former employees and directors along with recruitment costs for the new management team. In addition to this, £16.7 million (2016: £nil) of cost has been incurred in respect of a property consolidation exercise based mainly around a new Midlands hub office but also in the consolidation of regional networks. These costs include provisions for the remainder of onerous lease terms and dilapidations costs in respect of exited properties as we seek to right size and appropriately locate our operations to meet future needs.

PROFESSIONAL ADVISER FEES

Professional fees incurred in connection with the strategic review and the short-term refinancing secured towards the end of the year totalled £13.9 million in the year (2016: £nil). We anticipate further costs in 2018 totalling £25 million to complete the refinancing.

STRATEGIC REVIEW OF EQUIPMENT SERVICES

Consistent with the disclosure at last year end, further closure costs of £7.1 million (2016: £10.7 million) in the year resulted from the strategic review of Equipment Services and the decision to exit a number of smaller, less attractive markets. This brings total costs to just over the £17.0 million that was announced at the time of the review.

NET FINANCE COSTS

The net finance cost for the year of £19.6 million can be analysed as follows:

£million	2017	2016
Net interest on Group debt	(21.4)	(18.8)
Foreign exchange gain on US private placement notes	2.9	-
Pension finance (charge)/credit	(1.1)	1.1
Group net interest charge	**(19.6)**	**(17.7)**

Higher net interest on Group debt of £21.4 million (2016: £18.8 million) reflects the higher average net debt levels in 2017. Please see the net debt section later within this review for further detail. We anticipate interest costs to increase substantially in 2018, reflecting both increased average net debt levels and increased interest rates following the April 2018 refinancing.

Please see the Treasury Risk Management section later within this Financial Review for details of the refinancing carried out in 2018.

Within net debt the Group carries $350 million of US private placement notes. For the majority of the year these were fully hedged in sterling. On 13 December 2017 the Group disposed of all hedging instruments resulting in the free float of the borrowings; all subsequent retranslation gains or losses on the value of this debt are recognised through the income statement as a non-underlying item. During the final 18 days of 2017 this led to a credit of £2.9 million. The $350 million private placement has a GBP value of £258.9 million as at the balance sheet date, reflecting the closing rate of 1.35 USD : 1 GBP.

The IAS 19 pension deficit position results in a non-cash pension finance charge of £1.1 million (2016: £1.1 million credit). See note 29 to the consolidated financial statements for further details.

TAXATION

The tax charge for the year of £10.0 million represents an effective rate of 15.5 per cent on headline profit before tax.

	2017			2016		
£million	Profit	Tax	Rate	Profit	Tax	Rate
Subsidiary companies	26.9	(8.1)	30.1%	111.5	(12.2)	10.9%
Joint ventures and associates[1]	25.5	-	-	25.8	-	-
Headline profit before tax	52.4	(8.1)	15.5%	137.3	(12.2)	8.9%
Amortisation of intangible assets	(21.6)	3.6	16.7%	(29.9)	4.7	15.7%
Goodwill impairment	(60.0)	-	-	-	-	-
Exited business and non-underlying items	(215.2)	(5.5)	(2.6%)	(201.5)	-	n/a
Effective tax charge and rate	**(244.4)**	**(10.0)**	**n/a**	**(94.1)**	**(7.5)**	**8.0%**

[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 subsidiary companies' effective rate stands at 30.1 per cent. This is considerably higher than the UK rate, principally driven by the impact of unrelieved UK losses. For further disclosure on the non-underlying items and amortisation see note 5 to the consolidated financial statements. See note 9 for further tax disclosures.

DIVIDEND

The dividend remains suspended with no interim dividend paid or final dividend due to be paid. Under the terms of our new financing facilities, no dividend is payable until historical net debt to EBITDA is below 2.5 times.

Financial review continued

CASH FLOW

Year-end net debt stands at £502.6 million (2016: £274.4 million), an increase of £228.2 million. The key factors driving this outflow are £95.9 million of EfW associated outflows, £64.7 million of cash outflows associated with other non-underlying items, £32.0 million of investments into joint ventures and a £46.8 million working capital outflow as the 2016 year-end working capital stretch was not repeated and partially reversed.

£million	2017	2016
Operating profit before non-underlying items and amortisation of intangible assets	74.9	155.0
Depreciation and amortisation	41.1	39.0
EBITDA	116.0	194.0
Net capital expenditure	(25.3)	(39.0)
Gain on disposal of property, plant and equipment	(22.4)	(16.0)
Investment disposals in excess of the income statement charge	4.8	4.6
Other	2.1	2.7
Working capital movement	(46.8)	96.1
Dividends received from associates and joint ventures in excess/(deficit) of profits	(8.3)	11.5
Gross operating cash flow	20.1	253.9
Energy from Waste	(95.9)	(116.9)
Non-underlying items	(64.7)	(17.8)
Pension contributions in excess of the income statement charge	(15.9)	(19.5)
Interest and tax	(30.0)	(29.0)
Dividends paid	-	(37.1)
Investment in joint-venture entities	(32.0)	(9.8)
Disposal of hedging instruments	44.1	-
Foreign exchange	(53.9)	10.9
Other non-recurring	-	(0.3)
Decrease/(increase) in net debt	(228.2)	34.4
Year-end net debt	(502.6)	(274.4)

Underlying trading generated EBITDA of £116.0 million. For commentary on the underlying operational results please refer to the Operational Review section of the Strategic Report.

Capex of £25.3 million (2016: £39.0 million) was circa 62 per cent of depreciation and amortisation as the Group exercised investment restraint in a cash constrained climate. Key areas of investment were the upgrade of back-office IT systems, purchase of operational assets and investments related to our Midlands office consolidation.

Gains on disposal of fixed assets of £22.4 million (£16.0 million) almost entirely relate to sales of ex-hire fleet within Equipment Services. This is an integral part of the divisional business model and represents both a standard route to market and a consistent income statement and cash flow item.

Investment disposals in excess of the income statement charge of £4.8 million (2016: £4.6 million) represent the impact of the aggregate disposal proceeds on Addiewell PFI (£12.3 million), less the portion of these already included within operating profit (£7.5 million).

Working capital outflows of £46.8 million (2016: £96.1 million inflow) reflected a reversal of the 2016 year-end inflows on creditors as the Group returned to a more normal year-end payments profile. In January and February 2018, the Group had significant working capital outflows in respect of the settlement of Time to Pay obligations to HMRC (£10.8 million). Consistent with normal quarterly payment timescales, the Group also settled the Q4 VAT payment of £22.5 million on 3 January 2018. After adjusting for these post-year-end items the Group is considered to have returned to a steadier working capital position without year-end working capital stretch. The Group does not use factoring or reverse factoring arrangements.

Joint venture and associate (JVA) dividends received were £8.3 million in deficit of profits, a partial reversion of an extremely strong 2016 (£11.5 million in excess). In aggregate across 2016 and 2017, JVA dividends have been equal to 100 per cent of JVA underlying operating profits. Underlying JVA cashflows, the vast majority of which relate to our operations in the Middle East, remain strong. Aggregate debt and work-in-progress days in our Middle East joint ventures and associates remain broadly in line with 2016.

EfW net outflows of £95.9 million in the year reflect our continued efforts to close out these projects. In December 2017 we received a significant insurance receipt, constituting partial payment on a number of claim items. Further gross cash outflows are expected in the first half of 2018 as we complete operational works. Over the entirety of 2018 the EfW projects are expected to be broadly cash neutral, with receipts from claims against insurers and other parties offsetting the gross cash outflows.

Non-underlying cash outflows of £64.7 million represent the in-period cash impact of those items, other than EfW, that are classified as non-underlying items. £15.9 million of this balance relates to restructuring costs associated with the Group's Fit for Growth plans, £13.9 million relates to adviser and other professional fees and the remaining balance predominantly relates to the cash impact of non-underlying contract losses. See note 5 to the consolidated financial statements, and earlier within this Financial Review, for further details of non-underlying items.

Investments in joint-venture entities of £32.0 million (2016: £9.8 million) reflects further equity injections into our Derby Waste and Haymarket projects.

NET DEBT

Average net debt for the full year, calculated as a rolling 12 month of month-end balances, stood at £501.1 million. H1 average net debt was £457.3 million and H2 average net debt £545.0 million, the increase driven by ongoing cash outflows on EfW and a non-repeat of the reporting period-end cash pushes.

We anticipate, given the items discussed above, that H1 2018 net debt will be in the range of £650 to £680 million, subject to timing on asset disposals. This is then expected to reduce in the second half of the year as the first half outflows on EfW are matched with similar levels of anticipated inflows later in the year.

The Group typically has a c£55 million variance between net debt and gross debt, reflecting restricted cash that is not included within the Group cash pooling arrangements. Intra-month net debt is typically at a higher level than month-end net debt, reflecting the timing of the majority of customer receipts.

Following the successful conclusion of our lender negotiations in April 2018 the Group has arranged access to committed facilities of £834 million (including $350 million at 1.4 USD : 1 GBP) which are considered adequate to satisfy the ongoing liquidity demands of the Group. See the 'Treasury Risk Management' section for further details.

PENSIONS

At 31 December 2017 the Group had an IAS 19 pension deficit of £48.0 million (2016: £52.4 million net deficit).

£million	2017	2016
Gross liabilities	(1,064.1)	(1,044.6)
Insurance policy assets	342.7	368.7
Defined benefit obligation net of insurance assets	(721.4)	(675.9)
Other assets	673.4	623.5
Total deficit	(48.0)	(52.4)

The Group is committed to paying deficit-reduction contributions to the Interserve section of the Interserve Pension Scheme of £14.1 million during 2018 and £14.6 million during 2019. Contributions for years 2020 and beyond will be agreed between the Group and Trustee as part of the actuarial valuation due with an effective date of 31 December 2017; contributions in 2020 and 2021 will be at least £15 million per year. In addition, the Group pays contributions relating to the cost of accrual in the scheme (broadly equivalent to the service cost shown in these accounts), and also pays the expenses incurred by the scheme.

The pension figures set out in this report are required to comply with IAS 19, which promotes consistency of accounting disclosures to facilitate comparisons between companies, and so the IAS 19 assumptions underlying the projected benefit payments to members are intended to be 'best estimates'. In contrast, the funding valuations used to determine the level of contributions paid into a pension scheme, are required to be based on explicitly prudent assumptions. For example, the prudent funding assumption regarding how long pensioners will live in retirement implies a longer period than used in the IAS 19 numbers shown above.

The investment strategy for the scheme incorporates a number of de-risking measures put in place to reduce the volatility of the pensions deficit, in particular the buy-in policy asset and the bespoke LDI fund. Details of these investments, and the risks hedged, are included within the main pensions disclosure.

Financial review continued

NEW ACCOUNTING STANDARDS

IFRS 9 *Financial instruments*

The directors have completed the impact assessment of IFRS 9 *Financial instruments* and have concluded that under the new standard, which will be adopted for the financial year ending 31 December 2018, the Group will be able to continue to record movements in its financial assets held within its PFI joint ventures through other comprehensive income (OCI) using the fair value through OCI category. This is because these financial assets are held within a business model whose objective at Group level is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset meet the "solely payments of principal and interest on the principal outstanding" criterion. Therefore, there will be no quantitative impact on the Group upon adoption of IFRS 9 at 1 January 2018.

IFRS 15 *Revenue from contracts with customers*

The new standard replaces IAS 18 *Revenue* and IAS 11 *Construction contracts*. It became effective for accounting periods on or after 1 January 2018, at the earliest. The main impact of the standard is to require the recognition and disclosure of revenue to be based around the principle of disaggregation of discrete performance obligations. The Group has conducted a detailed review to quantify the impact of adoption of the standard and does not currently anticipate any material impact.

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, including those currently recognised as operating leases, with corresponding assets being created. The existing operating lease commitments of the Group are disclosed in note 24(b) to the consolidated financial statements. The Group is conducting a systematic review to quantify the exact impact of adoption of the standard.

Please see note 1 to the consolidated financial statements for further disclosures on these standards. 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.

TAX STRATEGY AND RISK MANAGEMENT

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 Chief Financial Officer 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 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.

During Q4 2017 the Group entered into a Time to Pay (TTP) agreement with HMRC. The substance of this agreement was to defer payment of certain payroll taxes to HMRC. As at 31 December 2017 the Group had residual liabilities under this agreement of £10.8 million. These were settled in full by 7 February 2018.

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. Where possible 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.

During 2017 the Group had access to committed debt facilities comprising of a $350 million US private placement and £433 million of committed loan facilities. For the majority of the year the US private placement was fully swapped into GBP, giving an effective value of £207 million. These aggregate facilities of £640 million had a weighted average expiry date of April 2022.

On 13 December 2017 the Group secured interim financing from its lenders. The additional facilities, totalling £180 million, comprised a £37.5 million committed revolving credit facility, £37 million of committed ancillary facilities, committed bonding facilities of £93 million and £12.5 million of additional funding available by agreement with the lenders. These facilities were scheduled to expire on 30 March 2018 (and subsequently extended to 30 April 2018). In order to obtain these facilities, Interserve agreed to close out its cross-currency swaps, which hedged exchange rate exposure on the existing US private placement loan notes, generating proceeds of £44.1 million. These £44.1 million of proceeds were then used to repay existing committed facilities, resulting in aggregate facilities at the year end of £685.0 million. See note 20 for further details.

As a result of the disposal of the cross-currency swaps the US private placement became free floating with all subsequent retranslation gains or losses on the value of this debt recognised through the income statement as a non-underlying item. See the ‘Net Interest Charge’ section earlier within this Financial Review for further details.

Following the successful conclusion of our lender negotiations in April 2018, and expiry of the £37.5 million of short-term facilities, the Group has arranged access to committed borrowing facilities of £834 million which are considered adequate to satisfy the ongoing liquidity demands of the Group.

These committed borrowing facilities consist of a renewal of existing revolving credit facilities of £388.6 million, $350 million of US private placement notes, £175 million new term loan and £21.5 million of money market lines. The term loan is repayable in instalments with £150.0 million of repayments (including from disposals) due before or during 2019 and £60.0 million in 2020. The balance of funding is committed until September 2021 and is subject to a covenant to reduce gross borrowings to below £450 million by 30 June 2020.

These facilities are subject to interest at the following rates:

	Cash payment	Payment in kind	Total
Revolving credit facility	LIBOR + 3.00%	1.43% + 2.00% until September 2019 if net leverage is above 3.0x and then subject to a ratchet increase	LIBOR + 6.43%
US$ loan notes	Weighted average of 5.61%	2.00% until September 2019 if net leverage is above 3.0x and then subject to a ratchet increase	Weighted average of 7.61%
New term loan	LIBOR + 3.25%	5.50%	LIBOR + 8.75%

As part of the refinancing the Company will issue warrants to the providers of the new term loan and bonding facilities to buy shares at 10 pence per share (the nominal price of each share). If exercised, this would provide the warrant holders with an interest of up to 20 per cent of the post-issue share capital. The issue of these warrants will result in a charge to the income statement over the life of the new money equivalent to their fair value.

The Company has also agreed with the lenders that, as part of any significant equity fundraising to deleverage the Group, they will be offered a right to participate in up to 20 per cent of value of the equity fundraising by way of a conversion of a proportion of their debt into new equity at the same issue price as other investors. This participation right is conditional on the lenders retaining their lending commitment until any such equity fundraising. There is no certainty that the lenders will take up this right and, in addition, this right can be withdrawn if the Company, having taken advice from its corporate brokers and independent equity adviser, believes it would be likely to adversely impact success of any such equity fundraise.

The Group also secured additional bonding facilities of up to £95 million as part of the arrangements which attract a cash margin of 2.00 per cent with payment-in-kind charges of 5.50 per cent whilst net leverage exceeds 3.0x. Existing bonding also attracts a 0.50 per cent uplift on existing pricing and 2.00 per cent payment-in-kind charges until September 2019 or net leverage falls below 3.0x and then subject to a ratchet. Payment-in-kind charges are capitalised to the balance sheet as a liability and become payable on a subsequent refinancing.

It is anticipated that the total interest expense in 2018 will be approximately £67 million (including the amortisation of costs associated with the warrants) of which circa £34 million will be cash interest. The increased cost of bonding instruments already issued will be circa £3.2 million, of which the cash impact is less than £1 million.

The borrowings are subject to a number of financial covenants including absolute EBITDA and cash flow available for debt servicing along with net leverage and cash interest cover. The calculation of EBITDA is subject to a cap on the level of non-underlying items that are excluded for covenant calculation purposes. Net leverage requirements for net debt relative to EBITDA start at a maximum of 6.5x and trend downwards to below 4.0x over the duration of the funding. Interest cover requirement is broadly for EBIT to cover interest by at least 3.5x. These covenants are tested quarterly on a rolling 12-month basis. There is also a minimum net worth covenant that is effective from December 2019.

In addition to the general financial covenants, the Group is subject to specific covenants on delivering EfW projects to within a £20 million tolerance on outturn cash flows, achieving milestones in a deleveraging timetable, numerous periodic reporting requirements and avoiding a qualification of its consolidated audit report. Alongside these requirements it is committed to achieving prescribed levels of disposals of non-core assets and businesses by prescribed dates.

The Group has granted security in respect of the new, and some of the existing debt, in the form of share pledges over material subsidiaries and floating charges over various intercompany funding arrangements.

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.

Foreign currency risk

Transactional currency translation

The revenues and costs of our trading entities are typically denominated in their functional currency. 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.

As at the balance sheet date the $350 million of debt relating to the US private placement was unhedged with the hedging instruments having been disposed of as a condition to secure the interim financing discussed above.

The impact of changes in the year-end exchange rates, compared to the rates used in preparing the 2017 consolidated financial statements, has led to a decrease in net assets attributable to equity holders of £35.2 million (2016: £67.4 million increase).

VIABILITY STATEMENT

This statement is made against a background of considerable market turbulence in the UK support services and construction sectors, sectors that form the operating environment for the two largest revenue generating divisions of Interserve. The collapse into liquidation of Carillion and the announcement of a £700 million rights issue by Capita are clearly significant events for the sector as a whole. These events come against a backdrop of profit warnings from a number of other sector players in recent years.

The directors have reviewed the viability of the Group over a three-year period to December 2020. The choice of a three-year period reflects the long-term secured nature of the Group's revenues with £4.1 billion of work already secured in the order book covering the period up until the end of 2020. It also accords with the period covered by annual strategic planning process which is discussed in greater detail below. The three-year period takes the Group until December 2020, nine months before expiry of the entirety of the current committed borrowing facilities.

Strategy and key judgements

The strategy of the Group is disclosed within this Annual Report and consists of four key priorities:

1. Fit for Growth – improving cost efficiency
2. Strengthening our competitive customer value proposition
3. Standardising operational delivery
4. Developing our people and a consistent, 'One Interserve' culture

The principal risks and uncertainties associated with this plan are discussed in more detail separately within the Strategic Report on pages 28 to 31.

In generating its plan the Board has considered both the overall strategy of the Group and also the principal risks and uncertainties inherent within the business, as well as making a number of key strategic planning assumptions which are discussed below:

1. No significant political changes in the UK, in particular around the appetite for public-sector outsourcing, or in the Middle East, in particular around the relationship between Qatar and other countries in the region.
2. Margin improvement driven by efficiencies within overhead costs.
3. Interserve will make non-core asset disposals during 2018 and beyond.
4. The Company will be successful in its current professional indemnity insurance claims relating to the construction of the Glasgow EfW plant.
5. The Company has not, as yet, recognised any material value for professional indemnity insurance claims relating to the construction of the Derby EfW plant.
6. Dunbar, Margam and Rotherham EfW plants – solvency of joint-venture partner.
7. Future losses on the Ministry of Justice CRC contracts will fall within provided levels.
8. Future losses on the US Forces Prime contract will fall within provided levels.
9. Both customer and supplier payment terms will remain within historic norms.
10. Significant deleveraging event or equity raise achieved within the timeframe of this review.

A number of these assumptions are discussed further within the detail on key judgements in note 1 to the consolidated financial statements which should be read as an integral part of this statement.

As part of its recently concluded refinancing, the Group has also had to commit to a number of significant requirements over the next three years which are summarised below. Non-compliance would be an event of default under the terms of these financing arrangements and has the potential to impact on the ability of the business to remain as a going concern and/or to remain viable.

	2018	2019	2020
Term loan step downs		£70 million	£60 million
Gross debt			To be less than £450 million by June 2020
Approved non-core asset and business disposals (net proceeds to pay down loan)	Reasonable endeavours to achieve sales target	Best endeavours to realise £75 million by April 2019 and committed proceeds of £80 million by July 2019	
Financial covenants	Absolute EBITDA (with capped non-underlying items), absolute cash flow, leverage and interest cover – all to within a minimum circa 20% adverse tolerance of the business plan and tested quarterly on LTM basis. Minimum net worth requirement.		
Deleveraging	Compliance with key milestones to an agreed timetable		
Energy from Waste net operating cash flow forecast variances	Less than £20 million deterioration in total life project forecast cash flow		
Audit report	No qualification of consolidated audit report		

The Group currently has plans in place to comply with these requirements but it cannot be considered to be without risk. Most significantly within a 12-month timeframe, from the signing of these financial statements, the Group has committed to:

1. Make a £50 million repayment of the newly-drawn term loan by February 2019 (included within the £70 million above with the remaining £20 million due later in 2019). The Group's ability to do this may depend on its ability to achieve asset sales and other collections within this timeframe which may be outside the control of the directors.
2. Have used its best endeavours to achieve a determined amount of sales proceeds from approved non-core business disposals, and reasonable endeavours to dispose of other assets, which again may involve factors beyond the control of the directors.
3. Comply with financial covenants on a quarterly basis benchmarked against a business plan containing challenging cost reduction and efficiency targets that may either not be deliverable or take longer to deliver than anticipated.
4. No significant deterioration in forecast outturn for Energy from Waste projects including as a result of insolvency, or insolvency proceedings, against any of the Group's joint-venture partners in this sector. Whilst significant efforts and resources are being directed at the conclusion of these projects over the next 12 months, the directors cannot preclude the development of other unforeseen factors or events beyond their control and the forecasts on which the directors are reaching their conclusions, which whilst their best estimate, include significant assumptions about ultimate contract settlements, insurance settlements and project timetables that may be outside their control. Note 1 to the financial statements contains additional disclosure of key judgements in this respect. The directors are aware of potential solvency issues at a joint-venture partner, with whom we share joint and several liability for project completion on three projects. The joint-venture partner has launched a rights issue to raise additional funding which is due to complete on 30 April 2018. This rights issue is underwritten by a significant shareholder in the joint-venture partner. Accordingly, although the ongoing solvency of the joint-venture partner is beyond the directors' control, they do not currently anticipate an adverse outcome.
5. As discussed in note 1 to the financial statements, significant judgements have also been taken with respect to the anticipated outcome of other contracts. In particular, that contract losses on the US Forces Prime contract and the Ministry of Justice CRC contracts will fall within anticipated and provided levels. This relies upon, as yet, unsecured negotiations to settle or de-scope contracts. Conclusion of these negotiations, is at least, partially outside the control of the directors and could have a material adverse impact on the Group.

In addition, it should be noted that the current level of uncertainty has been, and is potentially disruptive to, confidence from customers, suppliers, employees and all stakeholders. The continuation of this level of uncertainty may disrupt the ability of the Group to perform to expectations.

Looking beyond the 12-month timeframe, to the remainder of 2019 and 2020, there are additional key requirements that may ultimately be beyond the control of the directors as set out in the table above. A failure to achieve any of these items would almost certainly bring an adverse conclusion to the viability of the Group.

Notwithstanding these significant standalone risks and requirements, the Group has carried out a comprehensive business planning exercise on all other aspects of its business. The approach adopted and sensitivities considered are discussed further below.

Assessment process

The future prospects and implementation of this strategy are assessed primarily through the annual strategic planning process. This entails a series of detailed operational reviews. These culminate with divisional reviews involving the Group's Chief Executive Officer, Chief Financial Officer and divisional management teams. The results of these reviews are then submitted to the Board in the form of a plan summary document for debate and approval.

The output is a full set of income statement, cash flow and balance sheet projections for each of the reporting entities of the Group. These exist at monthly frequency for the first year of the strategic plan (2018), at a quarterly frequency for the second year of the strategic plan (2019) and annually for the final year (2020). This process was concluded in December 2017.

Progress against this strategic plan is monitored on a monthly basis, primarily via the Group's monthly management accounts which are submitted to the Board and the lender group.

Subsequent to December 2017 the projections of the plan were amended to reflect the results of the Contract Review carried out by the Group, which is discussed in more detail earlier within this Financial Review. They were also amended to reflect expectations of the financing agreement to be reached with the Group's debt holders and the approximately £40 million of adviser fees associated with this.

Following these amendments, the plan produced envisages average net debt of c£650 million in H1 2018 and c£620 million in H2 2018. 2018 full-year average net debt is at c£630 million. 2019 full-year average net debt is forecast at c£525 million with 2020 net debt lower still. The Group typically has a c£55 million variance between net debt and gross debt, reflecting restricted cash that is not included within the Group cash pooling arrangements. Intra-month net debt is typically at a higher level than month-end net debt, reflecting the timing of the majority of customer receipts. The Group committed debt facilities stand at £834 million.

Assessment of viability

Although they consider that the output of the annual strategic planning process represents the best estimate of future prospects of the Group, the directors have also stress tested the future viability of the Group by considering a number of sensitivities to the plan, grouped into a number of potential scenarios.

These scenarios have been informed with reference to both the Principal Risks and Uncertainties of the Group and the key strategic planning assumptions detailed on page 41. The scenarios are:

Scenario	Linkage to the key judgements and the principal risks or uncertainties	Sensitivity modelled
1. Significantly reduced work winning from a combination of a downturn in market conditions, changes in the political appetite for outsourcing, political pressures in the Middle East or from reduced overall customer confidence in Interserve.	**Key strategic planning assumptions:** 1, 2 **Principal risks and uncertainties:** business, economic and political environment, IT systems/security, operating system, health and safety regime, financial risks, damage to reputation	Shortfall on 2018 work to win volumes leading to reduced revenue and increased working capital outflows in the UK Construction business. Failure to cut overheads fully in line with revenue reductions. Aggregate Group 2018 EBIT reduced by c25%. Similar levels of adjustments applied in 2019/20.
2. Fit for Growth plans not fully implemented to reduce overhead and increase procurement efficiency.	**Key strategic planning assumptions:** 2 **Principal risks and uncertainties:** operating system, key people, financial risks	Costs of change incurred as planned, but with reduced benefits.
3. Failure to achieve planned levels of 2018 asset disposals.	**Key strategic planning assumptions:** 3 **Principal risks and uncertainties:** financial risks	Planned disposals of PFI and property assets are assumed to be delayed by six months from current expectations.
4. Energy from Waste – insurance proceeds lower than assumed at Glasgow and higher at Derby, and delays completing the commissioning at Derby.	**Key strategic planning assumptions:** 4, 5, 6 **Principal risks and uncertainties:** major contracts	Glasgow professional indemnity proceeds at 50% of expected level. Derby professional indemnity offsets shortfall at Glasgow.
5. Failure to deliver expected levels of contractual performance.	**Key strategic planning assumptions:** 7, 8 **Principal risks and uncertainties:** operating system, key people, major contracts	2018 total operating profit reduced by c10% with similar absolute reductions applied in 2019/20.
6. Both supplier and customer payment terms move adversely from historic norms, resulting in working capital outflows.	**Key strategic planning assumptions:** 9 **Principal risks and uncertainties:** financial risks	Aggregate working capital balances are £25 million adverse to planned levels by December 2018. This working capital outflow does not reverse in 2019/20.

Financial review continued

The Company is able to sustain up to five of these scenarios in combination whilst forecasting to remain within absolute committed facility limits and within covenant tests. Application of all scenarios simultaneously will result in the Company breaching committed facilities and/or banking covenants. Additional unmodelled scenarios exist that could cause breaches of either the absolute committed facilities or covenants. These principally involve either significant adverse macroeconomic events or a significant worsening in the cost to complete or final account settlements within the EfW businesses. The directors have applied the assumption that more than five of the modelled scenarios will not occur simultaneously and that the unmodelled scenarios will not occur.

As outlined above, and elsewhere within this report, the Group faces a number of material uncertainties in the latter part of the three-year period under review with a number of events that may ultimately be beyond the control of the directors. It has plans in place that have been stress tested with a number of reasonable scenarios; however, there can be no certainty that it will remain viable and there are credible scenarios identified in which it will not remain so. The directors have a credible plan which they are implementing but they acknowledge the inherent risks of delivery, some of which are outside their control.

GOING CONCERN STATEMENT

On pages 40 to 44, the directors have carried out a detailed review of the viability of the Group over the period to December 2020. This review has involved stress testing of the current strategic plan of the Group under a number of scenarios and has considered risks and uncertainties to both the near and medium term.

Based on this analysis the directors have a reasonable expectation that the Group has adequate resources to continue as a going concern for the foreseeable future, representing a period of at least 12 months from the date of this report. Based on current expectations the directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

This Strategic Report was approved by the Board of Directors on 27 April 2018 and signed on its behalf by:

Debbie White
Director

Mark Whiteling
Director

MANAGING SERVICES AT INTERSERVE-BUILT SERENIA RESIDENCES IN DUBAI

Khansaheb Group, Interserve's joint-venture partner in the United Arab Emirates, won a contract to provide integrated facilities management services at Serenia Residences, a premium gated residence located on Dubai's Palm Jumeirah.

Designed by renowned architect, Hazel Wong, for Palma Developments, the 79,000 square metre development was built by Khansaheb's construction arm as part of a £79 million contract. The project, which features 246 residential apartments, three penthouses, three swimming pools, water features and recreational facilities, was completed by Khansaheb in December 2017.

Leveraging its experience in building the residence, Khansaheb's FM team worked alongside its construction business to better understand the maintenance requirements at Serenia and developed a bespoke FM solution to serve the residence.

Khansaheb's FM business started delivering a range of services including mechanical, electrical, and plumbing work, cleaning, concierge, lifeguard, landscaping, swimming pool maintenance and outsourced security services in March 2018.

The win shows the value of leveraging Interserve's extensive UK experience and longstanding customer relationships in the Middle East to win different types of work with the same client.

RMD KWIKFORM DELIVERS FOR DOHA METRO PROJECT

Our Equipment Services business, RMD Kwikform (RMDK), designed and supplied the support solutions to assist the construction of Qatar Railways' Doha Metro.

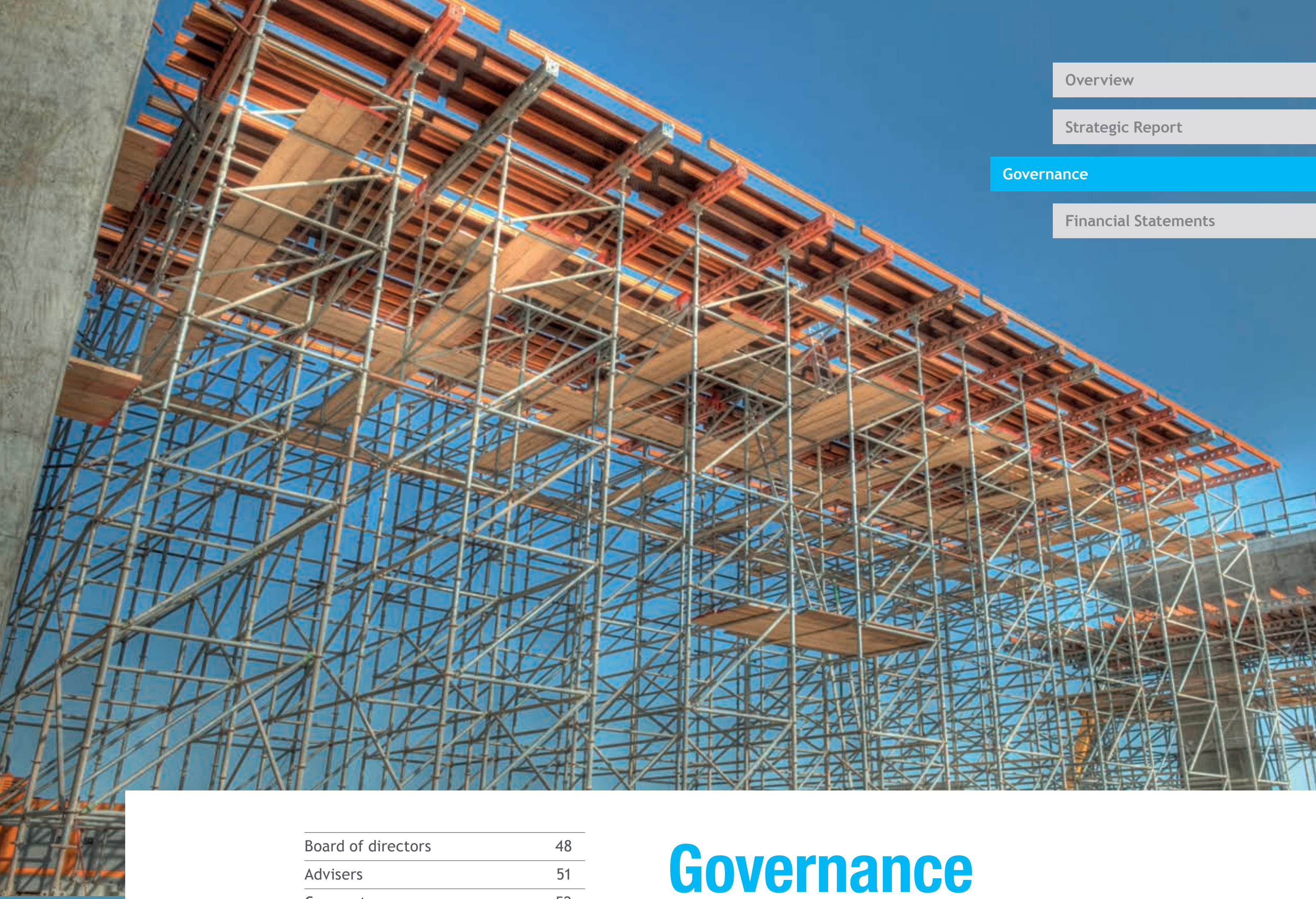
The £25 billion project, which covers 300 kilometres and includes 100 stations, will transform the country's transport infrastructure when it is completed by the FYAP joint venture (consisting of FCC, Archirodon, Yuksel and Petroserv) in late 2019.

RMDK designed and supplied a range of formwork and shoring products to support the construction of the elevated sections throughout the project. This included the construction of a viaduct, three elevated stations and an underpass.

The RMDK team overcame a complex design process, which included several sub-projects and individual teams, and worked closely with the FYAP JV's technical, planning and construction teams to determine which system would accommodate every element of the project.

Due to the elevation and varying slopes of certain sections, the RMDK team produced 3D designs and conducted 3D frame analysis to create a solution that was fit for all sub-project teams, using only standard components. In total RMDK delivered 3,536 tonnes of equipment to site.

By using only 'standard' kit, instead of specifically designed solutions, the site team was able to erect the equipment safely and quickly which was essential due to the strict project timelines and the close proximity to nearby busy streets in Doha and surrounding areas.



Governance

Board of directors

GLYN BARKER

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

- Senior Independent Non-Executive Director, Aviva plc
- Non-Executive Director and Remuneration Committee Chairman, The Berkeley Group Holdings plc
- Non-Executive Chairman, Irwin Mitchell Holdings Ltd
- Non-Executive Director and Audit Committee Chairman, Transocean Ltd (NYSE)
- Adviser, Novalpina Capital LLP

Former key appointments

- Non-Executive Chairman, Transocean Partners LLC (NYSE)
- Vice Chairman, UK, PricewaterhouseCoopers LLP
- Managing Partner, UK, PricewaterhouseCoopers LLP
- Head of Assurance, UK, PricewaterhouseCoopers LLP
- Deputy Chairman, English National Opera

DEBBIE WHITE

Chief Executive Officer

Joined the Board in September 2017

Skills and experience

Debbie joined Interserve as Chief Executive Officer in September 2017 after spending 13 years at Sodexo where, most recently, she served as Chief Executive Officer of Global Healthcare and Global Government, leading its business in Justice, Defence and Government Services and Healthcare. A Cambridge graduate who qualified as a chartered accountant and tax adviser with Arthur Andersen in the UK, Debbie spent her early career in finance roles at Astra Zeneca and in a global advisory role at PWC Consulting. She is a member of the Women 1st Top 100 Club.

External appointments

- Non-Executive Director, Howden Joinery Group Plc
- Trustee and Audit Committee Chair, Wellbeing of Women

Former key appointments

- Chief Executive Officer, Sodexo Global Healthcare and Government
- Chief Executive Officer, Sodexo UK and Ireland
- Chief Financial Officer, Sodexo Inc
- Chief Financial Officer, Sodexo UK and Ireland

MARK WHITELING

Chief Financial Officer

Joined the Board in October 2017

Skills and experience

Mark has considerable financial and leadership experience in listed companies, most recently having spent four years at Premier Farnell in various roles, including Chief Financial Officer and Deputy Chief Executive. Mark started his career with Coopers and Lybrand in New Zealand before moving to the USA where he held a number of finance roles. A graduate of the University of Canterbury in Christchurch, New Zealand, Mark holds a Masters of Commerce (Hons) degree.

External appointments

- Senior Independent Non-Executive Director and Audit Committee Chairman, Hogg Robinson Group PLC
- Senior Independent Non-Executive Director and Audit Committee Chairman, Connect Group Plc

Former key appointments

- Non-Executive Director, Future plc
- Deputy Chief Executive/Interim Chief Executive/Chief Financial Officer, Premier Farnell plc
- Chief Financial Officer, Autobar Group Ltd
- Finance Director, Communisis plc
- Group Finance Director, Tibbett & Britten Group Plc
- Chief Financial Officer for the food equipment division (Europe and International), Enodis Plc
- Vice President – finance, diversified pharmaceutical services, Smithkline Beecham

DOUGIE SUTHERLAND

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.

Former key appointments

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

RUSSELL KING

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. 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
- Independent Non-Executive, BDO LLP

Former key appointments

- Senior Independent Non-Executive Director and Remuneration Committee Chairman, Aggreko plc
- Senior Adviser, Heidrick & Struggles
- Chairman, Sepura plc
- 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

Board of directors
continued

GARETH EDWARDS

Independent Non-Executive Director

Joined the Board in February 2017

Member of the Audit, Nomination and Remuneration Committees

Skills and experience

As a former partner at Pinsent Masons, Gareth's expertise is in corporate legal matters, but he also has extensive experience as an adviser 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.

External appointments

- Non-Executive Director, Positive Healthcare plc

Former key appointments

- Partner, Global Head of Corporate, Pinsent Masons LLP

ANNE FAHY

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

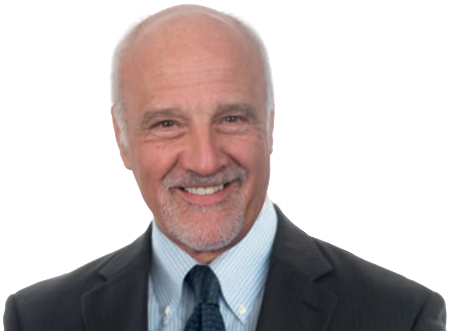
During her 27 years at BP, Anne gained extensive experience of global business, developing markets, risk management, internal control, compliance and strategy development in the aviation, petrochemicals, trading and retail sectors. She is a Fellow of the Institute of Chartered Accountants in Ireland 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, Coats Group plc
- 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)



KEITH LUDEMAN

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, Bristol Water plc
- Non-Executive Chairman, London Transport Museum Ltd
- Senior Independent Non-Executive Director, Eversholt UK Rails Group
- Adviser, Lloyds Development Capital

Former key appointments

- Non-Executive Chairman, TXM Plant
- Non-Executive Chairman, Aspin Group Holdings Ltd
- 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

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

Daniel Bush

REGISTERED OFFICE

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

REGISTERED NUMBER

00088456

REGISTRAR AND SHARE TRANSFER OFFICE

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
T +44 (0)371 664 0300
enquiries@linkgroup.co.uk
www.signalshares.com

AUDITORS

Grant Thornton UK LLP

STOCKBROKERS

J.P. Morgan Cazenove Limited
Numis Securities Limited

LAWYERS

Ashurst LLP


GLYN BARKER
CHAIRMAN

Corporate governance

Dear Shareholder

Good corporate governance requires a strong system of effective internal control to assess and manage risk and a culture of integrity, openness and a desire for continuous improvement. The circumstances that resulted in the challenges faced by the Group during 2017 were, in my view, due in part to weaknesses in the corporate governance framework of Interserve over several years.

One of the key criteria the Board emphasised when selecting our new Chief Executive was the ability to work with the Board to improve culture through leadership and the control environment through strong management. Debbie White and her team have moved swiftly to improve our control environment significantly and her strong leadership has already brought demonstrable improvement to the culture of the organisation and the motivation of our people.

It is clear that that the enormous change taking place in Interserve has put extraordinary demands on our people. I recognise the invaluable contributions made by our dedicated teams across the divisions during the year who have demonstrated a collective desire to deliver success and I have been impressed by the strength and courage of our people who have shown resilience as we transition into a stronger organisation. I would like to take this opportunity to thank the staff of Interserve for their hard work and dedication.

The diversity and inclusion agenda and developing our talent pipeline continues to be an important element of our people strategy. As outlined in the accompanying Corporate Governance Report, during the year various diversity networks for our people have been formed with the intention of raising awareness through events and activities of the important issues around equality, diversity and inclusion across the Group.

We were delighted to have been named Construction Company of the Year for the second year running at the National Centre for Diversity (NCFD) annual awards and the Board remains committed to ensuring we continue towards a truly diverse and inclusive workforce. The Nomination Committee paid particular attention to diversity and workforce demographics in its review of succession planning and recruitment during the year.

Our aim is to deliver a sustainable and growing business through the Fit for Growth programme and I would like to thank our loyal stakeholders for their continued support and, while challenges remain in many of our markets, the Group has a clear plan to restore stability and reset the business for future growth.

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 April 2016 (the Code) and whether there has been compliance with its provisions throughout the financial year. In the case of non-compliance, the Company must specify those provisions with which it has not complied and give reasons for this. The Code may be found on the FRC website *(www.frc.org.uk)*.

The directors consider that the Company has complied throughout the year with all provisions of the Code applicable to it, save for the following provisions:

- B.2.3, which requires that non-executive directors should be appointed for specified terms subject to re-election and to statutory provisions relating to the removal of a director and recommends that any term beyond six years for a non-executive director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board.

  Keith Ludeman was appointed to the Board in 2011 and his tenure as non-executive director has reached the threshold of six years recommended by the Code. As detailed in the Chairman's Statement, Mr Ludeman has informed the Board of his intention to step down as a director of the Company at the conclusion of the forthcoming AGM in order to take on increased responsibilties elsewhere and therefore will not be seeking re-election.

- B.6.1, which requires the board to state how performance evaluation of the board, its committees and its individual directors has been conducted.

  The Company has appointed a new Chief Executive Officer and Chief Financial Officer and Gareth Edwards has recently joined the Board as a non-executive director. As a result, the Board, in its current composition, has had less than one full year of meetings. The Company did not therefore consider that a performance evaluation of the Board would be appropriate or cost efficient at this point in time and decided to postpone such evaluation until the next financial year. The Company is confident that the Board combines an appropriate range of skills and experience and, at a Board meeting on 12 March 2018, it was decided that a performance evaluation of the Board and its committees will be carried out in 2018. In relation to each of the directors putting themselves forward for election or re-election at the 2018 AGM, the Nomination Committee is satisfied that each director standing for election or re-election continues to make an effective and valuable contribution to the Board and demonstrates commitment to the role.

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 56.

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 2017 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

- launching the Group's Fit for Growth programme aimed at improving cash and margin performance;
- setting the health and safety targets for the Group and monitoring performance on a monthly basis;
- reviewing progress on a quarterly basis against the HR strategy;
- monitoring progress against the Group's Sustain*Abilities* plan;

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;
- ongoing monitoring of the Group's working capital, net debt positions and funding requirements, and related discussions with the Group's lenders;
- 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;

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 July, 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.

Corporate governance continued

Division of responsibilities
There is a clear division of responsibilities between the role of the Group Chairman and Chief Executive Officer 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's other commitments are set out in his biography on page 48.

The role of the Chief Executive Officer
The Chief Executive Officer manages the Group, leading the formulation of and, once set by the Board, implementing strategy. The Chief Executive Officer 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 2017 the Board comprised nine members: the Group Chairman, three executive and five non-executive directors.

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 10 pre-scheduled meetings throughout the year and 13 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.

	Number of meetings attended			
	Board	Audit	Remuneration	Nomination
G A Barker	23/23		6/8	2/2
G M Edwards[1]	17/20	3/3	5/5	1/1
A K Fahy	22/23	6/6	8/8	2/2
T P Haywood[2]	16/16			
R J King	22/23	6/6	7/8	2/2
K L Ludeman	18/23	6/6	8/8	2/2
B A Melizan[3]	19/22			
A M Ringrose[4]	13/14			0/1
N R Salmon	23/23	6/6	8/8	2/2
D I Sutherland	23/23			
D J White[5]	9/9			
M A Whiteling[6]	7/7			

1 Gareth Edwards was appointed to the Board on 1 February 2017. He was appointed to the three committees on 23 June 2017.
2 Tim Haywood stepped down from the Board on 30 September 2017.
3 Bruce Melizan stepped down from the Board on 30 November 2017.
4 Adrian Ringrose stepped down from the Board on 31 August 2017.
5 Debbie White was appointed to the Board on 1 September 2017.
6 Mark Whiteling was appointed to the Board on 1 October 2017.

The Group Chairman held four sessions with the non-executive directors at which no executive directors were present plus a number of informal discussions with the Chief Executive Officer 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.

Upon appointment, the new Chief Executive Officer and Chief Financial Officer were provided with induction materials containing core business information and attended a series of meetings with executive and other senior members of the management and, in the case of the Chief Financial Officer, finance teams across the Group. Both the Chief Executive Officer and the Chief Financial Officer attended meetings with senior members of the risk, internal audit, finance, tax and investor relations teams, as well as the Company's main shareholders and external advisers. The meetings were focused on understanding the Group's different business areas and operations. In addition, the Chief Executive Officer completed external training for public company directors provided by Ashurst LLP and completed five UK site visits and a visit to our Middle East operations. Gareth Edwards received internal induction materials, took part in a series of introductory meetings with team leaders and attended external training sessions for non-executive directors.

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 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. Furthermore, each non-executive director, accompanied by an executive director, undertook separate site visits to one of the following: one of the Group's Community Rehabilitation Companies probationary sites in Norwich, the Riverside School contract in Plymouth, the Dunbar and Derby Waste contracts, the Defence & National Rehabilitation Centre contracts, the Haymarket Edinburgh development (tHe) and the Group's new flagship office, Ingenuity House, in Birmingham.

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 circa 20 days in addition to the time taken to read Board papers and attendance at six meetings held by the Group Chairman.

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.

Corporate governance continued

Election and re-election

Debbie White and Mark Whiteling, having been appointed since the previous AGM, will submit themselves for election by shareholders at the AGM on 12 June 2018 in accordance with the Company's Articles of Association. All remaining directors (with the exception of Keith Ludeman) 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 48 to 51.

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 Officer.

The Executive Board, which met 15 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;
- 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; and
- conducting monthly Senior Leadership Business Updates reflecting the Group's open and collaborative culture and demonstrating the importance that the Executive Board places on employee engagement.

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

The Audit Committee is responsible for carrying out the audit functions required by paragraph 7.1.3R of the FCA's Disclosure Guidance and Transparency Rules, details of which are included in the Audit Committee Report on pages 62 to 69 and are incorporated into this Corporate Governance report by reference.

NOMINATION COMMITTEE

The Nomination Committee is chaired by the Group Chairman and 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 composition of the Board will continue to be reviewed during 2018.

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 the recruitment of Board appointments, as outlined below. The effectiveness of the Committee and its terms of reference were also reviewed.

Senior appointment and recruitment

The Committee managed the recruitment process for the positions of Chief Executive Officer and Chief Financial Officer during the year. A role and person specification for each position was drawn up and credible external and internal candidates were identified and assessed. The searches were conducted on merit, against objective criteria, with due regard for relevant experience and for the benefits of diversity of Board membership, including gender. The process was facilitated by external head-hunters.

There are no other connections between the head-hunters and the Company.

Re-election of retiring directors at the AGM

In making its recommendation to the Board for the re-election of directors, the subject of "over-boarding" was considered by the Committee. It reached the conclusion that all directors were sufficiently available to the Company. Moreover, the Committee considers these other directorships assist in bringing valuable knowledge and experience to Board and committee debate.

Succession planning

A wide-reaching talent review covering 846 employees was conducted during late 2016 and early 2017. This provided an in-depth review of management strength at three levels below Executive Board, and robust succession plans.

With the change in leadership, the 2017 talent review has been deferred to 2018.

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 70 to 99.

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 our 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.

We received further recognition in January 2018 when our Construction division was named 'Construction Company of the Year' for the second year running at the National Centre for Diversity (NCFD) annual awards. The NCFD also announced its UK Top 100 Index for 2018, highlighting 100 of the UK's best and most diverse organisations. Interserve's Construction division was placed at number 30, up three places from last year.

Diversity networks focusing on LGBT (out@interserve), mental health, Interserve Race, Ethnicity and Cultural Heritage (InREaCH) have all been formed. The Women in Interserve Network (WIIN), now in its sixth year, continues to grow in membership and programmes. These networks help raise awareness of the important issues around equality, diversity and inclusion across the Group and employees receive regular updates regarding the programme of events and activities in order to reach out to all employees regardless of their ethnicity, nationality, race, heritage, culture or identity.

The success in developing the diversity of the Board is monitored as part of our annual evaluation of Board effectiveness. This will be monitored later in the year when the Company conducts its next evaluation.

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.

As detailed in the Strategic Report, the Group released its first Gender Pay Gap Reporting submission ahead of the deadline of 4 April 2018.

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;

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 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 continue to use the smart choice toolkit that was developed in conjunction with the Institute of Business Ethics. 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 99. 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 70 to 99 and are incorporated by reference into this Corporate Governance report.

Corporate governance continued

CONTRACT AND INVESTMENT COMMITTEE

The Contract and Investment Committee (CIC) is composed of the Chief Executive Officer, the Chief Financial Officer and the Company Secretary. The CIC is responsible for deliberating and approving all new tenders involving bond and other security instruments based on an assessment of commercial terms, profitability and risk. Divisional managing directors submit standardised proposals to the CIC for new tenders, setting out the required credit support.

The Company Secretary and Treasury function maintain an up-to-date schedule of issued and upcoming instruments approved by the CIC which ensures an efficient and streamlined instrument administration process.

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 Officer or, in her absence, the Chief Financial Officer).

The Inside Information Committee comprises the Group Chairman, Chief Executive Officer and Chief Financial Officer.

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
Conflicts	-
General Purposes	37
Inside Information	5
PFI	-

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 109, an Independent Auditor's Report about their reporting responsibilities on pages 112 to 121, a going concern statement on page 44 and a viability statement on pages 40 to 44. An explanation of the Company's business model and strategy for delivering the Company's objectives is set out on pages 14 and 15, and 12 and 13, respectively.

The Directors' Report contained on pages 100 to 108, 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 Officer, Chief Financial Officer, 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 three 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, considering the divisional readiness of the forthcoming General Data Protection Regulations and updating the Anti-Bribery and Corruption Policy in the wake of a gap analysis review.

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.

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 28 to 31 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.

[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 28 to 31.

[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 28 to 31 of the Strategic Report and are matters which, if not appropriately managed, may to lead to events which breach the Board's risk appetite.

Corporate governance continued

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.

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.

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 pages 39 and 40 and a description of how the Group manages those risks is set out on page 29.

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 Officer.

- 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 Officer or the Chief Finance Officer, 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 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.

During the year ended 31 December 2017 Adrian Ringrose and Tim Haywood attended 44 meetings with analysts and institutional investors and, respectively, two and 27 individual meetings accompanied by other members of staff.

Debbie White and Mark Whiteling attended 75 meetings with analysts and institutional investors and, respectively, five and 25 individual meetings, accompanied by other staff members.

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 chairs of the various committees or the Board generally. The voting results of the AGM are 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 27 April 2018 and signed on its behalf by:

Glyn Barker

Chairman

27 April 2018

Audit Committee report

ANNE FAHY
CHAIR OF THE AUDIT COMMITTEE

Dear Shareholder

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 2017.

2017 has been an exceptionally challenging year for the Company and the circumstances surrounding it. Therefore, the key focus areas and agenda for the Committee have been driven by the trading judgements and estimates which underpin our revenue and margin recognition on long-term construction and service contracts, with particular focus on how these have changed, developed and matured during the year from a risk and operational perspective.

The Company's financial performance and position changed quite rapidly in the second half of the year with a number of market updates and an escalating debt and liquidity situation which indicated a need to further strengthen risk management, internal control and monitoring processes in the Company.

During this period the Committee, together with the Board and the new executive team, were vigilant and alert to ensure the Company remained solvent, operational and risk management processes were strengthened, internal and external audit resource was further optimised and additional external resource engaged to underpin the changes needed.

A key focus for the Committee in finalising the annual results has been to challenge, test and validate the Company's going concern and viability statements and to provide assurance to the Board in making these statements.

In addition to judgements on long-term contracts and going concern and viability, we also focused on measurement, presentation and disclosure of non-underlying items; carrying value of goodwill and intangibles; revenue and margin recognition including anticipated impacts of IFRS 15 and retirement benefit accounting.

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 Audit Committee is responsible for carrying out the audit functions required by paragraph 7.1.3R of the FCA's Disclosure Guidance and Transparency Rules (DTR). It 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 has been chaired by Anne Fahy since 13 May 2013. 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 M Edwards	23 June 2017
R J King	1 September 2014
K L Ludeman	1 January 2011
N R Salmon	1 August 2014

Appointments to the Committee are made by the Board, on the recommendation of the Nomination Committee and in consultation with the Committee Chair. Gareth Edwards, who joined the Board on 1 February 2017, was appointed to the Committee on 23 June 2017.

Anne Fahy is a qualified chartered accountant and has significant, recent and relevant financial experience. The other members of the Committee all have extensive business and financial experience in multinational and/or complex organisations and a good understanding of the Company's business. The Committee, as a whole, is therefore considered by the Board to be competent. The biographies of the Committee members are set out on pages 48 to 51.

The Company Secretary is secretary to the Committee.

MEETINGS

The Committee met six times during the year. Members' attendance at the meetings is set out in the table on page 55. The external auditor was present at four 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 Officer, Group Finance Director/Chief Financial Officer and Group Financial Controller also attended the majority of the meetings by invitation.

The Committee has, on three occasions, taken the opportunity to seek the views of the external auditors in private. It has also twice held a private session with the internal auditors. 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 frequently with both parties to review audit and internal control topics and to ensure open and continuous dialogue with 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 DTR, are reviewed at least annually by the Committee and were last updated in June 2017. They were reviewed again in December 2017 but no further changes were considered 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;
- review and monitor the appropriateness of the provision of non-audit services by the external auditor in the context of reviewing the auditor's independence;
- approve the annual work programme of the internal auditor, the fees to be paid in connection with that work and review the effectiveness of the internal audit process;
- provide an independent overview of the integrity of the Group's systems of internal control, fraud prevention, compliance, whistleblowing, prevention of bribery and corruption, 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; and
- report to the Board on how it has discharged its responsibilities.

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, as set out in the Corporate Governance report on pages 52 to 61.

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.

Audit Committee report continued

OVERVIEW OF ACTIVITIES

In relation to the 2017 financial year the Committee:

- considered the principal elements of management's recommendation regarding the EfW cost provision together with all other items categorised as non-underlying (further details of which are included under Significant Issues Considered on pages 65 and 66) ensuring the measurement, presentation and disclosure were consistent with the Company's disclosed accounting policy and with FRC guidance and were clearly explained, reconciled to statutory measures and consistent with fair, balanced and understandable principles;
- received a financial briefing from the newly-appointed Divisional Finance Director on the construction business and questioned management on the pace of improvement to the underlying systems and processes;
- received a briefing from the Group Financial Controller on the progress being made on the adoption of IFRS 15 *Revenue from contracts with customers* in the 2018 financial year focusing on key judgements in the application of the standard and transitional arrangements;
- 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; as well as ensuring appropriate disclosure of judgments and uncertainties;
- received a briefing from the former Group Finance Director on the principal judgements made in determining the half-year review and annual report, reviewed and questioned those judgements in the light of operational performance and other evidence 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;
- conducted site visits to the key EfW projects at Derby and Dunbar ensuring that the stage of completion and general progress was consistent with management's judgements in determining provisions and costs to complete at that time;
- 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;
- supported the newly-appointed Chief Executive Officer and Chief Financial Officer in prioritising changes and improvements to the system of internal control with particular attention on the Company's solvency and liquidity position;
- challenged and questioned the findings from the contract review conducted at management's request by PwC and satisfied itself that the ensuing judgements made by management in finalising the annual accounts were appropriate and substantiated;
- met with the recently appointed Support Services Divisional Finance Director to review and discuss weaknesses that he had identified in performance reporting in that division and to assure ourselves that all such failures had been identified, appropriate corrective actions taken and underlying processes and system controls improved;
- 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, as detailed on page 68;
- reviewed the independence and objectivity of the external auditor, as detailed on page 67;
- 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, focus and fees to be paid to the external auditor for the half-yearly review and the statutory audit;
- 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 67);
- received and reviewed a bi-annual update on the Group's monitoring of fraud risk assessment;
- regularly reviewed both the external and internal audit risk assessments and satisfied itself that the audit activities appropriately addressed those risks, revising those plans in light of the exceptional circumstances that crystallised particularly in the second half of the year;
- reviewed the adequacy of controls across the worldwide businesses, particularly with regard to entities which are not controlled by the Group;
- reviewed both the internal audit programme and the findings and remediation actions, ensuring an adequate coverage of risks (as detailed on page 68). A draft 2018 internal audit plan has been agreed for the first half of the year, with flexibility maintained to adapt to changes as the Company's transformation and Fit for Growth programmes evolve;

- received a report at each meeting on the progress and outcome of the investigation of the 17 whistleblowing notifications received during the course of the year, four of which were upheld and eight where investigations continue;
- established the Committee's calendar of actions for the 2018 financial year; and
- reviewed its terms of reference and considered whether any changes needed to be proposed to the Board.

An evaluation of the Committee's effectiveness was deferred to 2018 recognising the exceptional circumstances and need to prioritise the Committee's time in responding to specific business critical issues and outcomes.

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 128 to 183 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:

• Non-underlying items – measurement, presentation and disclosure

In light of the financial challenges facing the Company in the second half of 2017, management undertook a fundamental review of the Group's strategy, activities, business model, organisation, financing and ways of working. This review, supported by independent third parties including PwC, Oliver Wyman and others, was comprehensive and far reaching and ensured that all layers of the organisation across the divisions and in Group Centre were thorough in their analysis of the challenges, risks and opportunities facing their part of the business.

In anticipation that the outcome of this review could result in additional non-recurring and potentially significant provisions, asset write-offs, impairments restructuring and refinancing costs, management prepared a paper on the proposed accounting treatment setting out clearly the criteria for inclusion of items in the category of non-underlying item, evidencing consistency with its own accounting policies and compliance with IASB's conceptual framework, IAS 1, as well as guidance from the FRC and other regulatory bodies on APMs and disclosure overall. This paper was reviewed by the Audit Committee in the fourth quarter in advance of quantification of any actual charges with appropriate challenges and questions. This included a request to management to compare the proposed accounting with others in the sector who had been through similar restructuring programmes, assuring ourselves that the Group was following best practice and was being fully transparent, thorough and compliant in its proposed accounting treatment and presentation.

As these various reviews progressed the Committee kept abreast of developments and the likely impact on the 2017 financial statements. This included considering the PwC contract review together with Board and management decisions on organisational restructuring, asset and business portfolio changes and future strategies. This process culminated in management's presentation to the Committee of a draft paper on its principal judgements and estimates which covered those relating to underlying as well as non-underlying results in an interim meeting in March 2018. Supported by views, analysis and insights from external audit and taking into account our own knowledge and understanding of the main judgments and uncertainties as well as further questions and challenges, the Committee was satisfied that both in terms of recognition and presentation the accounting for individual items included in the non-underlying column was appropriate. At its most recent meeting the Committee considered the latest developments regarding specific contracts and other potential changes.

In addition, the Committee ensured that disclosures relating to non-underlying items were fair, balanced and understandable throughout the financial statements particularly taking account of recent guidance from the FRC for the construction and business support services sector.

• Going concern and viability statement

Following the recognition of difficult trading conditions and refinancing needs, the Board and Committee were vigilant throughout the period to ensure the Company remained solvent, was able to meet its liabilities as they fell due and had sufficient liquidity in place at all times. This relied on interim financing which was secured in December 2017 with a longer-term solution put in place in April 2018 following agreements reached between the Company and its lenders. Following this refinancing, management prepared a comprehensive paper outlining latest cash flow forecasts, financing arrangements, covenant tests and assumptions together with sensitised cases and various stress test scenarios. These, together with the audit findings, were reviewed in detail by the Committee, with additional possible scenarios discussed and considered. Whilst uncertainty and unforeseen events could impact the ability of the Company to continue as a going concern, the Committee was assured by the rigour of analysis and stress tests and therefore considered it appropriate to adopt the going concern principle in finalising its 2017 accounts.

The Company has set out a comprehensive viability statement in the Strategic Report on pages 40 to 44 and describes very clearly the principal risks, judgements, uncertainties and planning assumptions underpinning this statement as well as the key covenant compliance requirements of the refinancing agreements. In considering and in support of the viability statement executive management had overlaid various sensitivities and stress tested the three-year business plan and compared these outcomes both in terms of liquidity and covenant compliance headroom.

Audit Committee report continued

The Committee reviewed and debated these scenarios at length as well as considering other possible, albeit unlikely, event-driven scenarios. Taking into account the independent testing and review from the Company's auditors and with further enquiry of executive management, the Committee concluded that the viability statement was well judged and appropriate in terms of adequacy of its disclosure whilst balancing commercial sensitivities.

• Revenue, margin recognition and contract accounting

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.

This was agreed as a specific area of focus for the Committee throughout the year and, in particular, during the year-end financial close, taking into account the criticality of judgements on material contracts to the future success of the Company. These judgements impacted both the underlying and non-underlying results and we were vigilant to ensure that changes to provisions or previous positions were due to specific changes or developments in the period.

The Committee reviewed the audit findings, the PwC contract review 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, clients' 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 £427.4 million, which included goodwill with a value of £372.9 million.

The majority of goodwill and other intangible assets is held within UK Support Services and arises mainly from private-sector related acquisitions. Following a decline in trading performance and consistent with changes in the way Support Services UK is now managed, a more granular definition of cash generating units was deemed appropriate.

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, As a result, goodwill of £60 million relating to the private-sector business in Support Services was impaired in 2017. This is principally due to an underperformance against pre-acquisition expectations primarily due to competitive pricing, impact of regulatory labour cost increases, customer churn and cost synergies not fully delivered.

Otherwise the Committee assured itself that significant headroom exists and that any reasonable sensitivity to the assumptions did not indicate additional 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.

In reviewing and conducting our enquiries we, amongst other activities, challenged the criteria and consistent application in classifying, measuring and disclosure of non-underlying items, we focused on the outlook statements to ensure consistency with our collective understanding and interpretation of the Company's recent and anticipated performance and satisfied ourselves that risks and mitigations were appropriately disclosed.

The Committee was satisfied that, taken as a whole, the 2017 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 109.

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 recommendations 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 fifth year as the Company's independent auditor for the 2018 financial year.

The Audit Engagement Partner is Simon Lowe, who has held this position since Grant Thornton was appointed as the external auditor. 2017 is therefore Mr Lowe's fourth year as Audit Engagement Partner of a maximum of five years. Grant Thornton are planning for the Audit Engagement Partner succession by rotating members off the engagement team to facilitate both continuity and independence in future years. It is anticipated that the transition and handover to a new Engagement Partner will start in 2018.

The Committee will continue to review the auditor appointment and the need to ensure that the Group complies 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) relating to mandatory audit tenders every 10 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 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 £0.1 million (9 per cent) compared to audit fees of £1.1 million, the largest element of which - £0.1 million - 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 142 and 143.

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

Audit Committee report continued

Effectiveness and audit quality

The Committee reviewed Grant Thornton's audit effectiveness following the audit of the 2017 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 reports;
- 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 2016/17 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 July 2017, December 2017 and March 2018. The Committee raised concerns following the December update on the deterioration in the rate of closure of audit actions and agreed with management that measures be put in place to remediate this weakness, with the finance function to lead on closing this gap.

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 noted and questioned the apparent deterioration in the self-assessment ratings with an understanding that at least some of this was likely to be a more realistic view than reported in prior years and other ratings inconsistent with recent findings on specific contract outcomes. We agreed that this control process should be enhanced by management taking full ownership of it and it becoming part of the second line of defence rather than being managed by the internal audit function.

A draft 2018 internal audit plan has been agreed for the first half of the year but with flexibility maintained to adapt to changes as the Company's transformation and Fit for Growth programmes evolve.

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 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 Processes 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 27 April 2018 and signed on its behalf by:

Anne Fahy

Chair of the Audit Committee

27 April 2018

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 2017 which sets out the amounts earned by the directors under the Remuneration Policy approved by shareholders at the 2015 AGM.

Since the 2015 Remuneration Policy will have been in operation for three years by the time of our AGM on 12 June 2018, we are required to seek shareholder approval for a new Remuneration Policy at the AGM.

2017 has been a challenging year at Interserve but a year in which progress has been made in moving the Company forward, progress that we hope will be recognised in a recovery in the Company's share price. We were particularly pleased to welcome a new executive leadership team into the Company in the second half of 2017 with the appointment of a new Chief Executive Officer and a new Chief Financial Officer and they are already building strong foundations for future success. Part of their initial focus has been undertaking a wide-reaching strategic review that looks to build on our strengths at the same time as addressing the challenges that the business has faced over the past two years. Since the Board is in the early stages of considering the conclusions of this review, the Committee has resolved to renew the 2015 Remuneration Policy on broadly the same terms.

The current policy includes a conventional incentive structure (i.e. separate annual bonus and long-term incentives plans) and is fully aligned with current 'best practice' expectations (i.e. it includes 200 per cent of salary share-ownership guidelines, recovery and withholding provisions and a holding requirement on vested long-term incentive plan shares). As a result, the Committee is comfortable renewing the existing policy on broadly the same terms and aligning the new executive team with delivering against these short and long-term priorities indicated in the strategic review. The only change vis-à-vis the 2015 Remuneration Policy is enabling greater flexibility to refine the choice of performance metrics for incentive plans as progress is delivered against the objectives of the strategic review.

However, the Committee intends to reflect on the continued use of the current policy in advance of the 2019 AGM in the event that delivery over the longer term against the objectives of the strategic review could be better supported through the adoption of a more tailored approach to future remuneration policy.

2017 REMUNERATION PAYMENTS

Annual Variable Pay

The annual bonus targets set at the start of 2017 for the executive directors in post at that time included a challenging range of normalised EPS[1] growth targets, net debt reduction targets and individually tailored strategic targets (where relevant) for each role. In what was a challenging year, we did not meet the financial targets and, with the exception of the non-financial targets set for the former Chief Executive, the non-financial targets were not met. With regard to the former Chief Executive, elements of the targets set relating to improvements in health and safety and delivering against our Sustain*Abilities* agenda were met. However, in light of the challenges faced by the Company during the year, a fatality in the Group while fulfilling Company business, and the Company's share price over the year, the Committee used its discretion to determine that no bonus would be paid to the former Chief Executive.

In relation to the appointments of our new Chief Executive Officer and new Chief Financial Officer (in September and October 2017 respectively), given that the targets set at the start of the financial year were no longer relevant to the challenges faced by the business at that time, and noting their appointments took place towards the end of the financial year, individually tailored targets were set for each individual to ensure their remuneration was fully aligned with the immediate priorities of the Company. Bonuses were calculated based on salaries earned for the part year (i.e. pro rata for the relevant period of employment).

The targets set for the Chief Executive Officer included completing a strategic review, taking steps to deliver an effective restructuring of the Group's businesses, building confidence among key stakeholders in the Group and appraising the leadership team. The targets set for the Chief Financial Officer related to delivering appropriate financing structures for the Group. Bonuses were also underpinned by delivering acceptable financial performance over the final quarter of 2017. Exceptionally strong performance was delivered against these objectives which included, amongst other factors, developing a detailed recovery and transformation plan which was approved by the Board and is in the early stages of implementation as evidenced by a restructuring of the senior roles and responsibilities within the Company's Fit for Growth programme and laying the platform for a successful refinancing of the Company's facilities in early 2018. Performance against the objectives set resulted in bonuses becoming payable at circa 42 per cent and 31 per cent of salary, respectively, for the Chief Executive Officer and the Chief Financial Officer. The Committee was comfortable paying bonuses at the level in light of the improvement in the underlying financial position of the Company as at the time the 2017 year-end audit concluded.

Full details of the annual bonus targets initially set, performance against them and the actual bonuses earned are set out on pages 87 to 89.

Long-term variable pay

2015 Performance Share Plan (PSP) awards

The long-term incentive awards granted in 2015 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).

Under the EPS element of the award, 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 2015 long-term incentive award.

2017 PSP awards

The targets set for the 2017 PSP awards for the executive directors in post at the start of the 2017 financial year were based on a combination of challenging EPS growth and relative TSR performance conditions.

With regards to the Chief Executive Officer and Chief Financial Officer appointed during the second half of 2017, in light of the challenges faced by the business during the year under review, the Committee used its discretion to replace the EPS and TSR conditions applicable to the other executive directors with net debt reduction targets. While our 2015 Remuneration Policy details that EPS and TSR conditions are normally set for PSP awards, the policy includes discretion where circumstances change to set different measures to ensure that the targets fulfil their intended purpose (i.e. align executives with the long-term success of the Company and its stakeholders). In light of the events that occurred during 2017, and the fact that the EPS and TSR targets were set prior to the appointment of the current Chief Executive Officer and Chief Financial Officer, the Committee determined that EPS growth measured from the 2016 EPS result and relative TSR measured from the start of the 2017 financial year were no longer appropriate in the context of the changed circumstances of the Company in the year.

As a result, targets that align with the core strategic priority of reducing net debt to the conclusion of the 2019 financial year were set for the new Chief Executive Officer and new Chief Financial Officer. This approach directly aligned the executives to the core objective of ensuring the Company is in the best position to successfully refinance its debt facilities. The targets are structured as a challenging sliding scale that require out-performance of the forecast levels of net debt that formed part of the discussions with the Company's lenders and other stakeholders during refinancing discussions in early 2018. The Committee will retain discretion to adjust the vesting of these awards if it does not consider the level of vesting to be supported by underlying financial and share price performance over the same period.

Full details of both sets of performance targets set for the long-term incentive awards granted in 2017 are set out on pages 93 and 94.

Base salaries

Details of the newly-appointed executive directors' salaries are set out on page 84. There were no increases to any departing or continuing executive directors' base salaries during the year under review.

APPLICATION OF 2018 REMUNERATION POLICY

We have made several changes to the application of our Remuneration Policy for the current financial year to better align with our 2018 strategic priorities.

Annual Variable Pay

Regarding the Annual Variable Pay scheme, we have restructured the 2018 scheme vis-à-vis the 2017 scheme to better align with the Group's current short-term priorities. Bonuses will be earned in 2018 based on targets set against Group-wide improvements in operating profit, operating cash flow and strategic targets. The financial targets are structured to operate on a sliding scale with strategic targets set against well-defined 2018 objectives on the Energy from Waste and wider transformation plans.

Part of bonuses earned will be the subject of deferral into Interserve shares with 30 per cent of any bonus earned above 25 per cent of salary deferred into shares for three years and 50 per cent of any bonus earned above 50 per cent of salary subject to deferral on the same basis. Any bonus earned will also be the subject of recovery and withholding provisions which will enable the Committee to reclaim value overpaid in the event of a misstatement of the Company's accounts, an error in determining a bonus payment or misconduct for a period of two years after the date on which a payment is made.

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

Long-term variable pay

The Committee intends to grant long-term incentive awards in 2018. The performance conditions that will apply to these awards are aligned with three key medium to long-term priorities for the Company. These include creating above market total returns for shareholders, returning the Company to an acceptable level of profitability and delivering against the medium to long-term objectives included in the Board's transformation plan. Accordingly, one-third of the award will vest based on our TSR performance relative to an appropriate comparator group, one-third will vest based on our cumulative operating profit over the period to 31 December 2020 and one-third will vest based on how successfully we implement the Company's business transformation plan and strategy. The entire award will be subject to Committee discretion to reduce vesting if underlying financial performance is not considered satisfactory over the performance period.

Board changes

As detailed above, there were a number of changes to our Board during the year. As announced on 14 November 2016, Adrian Ringrose stepped down from the Board on 31 August 2017. Also, as announced on 30 June 2017, Tim Haywood stepped down from the Board on 30 September 2017. These changes reflected the Board's desire to appoint a new executive leadership team to take the Company through its next phase of development. Furthermore, as announced on 1 December 2017, and reflecting the early conclusions as to the best future operating structure for the Company, Bruce Melizan stepped down from the Board on 30 November 2017 in connection with his role being made redundant with effect from 31 January 2018. 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 89 to 91.

Gareth Edwards was appointed as a non-executive director on 1 February 2017. Debbie White was appointed as Chief Executive Officer and Mark Whiteling as Chief Financial Officer on 1 September 2017 and 1 October 2017, respectively.

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 resolutions relating to remuneration at the AGM on 12 June 2018.

On behalf of the Remuneration Committee

Keith Ludeman

Chairman of the Remuneration Committee

In this section:

REMUNERATION POLICY

This part of the report sets out the Company's Remuneration Policy which will be subject to a binding vote at the 2018 AGM and take effect from that date.

As detailed in the Chairman's Summary Statement, only limited changes are being proposed to the policy approved by shareholders at the 2015 AGM. The Committee is comfortable with retaining the current Remuneration Policy on broadly the same basis given it is structured to support delivery against our short-term financial and strategic objectives and the creation of long-term returns to shareholders. This is achieved through an annual bonus plan that is normally heavily weighted towards achieving improved financial and operational performance and a long-term incentive plan that supports the delivery against our long-term planning and creation of shareholder returns. The long-term focus in our policy is strengthened through the requirement to defer part of annual bonus into shares, the requirement to retain vested long-term incentive award shares from the conclusion of the three-year performance period for a further two years and a 200 per cent of salary share-ownership requirement.

The only change vis-à-vis the 2015 Remuneration Policy is enabling greater flexibility to choose performance metrics that will support delivery against the objectives of our strategic review and to retain flexibility to refine these (in relation to future year bonuses or long-term incentive awards) as progress is made in delivering against the objectives of the strategic review.

EXECUTIVE DIRECTORS' REMUNERATION POLICY

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 current strategy. Details of the remuneration arrangements for the non-executive directors are set out on page 81.

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.

Directors' remuneration report continued

Element of pay	Purpose and link to strategy	How operated in practice (including framework for assessing performance)	Maximum opportunity
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. These benefits are provided for defined periods only. 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.
Pension	To provide benefits commensurate to the market in which the Company operates.	A Company contribution calculated at up to 15% of base salary for executive directors provided they are making the maximum 8% employee contribution. Employees whose pension provision exceeds HMRC limits are permitted to opt out of making pension contributions and instead receive the Company contribution as a non-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.	Employer's defined contribution and/or pension cash supplement up to a total maximum of 15% of base salary.
Annual Variable Pay	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.	Targets are set by the Committee with reference to stretching targets that are set annually by the Board. Bonuses are based on achievement against challenging financial and, where appropriate, non-financial targets. The Committee may use different performance metrics and weightings for each performance cycle to better reflect the strategic priorities of the Company as these evolve. However, a substantial proportion will be based on structured financial targets each year. 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 Officer and Chief Financial Officer, 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.	Maximum opportunity: 125% of basic salary for the Chief Executive Officer and Chief Financial Officer 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.

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 achieve 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 vest subject to performance conditions tested over a minimum of three years. A majority of awards must be subject to a challenging range of financial targets (e.g. EPS) and/or TSR targets. A minority of an award may be subject to strategic targets. With regard to financial targets, 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, with graduated scales operating between performance points. No awards vest for below-threshold performance levels. In relation to strategic targets, the structure of the target will vary based on the nature of target set (i.e. it will not always be practicable to set such targets using a graduated scale and so vesting may take place in full for strategic targets if specific criteria are met in full). The Committee will review the performance conditions each year prior to awards being made 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. Post-tax vested shares must be retained for at least a two-year holding period after vesting. Dividends accrue on shares that vest to the later of three years from grant and the conclusion of any holding period. Dividends may be paid in cash or shares and assume reinvestment of dividends into the Company's shares. 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.	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 financial and/or TSR performance condition can vest for achieving the threshold performance level.
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.

Directors' remuneration report continued

Element of pay	Purpose and link to strategy
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, 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.

Discretion retained by the Committee

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 pages 79 and 80); 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.

Operation of Annual Variable Pay and the Performance Share Plan

With regard 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.

Targets are set based on sliding scales that take account of internal planning and external market expectations for the Company. Only modest rewards are available for delivering threshold performance levels with maximum rewards requiring substantial out-performance of the challenging plans approved at the start of each year.

Further details of the annual bonus metrics to be used for the current financial year are set out in the Annual Report on Remuneration. The targets for awards to be granted under the PSP in the current financial year are consistent with the policy set out above and are also set out in the Annual Report on Remuneration.

How the executive directors' Remuneration Policy relates to the wider Group

The Remuneration Policy for the executive directors is designed with regard to the policy for employees across the Group as a whole. There are some differences in the structure of the Remuneration Policy for executive directors, other senior employees and employees more generally. Variable pay opportunity tends to be set at higher levels at more senior executive levels as these employees are those that are perceived to have the greatest ability to influence overall Group performance. In addition, the choice of performance metrics for executive directors tends to be more heavily weighted towards Group results rather than business unit or individual performance. Incentive plan targets for senior employees are typically set against a combination of metrics (e.g. Group, business unit and personal targets) with wider employee targets more likely to be weighted towards individual performance. In all cases targets link back to overall Group business plans. This approach provides a strong alignment of interest between senior executives, employees and investors.

Operation of the PSP is limited to the most senior employees who are perceived to have the greatest ability to influence Group-level performance. As a result, the PSP is aligned across the senior managers in the Group with circa 130 or so senior employees typically receiving awards. Senior employees below Executive Board level are provided with lower levels of awards and these awards may have simplified performance conditions (e.g. a single EPS-based performance condition as opposed to using EPS and relative TSR may apply).

Benefits are provided across the Group at all levels with these often linked to employee grade. In terms of the most valuable benefits to executive directors these include the provision of a cash allowance and/or company car benefit with the value limited to £30,000.

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

How the views of employees are taken into account

The Company, in line with current market practice, does not actively consult with employees on executive remuneration. However, the Director of Transformation, IT and People updates the Committee periodically on feedback received on remuneration practices across the Group. In light of the current draft 2018 UK Corporate Governance Code, work is being undertaken internally to determine the most appropriate route in future through which employees' views can be represented to the Board.

The Committee takes due account of remuneration structures elsewhere in the Group when setting pay for the executive directors (for example, consideration is given to the overall salary increase budget and the incentive structures that operate across the Group).

How the views of shareholders are taken into account

The Remuneration Committee considers shareholder feedback received in relation to the AGM each year and guidance from shareholder representative bodies more generally. This feedback, plus any additional feedback received during any meetings held with shareholders from time to time, is then considered as part of the Committee's ongoing review of remuneration policy.

Ability to make payments to executive directors

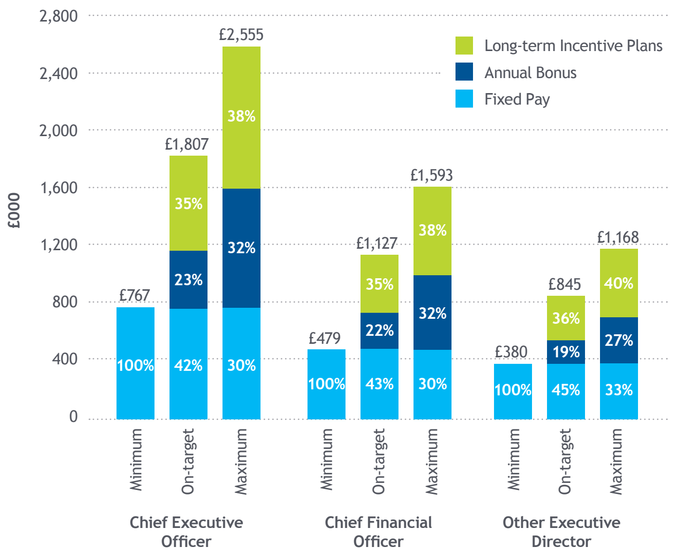
Remuneration payments can only be made if they are consistent with the approved Remuneration Policy, the relevant plan rules or are otherwise approved by ordinary resolution of the members of the Company.

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 93 to 97 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.

Directors’ remuneration report continued

Remuneration scenarios for executive directors

The Remuneration Policy results in a significant proportion of remuneration received by executive directors being dependent on Group performance. The graph below illustrates how the total pay opportunities for the executive directors varies under three different performance scenarios: below target, on-target and maximum. When reviewing the graph, it should be noted that it has been prepared based on the policy detailed above and ignores, for simplicity, the potential impact of future share price growth.



Assumptions:

- **Minimum** – fixed pay only, based on salary effective 1 January 2018 (excluding any mid-year review), 15 per cent of salary pension contribution (or 15 per cent of salary contribution in lieu of pension) and benefits received in the 2017 financial year (annualised where relevant).
- **On-target** – minimum plus 50 per cent of the maximum pay-out under the Annual Variable Pay scheme, and 65 per cent PSP vesting.
- **Maximum** – minimum plus 100 per cent of the maximum pay-out under the Annual Variable Pay scheme, and full PSP vesting.

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

Service contracts and policy on payments for loss of office

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
D J White	1 September 2017
M A Whiteling	1 October 2017
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 below summarises the policy on payments to executive directors for loss of office. The overriding principle will be to honour contractual remuneration entitlements and determine on an equitable basis the appropriate treatment of deferred and performance-linked elements of the package, taking account of the circumstances.

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.

Element	Resignation[1]	Departure on agreed terms[2]	Good leaver[3]
Salary (after cessation of employment)	Nil	Up to one year's basic salary which may be payable monthly for the duration of the notice period of up to 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, to settle any potential claim against the employer, provide 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 under 'departure on agreed terms'.

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.

Directors' remuneration report continued

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 Officer or Chief Financial Officer, 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 flexibility provided in the Listing Rules to make such awards if deemed appropriate in terms of replacing forfeited variable pay.

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

External directorships

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

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	12 May 2017
G M Edwards	1 February 2017	12 May 2017
A K Fahy	1 January 2013	12 May 2017
R J King	1 September 2014	12 May 2017
K L Ludeman	1 January 2011	12 May 2017
N R Salmon	1 August 2014	12 May 2017

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.

Directors' remuneration report continued

ANNUAL REPORT ON REMUNERATION

The Annual Report on Remuneration will be put to an advisory vote at the AGM on 12 June 2018.

HOW THE DIRECTORS' REMUNERATION POLICY WILL BE APPLIED FOR THE YEAR ENDING 31 DECEMBER 2018

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 2018.

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 Officer and Chief Financial Officer. The maximum applicable to other executive directors is 100% of salary. The performance targets applying to the bonus in 2018 are as follows: • one-third – operating profit; • one-third – operating cash flow; and • one-third - strategic targets. These targets reflect the Company's immediate priorities in terms of operating profitably, generating cash and delivering against our transformation and Energy from Waste plans. 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).
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 relevant performance conditions. The performance targets to apply to PSP awards in 2018 are as follows: • one-third – relative total shareholder return (TSR) performance (requiring median to upper quartile performance versus the constituents of the FTSE 250 and FTSE Small Cap); • one-third – three-year cumulative operating profit; and • one-third – strategic targets (requiring challenging targets set against transformation plan and strategy to be achieved through to 2020). These targets reflect the Company's current medium to long-term priorities and the Committee retains discretion to reduce vesting if performance against the targets results in a vesting outcome that is not considered consistent with underlying financial performance. Vested shares from the PSP awards 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.

A more detailed summary of how the policy will be applied during the year ending 31 December 2018 is set out below.

Salaries

Salaries for the executive directors are reviewed annually with any 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 bonus metrics to apply in 2018 are summarised below with the structure a simplification on the individualised approach operated in prior years.

The bonus structure applicable to all executive directors is as follows:

Position	Proportion of salary	Metric
Executive director	One-third	Operating profit
	One-third	Operating cash flow
	One-third	Achievement of defined strategic targets

With regard to the choice of metrics we are to use in 2018, operating profit and operating cash flow are being introduced as part of a Group-wide focus on returning the Company back to targeted levels of profitability and cash generation. These metrics are also scalable through our businesses which was an important consideration when setting targets for 2018. During the current period of change at Interserve, and recognising the importance of certain current initiatives, it was also considered appropriate to include a greater weighting than in prior years on delivery against specific objectives arising from the Energy from Waste plans and early conclusions of the current strategic review and those in our transformation plan.

The targets relating to operating profit and operating cash flow have been set using a challenging sliding scale set with reference to the Company's internal planning expectations, current market expectations for our performance and the plans presented to lenders and other financial stakeholders in connection with the refinancing of the Company's debt.

With regard to the non-financial targets, a combination of quantitative and qualitative targets apply that are based on delivery against the Company's Fit For Growth strategy and leadership to ensure that the changes agreed by the Board are driven through the business are sustainable.

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 targets 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 2018 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 2018 to executive directors over shares worth 150 per cent of basic salary as at the date of grant.

The targets to apply to the awards comprise three elements which reflect the current medium to long-term priorities of the Company and include creating above-market total returns for shareholders, returning the Company to an acceptable level of profitability and delivering against the medium to long-term objectives included in the Board's transformation plan.

One-third of the award: relative TSR

Relative TSR versus the FTSE 250 and FTSE Small Cap constituents	Vesting
Below median	0%
Median	25%
Upper quartile	100%
Straight-line vesting between performance points	

One-third of the award: three-year cumulative operating profit

Cumulative operating profit (2018 + 2019 + 2020)	Vesting
Less than 86.3% of target operating profit	0%
86.3% of target operating profit	25%
100% of target operating profit	50%
113.7% of target operating profit	100%
Straight-line vesting between performance points	

The actual operating profit numbers underpinning the above sliding scale are considered to be commercially sensitive and as a result have not been included above. However, the target range has been calibrated around the plans presented to the Company's lenders and other financial stakeholders, and so are considered appropriately demanding by the Committee. Indeed, less than 50 per cent of this part of the award will vest for hitting the numbers included in the plans presented externally. The Committee will publish the actual targets and the Company's performance against them in the 2020 Directors' Remuneration Report.

Directors' remuneration report continued

One-third of the award: delivery against pre-determined strategic targets

The strategic targets have been set against the targets included in the Company's transformation plan and strategy through to 2020.

As with the operating profit target detailed above, the actual strategic targets are considered commercially sensitive and the Committee intends to provide full details of the actual targets and our performance against them in the 2020 Directors' Remuneration Report.

In addition to the above, the vesting of the award will be subject to a general financial underpin that will require the Committee to be satisfied that the vesting result is consistent with the underlying financial performance of the Company over the performance period. Should this not be the case, the Committee retains discretion to reduce the vesting outcome to better reflect underlying financial performance.

Overall, the Committee is comfortable that having had regard to current commercial circumstances and the challenges more broadly faced within our business sector, the targets are at least as challenging as those set in previous years and will provide a realistic incentive at the lower end of the performance range, but with full vesting requiring exceptional outperformance.

The 2018 PSP awards will be subject to the two-year post-vesting holding period and recovery and withholding provisions detailed in the policy table on page 75.

NON-EXECUTIVE DIRECTOR FEES

The fee levels operated in 2017 will remain unchanged during 2018 and are set out in the table below:

Element	Fee effective 1 January 2018 £	Fee effective 1 January 2017 £	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.

HOW THE REMUNERATION POLICY WAS APPLIED FOR THE YEAR ENDED 31 DECEMBER 2017

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

Name	Salary as at 1 January 2018 £	Salary as at 1 January 2017 £	Percentage change
D J White[1]	650,000	-	n/a
M A Whiteling[2]	405,000	-	n/a
D I Sutherland	315,188	315,188	nil
Former directors			
A M Ringrose[3]	-	577,844	n/a
T P Haywood[4]	-	378,225	n/a
B A Melizan[5]	-	357,213	n/a

1 Debbie White was appointed on 1 September 2017.
2 Mark Whiteling was appointed on 1 October 2017.
3 Adrian Ringrose stepped down from the Board on 31 August 2017.
4 Tim Haywood stepped down from the Board on 30 September 2017.
5 Bruce Melizan stepped down from the Board on 30 November 2017.

The salary levels set on appointment for the Chief Executive Officer and Chief Financial Officer reflected the Committee's view of the calibre and experience of each individual.

In aggregate, the total fixed pay (base salary, benefits, allowances and pension) provided to the Chief Executive Officer is below the level provided at her previous employer with the Committee limiting her base salary and total fixed pay such that it achieved an appropriate balance between recognising the calibre and experience of the individual but also managing quantum to a level that reflects the current size and complexity of Interserve.

The Chief Financial Officer's salary similarly limited the base salary to a level which was no higher than was payable in his most recent full-time executive position and was again felt to strike an appropriate balance between recognising the calibre of the individual and setting quantum with reference to the current size and complexity of Interserve.

There were no increases to the departing or continuing executive directors' base salaries during the year. For comparison in relation to the salaried workforce, payroll movement in the period June 2016 to June 2017, adjusted on a like-for-like basis (including in-year increases, but excluding starters, leavers and promotions) was 3.4 per cent.

Debbie White is a non-executive director of Howden Joinery Group plc for which she receives a fee of £55,000 per annum. She is also an unremunerated trustee of Wellbeing of Women.

Mark Whiteling is a non-executive director of Hogg Robinson Group Plc and Connect Group Plc for which he receives an annual fee of £45,000 and £50,000, respectively (in the case of the latter amount, one-third of which was received in 2017).

The table below shows the remuneration paid to each director. Further details are included on pages 86 to 91.

Remuneration paid to each director (audited information)

£	Year	Salary & fees	Taxable benefits	Annual Variable Pay	PSP[9/10]	Pension[11]	Other remuneration	Total
Executive directors								
D J White[1]	2017	216,667	6,641	270,089	-	32,500	-	525,897
	2016	-	-	-	-	-	-	-
M A Whiteling[2]	2017	101,250	3,433	126,562	-	15,188	-	246,433
	2016	-	-	-	-	-	-	-
D I Sutherland	2017	315,188	17,973	-	-	47,278	-	380,439
	2016	311,344	17,009	-	-	46,702	-	375,055
Sub-total	2017	633,105	28,047	396,651	-	94,966	-	1,152,769
	2016	311,344	17,009	-	-	46,702	-	375,055
Non-executive directors								
G A Barker	2017	170,000	-	-	-	-	-	170,000
	2016	150,233	-	-	-	-	-	150,233
G M Edwards[3]	2017	47,117	-	-	-	-	-	47,117
	2016	-	-	-	-	-	-	-
A K Fahy	2017	61,400	-	-	-	-	-	61,400
	2016	61,400	-	-	-	-	-	61,400
R J King	2017	58,400	-	-	-	-	-	58,400
	2016	58,400	-	-	-	-	-	58,400
K L Ludeman	2017	61,400	-	-	-	-	-	61,400
	2016	61,400	-	-	-	-	-	61,400
N R Salmon	2017	51,400	-	-	-	-	-	51,400
	2016	51,400	-	-	-	-	-	51,400
Sub-total	2017	449,717	-	-	-	-	-	449,717
	2016	382,833	-	-	-	-	-	382,833
Former directors								
Lord Blackwell[4]	2017	-	-	-	-	-	-	-
	2016	28,333	-	-	-	-	-	28,333
A M Ringrose[5]	2017	385,229	16,160	-	-	57,784	-	459,173
	2016	570,797	22,306	-	-	85,619	-	678,722
T P Haywood[6]	2017	283,669	15,854	-	-	42,550	-	342,073
	2016	373,613	19,787	-	-	56,042	-	449,442
B A Melizan[7]	2017	327,445	23,868	-	-	49,117	-	400,430
	2016	352,857	26,253	-	-	52,929	-	432,039
S L Dance[8]	2017	-	-	-	-	-	-	-
	2016	106,048	6,779	-	-	15,907	-	128,734
Sub-total	2017	996,343	55,882	-	-	149,451	-	1,201,676
	2016	1,431,648	75,125	-	-	210,497	-	1,717,270
Total	2017	2,079,165	83,929	396,651	-	244,417	-	2,804,162
	2016	2,125,825	92,134	-	-	257,199	-	2,475,158

1 Debbie White was appointed on 1 September 2017.
2 Mark Whiteling was appointed on 1 October 2017.
3 Gareth Edwards was appointed on 1 February 2017.
4 Lord Blackwell resigned on 29 February 2016.

Directors' remuneration report continued

[5] As detailed in last year's Remuneration Report, Adrian Ringrose stepped down from the Board on 31 August 2017. The figures reported above reflect the payments he received during the period that he was a serving director (1 January to 31 August 2017). In connection with the termination of his employment, he received £325,593 which consisted of £27,781 accrued but untaken holiday entitlement and £297,812 for payment in lieu of the balance of his notice period with notice to terminate his employment having taken place on 7 March 2017 following the identification and announcement of a successor. In addition, he also has a taxable benefit in relation to continued provision under the Company's private medical insurance scheme of £641 for the period from 1 September 2017 to 31 December 2017.

[6] Tim Haywood stepped down from the Board on 30 September 2017 but remained employed by the Company until 30 November 2017. The figures reported above reflect the payments he received during the period that he was a serving director (1 January to 30 September 2017). He also received £63,038 as salary; £3,700 as taxable benefits and £9,456 as salary supplement in lieu of pension, giving a total of £76,194 for the period following stepping down from the Board but remaining in employment (1 October to 30 November 2017). In addition to the above, he also received £1,935 in respect of accrued but untaken holiday entitlement and a payment of £7,500 (excluding VAT) in connection with agreeing the terms of severance. In relation to the balance of his 12-month notice period (which commenced on 30 November 2017 following notice to terminate his employment taking place along with his cessation of employment), he will continue to receive a monthly payment of £31,519 (equivalent to his basic monthly salary) in lieu of his 12-month notice period through to 30 November 2018.

[7] Bruce Melizan stepped down from the Board on 30 November 2017 but remained employed by the Company until 31 January 2018 when his role became redundant. The figures reported above are pro-rated for the period during the year that he was a serving director (1 January to 30 November 2017). For the period during the year that he remained an employee (1 December to 31 December 2017), he received £29,768 as salary; £2,178 as taxable benefits and £4,465 as salary supplement in lieu of pension, giving a total of £36,411. Following the conclusion of the year end, for the period to 31 January 2018 when his role became redundant, he received further payments of £29,768 as salary, £2,178 as taxable benefits and £4,465 as salary supplement in lieu of pension, giving a total of £36,411. In connection with his redundancy, he received a payment of £357,213 in lieu of notice of one year's base salary in accordance with his service agreement, together with a statutory redundancy payment of £9,047. In addition, after the year end he also received a payment of £7,500 (including VAT) in connection with agreeing the terms of severance and a payment of £20,000 (excluding VAT) towards outplacement support.

[8] As set out in last year's Remuneration Report, Steven Dance stepped down from the Board in connection with his retirement on 4 May 2016.

[9] The PSP awards awarded on 1 June 2015 have not met the performance conditions and will not vest. For further information see page 89.

[10] The PSP awards awarded on 13 May 2014 did not meet the performance conditions and did not vest. For further information see last year's Remuneration Report.

[11] 15 per cent salary supplement in lieu of pension.

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 included in the single figure table above for the period that each individual was a member of the Company's Board:

	Year	Company car £	Cash allowance in lieu of company car £	Fuel benefit £	Travel allowance £	Medical insurance £	Total £
Executive directors							
D J White	**2017**	**-**	**6,000**	**-**	**-**	**641**	**6,641**
	2016	-	-	-	-	-	-
M A Whiteling	**2017**	**-**	**3,000**	**75**	**-**	**358**	**3,433**
	2016	-	-	-	-	-	-
D I Sutherland	**2017**	**-**	**13,896**	**2,208**	**-**	**1,869**	**17,973**
	2016	-	13,896	1,428	-	1,685	17,009
Former directors[1]							
A M Ringrose	**2017**	**-**	**12,795**	**2,137**	**-**	**1,228**	**16,160**
	2016	-	19,192	1,429	-	1,685	22,306
T P Haywood	**2017**	**10,294**	**-**	**4,534**	**-**	**1,026**	**15,854**
	2016	12,876	-	5,665	-	1,246	19,787
B A Melizan	**2017**	**-**	**12,276**	**-**	**9,886**	**1,706**	**23,868**
	2016	798	12,986	-	10,784	1,685	26,253
S L Dance	**2017**	**-**	**-**	**-**	**-**	**-**	**-**
	2016	4,443	-	1,929	-	407	6,779
Total	**2017**	**10,294**	**47,967**	**8,954**	**9,886**	**6,828**	**83,929**
	2016	18,117	46,074	10,451	10,784	6,708	92,134

[1] Values represent the benefit received as a serving director during the year.

2. Determination of 2017 Annual Variable Pay

Bonus targets applying to Adrian Ringrose, Tim Haywood, Bruce Melizan and Dougie Sutherland

Bonuses for the directors in post at the start of 2017 were subject to the targets set at the start of 2017 with individual bonus opportunities also reduced based on their period of employment with the Company. The targets were tailored by individual role and reflected the Company's focus on delivering profitable growth, debt reduction and strategic priorities which included delivering against the Sustain*Abilities* agenda, effective health and safety, and managing a successful exit from the EfW business. The actual targets set and performance against the targets is set out below.

Metric	Maximum award as a percentage of salary	Performance target	Percentage of salary	Extent of achievement	Actual award as a percentage of salary
Targets applicable to Adrian Ringrose (01.01.17 to 31.08.17), Tim Haywood (01.01.17 to 30.09.17) and Bruce Melizan (01.01.17 to 30.11.17)					
Normalised EPS[1]	70%	Less than 58.6p	0%	31.4p per share – target not achieved	nil
		58.6p to 65.1p	7% to 42% pro rata		
		65.1p to 71.6p	42% to 70% pro rata		
		Above 71.6p	70%		
Average net debt	30%	Greater than £460 million	0%	£501 million – target not achieved	nil
		Less than £460 million but greater than £400 million	0% to 30%		
		Less than £400 million	30%		
Targets applicable to Dougie Sutherland					
Normalised EPS[1]	52.5%	Less than 58.6p	0%	31.4p per share – target not achieved	nil
		58.6p to 65.1p	5.25% to 31.5%		
		65.1p to 71.6p	31.5% to 52.5%		
		Above 71.6p	52.5%		
Average net debt	22.5%	Greater than £460 million	0%	£501 million – target not achieved	nil
		Less than £460 million but greater than £400 million	0% to 22.5%		
		Less than £400 million	22.5%		
Personal targets applicable to Adrian Ringrose (01.01.17 to 31.08.17)					
Sustain*Abilities*	12.5%	Deliver the Board's Sustain*Abilities* agenda		A balanced scorecard of objectives operated which were only met in part, triggering 3.8% of the maximum	nil
Health and Safety	12.5%	Achievement of Group Annual Safety Plan targets		This target was only met in part and there was a fatality within the Group, resulting in 5.5% achievement	nil
Personal targets applicable to Tim Haywood (01.01.17 to 30.09.17) and Dougie Sutherland					
Deliver Board strategic targets	25%	Efficient management of the Exited EfW business including, but not limited to, no increase being required in the current provision		Target not achieved	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.

In summary, based on the above performance, a bonus was eligible to be paid to Adrian Ringrose at 9.3 per cent of his pro-rata salary. However, in light of the challenges faced by the Company during the year, a fatality in the Group while fulfilling Company business, and the Company's share price over the year, the Committee used its discretion to determine that no bonus would be paid to the former Chief Executive.

Directors' remuneration report continued

As detailed in the Chairman's Summary Statement, 2017 was an exceptional year at Interserve which included a change in the executive leadership of the Company. In light of the challenges faced by the Company, detailed in the Chairman's Statement and Strategic Report, and the timing of the appointment of the Chief Executive Officer and Chief Financial Officer, the Committee set specific strategic targets that reflected the immediate priorities of the Board at the time of their appointment. This approach was consistent with the terms of the Remuneration Policy. At the time of setting the tailored targets, the Committee's intention was to limit the bonuses that the new executives could earn to two-thirds of the normal pro-rata maximum for the period of their employment in the current financial year to take account of the difficulties faced by the Company during 2017. However, in light of the substantial improvement in the financial position of the Company achieved by the time the Company concluded the 2017 audit, the Committee concluded that the new directors should be eligible to earn up to the normal pro-rata maximum bonuses (subject to meeting the performance targets). Based on this position, the extent of achievement against each target set and the bonus payable (in line with the Company's Remuneration Policy) is set out below.

Bonus targets applying to the Chief Executive Officer and Chief Financial Officer

Strategic objectives	Maximum award	Performance target	Extent of achievement	Actual award as a percentage of annual salary (rounded to two decimal places)
Personal targets applicable to Debbie White (01.09.17 to 31.12.17)				
(a) To deliver a recovery plan involving the reorganisation of the business.	Each strategic objective carries an equal weighting and represents, in each case, a bonus opportunity of up to 13.85% of basic salary.	A qualitative review shall be conducted by the Committee against each strategic objective separately as follows: 50% of maximum: if demonstrable progress is made; 75% of maximum: if good progress has been achieved; or 100% of maximum: if exceptional progress has been achieved.	(a) Target met in full following a detailed recovery and transformation plan was developed and approved by the Board and in the process of being implemented by year end.	13.85%
(b) To show leadership, instil confidence in and cement relationships with key stakeholders.			(b) Target met in full following feedback to the Company Chairman from a broad range of key stakeholders confirming that the new CEO had led a marked improvement in confidence.	13.85%
(c) To appraise the current leadership team, identify any skills gaps and possible candidates and commence the early stages of recruitment by the end of Q4 with a view to strengthening and rebuilding a sustainable top team.			(c) Target met in full following Stage 1 of a leadership assessment programme being undertaken and implemented with internal capabilities being substantially strengthened with new senior appointments.	13.85%
Personal targets applicable to Mark Whiteling (01.10.17 to 31.12.17)				
(a) To conduct constructive discussions with banking providers, PPN holders and bond sureties with a view to securing support through to 31 March 2018.	Each strategic objective carries an equal weighting and represents a bonus opportunity of up to 10.42% of basic salary.	A qualitative review shall be conducted by the Committee against each strategic objective as follows: 50% of maximum: if demonstrable progress is made; 75% of maximum: if good progress has been achieved; or 100% of maximum: if exceptional progress has been achieved.	(a) Target met in full following successful discussions with lenders and other stakeholders in relation to the deferral of covenant tests and the enhancement of current financing facilities.	10.42%
(b) In parallel with the foregoing, look at alternative capital funding schemes.			(b) Target met in full following the Board presentations on a broad range of alternative financing on appropriate terms.	10.42%
(c) To address the structure of the finance structure to aid transparency.			(c) Targets met in full through a full review of the current financing structure and clarity on the preferred future structure of debt and associated facilities.	10.42%

The above targets were also underpinned by a requirement to achieve a threshold level of financial performance in the final quarter of 2017. This was achieved in full as a result of (i) there being no breach of the Group's committed banking facilities or the Note Purchase Agreement (with a net debt to EBITDA test excluded for this condition) and cash flow being in line with the fourth-quarter plan.

As a result of the above, and the Committee's general view that the Chief Executive Officer and Chief Financial Officer's performance had been exceptional in challenging circumstances for the period of 2017 that they were employed, bonuses were payable at 100 per cent of the pro-rata maximum for the Chief Executive Officer and Chief Financial Officer respectively (i.e. circa 42 per cent and 31 per cent of salary).

The above provides full disclosure of the financial targets operated during the year and actual performance against those targets. In relation to non-financial targets, an overview has been provided which omits targets that are considered commercially sensitive. It is not anticipated that further disclosures in respect of 2017 performance will be provided but this position will be reviewed when preparing the 2018 Annual Report on Remuneration.

3. Determination of 2017 Performance Share Plan payments

The analysis below explains how the PSP payments for the performance period ending 31 December 2017 were determined.

The PSP awards granted on 1 June 2015 were based on performance over the three-year period from 1 January 2015 to 31 December 2017 and were subject to the following performance conditions:

The EPS Performance Condition for two-thirds of the 2015 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 18%	0%
18% to 32%	25% to 65% (pro-rated)
32% to 58%	65% to 100% (pro-rated)
Greater than 58%	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, and 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, the decline in normalised EPS from 67.9 pence per share to 29.0 pence per share over the three-year performance period for the 2015 award represented a 57 per cent decline. 18 per cent growth in normalised EPS was required for threshold vesting to occur.

The TSR Performance Condition for one-third of the 2015 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	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.

4. Directors' pension entitlements

Defined Contribution Scheme

During 2017 none of the executive directors were active participants of the Defined Contribution section of the Interserve Pension Scheme and, as at 31 December 2017, all the executive directors who were former members of the Scheme 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

Details are set out below of the payments to directors stepping down from the Board in 2017.

(a) Adrian Ringrose

Salary and benefits

As announced on 14 November 2016, Adrian Ringrose stepped down from the Board following the appointment of Debbie White. In connection with the termination of his employment on 31 August 2017, he received £325,593 which consisted of £27,781 accrued but untaken holiday entitlement and £297,812 for payment in lieu of the balance of his notice period (with notice to terminate his employment having taken place on 7 March 2017 following the identification and announcement of the appointment of a successor). In addition, he also has a taxable benefit in relation to continued provision under the Company's PMI scheme of £641 for the period from 1 September 2017 to 31 December 2017.

Directors' remuneration report continued

Treatment of Annual Variable Pay

In line with his continued employment in 2017, the Committee determined he would remain eligible to receive a pro-rata bonus based on the period of his employment subject to satisfying the bonus plan's targets. As detailed above, no bonus will be payable in relation to 2017 performance.

Treatment of share awards

In view of Mr Ringrose's continued employment and, in line with the rules of the PSP 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 the respective performance periods, subject to the applicable performance conditions being satisfied, and time pro-rating to the end of Mr Ringrose's notice period (7 March 2018). 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.

The 131,604 nil-cost share options awarded to Mr Ringrose under the PSP in 2015 will not vest.

The shares purchased by Mr Ringrose under the Share Incentive Plan (partnership shares), together with any dividend shares held, have been transferred to him in accordance with the rules 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.

(b) Tim Haywood

Salary and benefits

As announced on 30 June 2017, Tim Haywood stepped down from the Board on 30 September 2017. As further announced on 2 October 2017, Mr Haywood remained employed by the Company until 30 November 2017 both to support the new Chief Executive Officer and assist in the transition to his successor, the new Chief Financial Officer. During this period he continued to receive his salary, pension and benefits as well as a payment of £1,935 in respect of his accrued but untaken holiday entitlement as at 30 September 2017, in line with the provisions in his service agreement and the Company's Remuneration Policy. For the period from 1 December 2017 to 30 November 2018, Mr Haywood will receive a monthly payment of £31,519 (which is equivalent to his basic monthly salary) in lieu of the 12 months' notice period included in his contract. However, should Mr Haywood obtain a comparable position during the notice period, whereby he is directly or indirectly remunerated (whether by way of salary, bonus, pension, fees, equity or otherwise) the monthly payments from the Company will be reduced or extinguished by the amount of that direct or indirect remuneration.

Treatment of Annual Variable Pay

In light of Mr Haywood's continuation in active employment, consistent with the Company's Remuneration Policy, the Committee determined he would remain eligible to receive a pro-rata bonus based on the period of his employment subject to satisfying the bonus plan's targets. As detailed above, no bonus will be payable in relation to 2017 performance.

Treatment of share awards

In view of Mr Haywood's continued employment and, in line with the rules of the PSP 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 86,140, 127,711 and 256,562 shares, granted in 2015, 2016 and 2017, respectively, will, after the application of performance conditions, become exercisable at the end of their respective performance periods, subject to the applicable performance conditions being satisfied and will be reduced pro-rata to 30 November 2017.

The two-year holding period, clawback and recovery and withholding provisions contained within the relevant awards will apply to any vested shares. Any dividend equivalents will be satisfied in cash following the vesting date in accordance with the Plan rules.

The 86,140 nil-cost share options awarded to Mr Haywood under the PSP in 2015 will not vest.

Mr Haywood's awards under the all-employee Sharesave Scheme and Share Incentive Plan will be treated in accordance with the rules of the respective plans, details of which are set out in the table on page 75.

General

In addition, a payment of £7,500 (excluding VAT) was made in connection with legal fees incurred in preparing a settlement agreement in connection with his stepping down from the Board.

(c) Bruce Melizan

Salary and benefits

As announced on 1 December 2017, Bruce Melizan stepped down from the Board on 30 November 2017, and ceased employment with the Company on 31 January 2018 following his role being made redundant in connection with a restructuring of the senior roles and responsibilities within the Company's Fit for Growth programme.

For the period until his role was made redundant on 31 January 2018, during which time Mr Melizan carried out handover duties and the transfer of key client relationships, he continued to receive his salary, pension, a company car allowance and other contractual benefits. Following his departure on 31 January 2018, Mr Melizan received a payment of £357,213 in lieu of notice of one year's base salary in accordance with his service agreement, together with a statutory redundancy payment of £9,047.

Treatment of Annual Variable Pay

Mr Melizan was a participant of the Annual Variable Pay scheme for the financial year ending 31 December 2017. The amount of any bonus payment was subject to the satisfaction of the relevant performance conditions, as set out on page 87 of this report and as determined by the Remuneration Committee in March 2018. As detailed above, no bonus will be payable in relation to 2017 performance.

Treatment of share awards

In line with the rules of the PSP and the Company's Remuneration Policy and in connection with his redundancy, the Committee resolved to treat Mr Melizan as a "good leaver" under the Plan. His unvested nil-cost share option awards over 81,355, 120,616 and 242,309 shares, granted in 2015, 2016 and 2017, respectively, will, after the application of performance conditions, become exercisable at the end of their respective performance periods, subject to the applicable performance conditions being satisfied and will be reduced pro-rata to 31 January 2018.

The two-year holding period, clawback and recovery and withholding provisions contained within the relevant awards will apply to any vested shares. Any dividend equivalents will be satisfied in cash following the vesting date in accordance with the Plan rules.

The 81,355 nil-cost share options awarded to Mr Melizan under the PSP in 2015 will not vest.

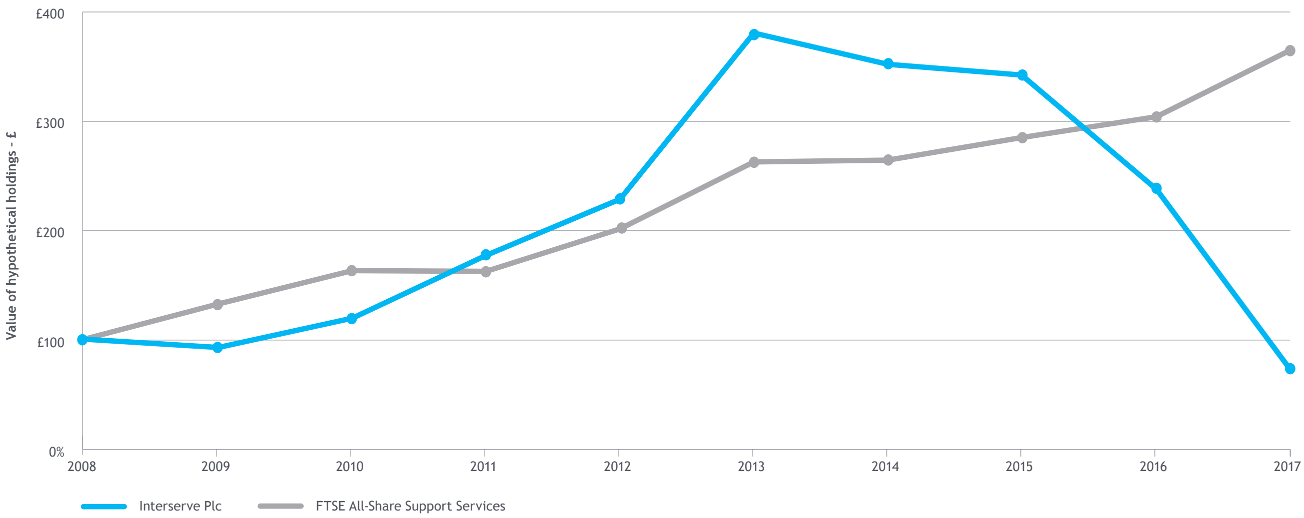
General

A payment of £7,500 (including VAT) was made in connection with legal fees incurred in preparing a settlement agreement in connection with his stepping down from the Board. As part of his redundancy, the Company also contributed £20,000 (excluding VAT) towards outplacement support. These contributions were paid after the year end.

Performance graph

The graph below shows the value, on 31 December 2017, 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 nine years:

	2017	2016	2015	2014	2013	2012	2011	2010	2009
Total remuneration (£000)	985[1]	679	1,418	1,797	2,054	1,928	1,318	543	943
Annual Variable Pay (% of maximum)	33.0%[2]	nil	77.8%	62.6%	58.7%	100.0%	100.0%	30.0%	98.0%
PSP vesting (% of maximum)	nil[3]	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.

1 This figure represents the total remuneration for Adrian Ringrose for the period during the year that he served as Chief Executive (1 January to 31 August 2017) combined with the total remuneration for Debbie White for the period during the year that she served as Chief Executive Officer (1 September to 31 December 2017).

2 This figure represents the average bonus paid based on Adrian Ringrose receiving no bonus (0% of the maximum) for the eight-month period from 1 January 2017 to 31 August 2017 and Debbie White receiving a bonus (100% of the maximum) for the period of four months from 1 September 2017 to 31 December 2017.

3 This figure represents the maximum vesting potential of PSP awards with performance conditions ending at 31 December 2017; in this case, the PSP award granted to Adrian Ringrose on 1 June 2015 which did not vest. The recruitment award to Debbie White (detailed on page 96) is excluded since it does not relate to performance at Interserve.

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 2016 and 31 December 2017, compared to the percentage increase for UK Senior Management (on a per capita basis):

	Percentage change
Salary	
Chief Executive[1]	nil
Senior Management[2]	0.85%
Benefits	
Chief Executive[1]	(0.90%)
Senior Management[2]	(8.32%)
Annual Bonus	
Chief Executive[1]	nil
Senior Management[2]	(0.58%)[3]

1 For the purposes of providing comparable year-on-year figures for the Chief Executive, the percentage change relates to Adrian Ringrose for the period he served as Chief Executive during the year (1 January to 31 August 2017). There were no changes to the range of benefits provided to Adrian Ringrose for the period to 31 August 2017.

2 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.

3 This figure is an estimate only of the 2017 bonus. The actual amount will only be known once the May 2018 payroll has been run. To the extent that there is a material difference this will be disclosed in the 2018 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 2016 compared to the financial year ending 31 December 2017:

	2017 £million	2016 £million	Percentage change
Overall expenditure on pay	1,282.0	1,153.7	11%
Dividends paid	-	11.8	(100%)

Performance Share Plan (audited information)

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

	Date of grant	Number of shares	Face value £	Performance period	Exercise period
Executive directors					
D J White[1]	11.09.17	599,778	968,641[6]	01.01.17 - 31.12.19	11.09.20 - 10.09.22
M A Whiteling[2]	02.10.17	526,840	612,452[7]	01.01.17 - 31.12.19	02.10.20 - 01.10.22
D I Sutherland	06.04.17	213,802	477,847[8]	01.01.17 - 31.12.19	06.04.20 - 05.04.22
Former directors					
A M Ringrose[3]	n/a	n/a	n/a	n/a	n/a
T P Haywood[4]	06.04.17	256,562	573,416[8]	01.01.17 - 31.12.19	06.04.20 - 05.04.22
B A Melizan[5]	06.04.17	242,309	541,561[8]	01.01.17 - 31.12.19	06.04.20 - 05.04.22

1 Debbie White was appointed on 1 September 2017.
2 Mark Whiteling was appointed on 1 October 2017.
3 Adrian Ringrose stepped down from the Board on 31 August 2017.
4 Tim Haywood stepped down from the Board on 30 September 2017. His award will be subject to a pro-rata reduction and performance targets will apply as detailed on page 90.
5 Bruce Melizan stepped down from the Board on 30 November 2017. His award will be subject to a pro-rata reduction and performance targets will apply as detailed on page 91.
6 Valued using the share price at the date of grant, being 161.50p per share.
7 Valued using the share price at the date of grant, being 116.25p per share.
8 Valued using the share price at the date of grant, being 223.50p per share.

All awards were made in the form of nil-cost options equivalent to 150 per cent of base salary.

As disclosed last year, the performance conditions attached to the awards to the executive directors in post at the start of the 2017 financial year were a combination of EPS growth and relative TSR performance conditions as detailed below.

The EPS condition (determining two-thirds of the award) measures EPS growth from the 2016 normalised EPS result through to the conclusion of the 2019 financial year.

Normalised EPS 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%

The relative TSR condition (determining one-third of the award) compares the Company's TSR performance to the TSR of each company in the FTSE Small Cap and 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%

In light of the challenges faced by the business during the year under review and the fact that the above targets were set prior to the appointments of the current Chief Executive Officer and Chief Financial Officer, the Committee used its discretion to replace the above conditions for these directors. While our 2015 Remuneration Policy stipulates that EPS and TSR conditions must be set for PSP awards, the policy includes a market standard discretion where circumstances change to set different measures to ensure that the targets fulfil their intended purpose (i.e. align executives with the long-term success of the Company and its stakeholders).

In light of the events that occurred during 2017, the Committee determined that EPS growth measured from the 2016 EPS result and relative TSR measured from the start of the 2017 financial year were no longer appropriate in the context of the changed circumstances of the Company in the year. As a result, targets that align with the core strategic priority of reducing net debt through to the conclusion of the 2019 financial year were set for the new Chief Executive Officer and new Chief Financial Officer. The targets are structured as a challenging sliding scale that reflect the net debt forecast position presented to lenders and other stakeholders in relation to the Company's refinancing. Only out-performance results in potential vesting. The Committee will retain discretion to adjust the vesting of these awards if it does not consider the level of vesting to be supported by underlying financial and share price performance over the same period.

Directors' remuneration report continued

The range of targets set to apply to the 2017 awards detailed above for Debbie White and Mark Whiteling are as follows:

Average Q4 2019 net debt	Vesting percentage of the award
Less than target	0%
Target	25%
Between target and maximum	25% to 100% (pro-rated)
Maximum (89.2% of target to reflect reduced debt aspiration)	100%

The actual average net debt numbers underpinning the above sliding scale are considered to be commercially sensitive and as a result have not been included above. However, since no vesting takes place unless the base case numbers presented to the Company's lenders and other stakeholders are achieved, allied to the underpin, the Committee is satisfied that the targets are appropriately demanding and appropriate in the current circumstances. The Committee will publish the actual targets and the Company's performance against them in the 2019 Directors' Remuneration Report.

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:

	Date granted	Balance as at 1 January 2017*	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 2017*	Performance period
Executive directors											
D J White	11.09.17	-[1]	599,778	161.50	-	n/a	n/a	-	n/a	599,778	01.01.17-31.12.19[9]
M A Whiteling	02.10.17	-[2]	526,840	116.25	-	n/a	n/a	-	n/a	526,840	01.01.17-31.12.19[9]
D I Sutherland	13.05.14	61,908	-	694.00	-	n/a	n/a	61,908	n/a	-	01.01.14-31.12.16[6]
	01.06.15	71,784	-	619.50	-	n/a	n/a	-	n/a	71,784	01.01.15-31.12.17[7]
	05.04.16	106,425	-	419.60	-	n/a	n/a	-	n/a	106,425	01.01.16-31.12.18[8]
	06.04.17	-	213,802	223.50	-	n/a	n/a	-	n/a	213,802	01.01.17-31.12.19[9]
Former directors											
A M Ringrose	13.05.14	104,005	-	694.00	-	n/a	n/a	104,005	n/a	-[3]	01.01.14-31.12.16[6]
	01.06.15	131,604	-	619.50	-	n/a	n/a	-	n/a	131,604[3]	01.01.15-31.12.17[7]
	05.04.16	195,114	-	419.60	-	n/a	n/a	-	n/a	195,114[3]	01.01.16-31.12.18[8]
T P Haywood	13.05.14	74,893	-	694.00	-	n/a	n/a	74,893	n/a	-[4]	01.01.14-31.12.16[6]
	01.06.15	86,140	-	619.50	-	n/a	n/a	-	n/a	86,140[4]	01.01.15-31.12.17[7]
	05.04.16	127,711	-	419.60	-	n/a	n/a	-	n/a	127,711[4]	01.01.16-31.12.18[8]
	06.04.17	-	256,562	223.50	-	n/a	n/a	-	n/a	256,562[4]	01.01.17-31.12.19[9]
B A Melizan	13.05.14	61,908	-	694.00	-	n/a	n/a	61,908	n/a	-[5]	01.01.14-31.12.16[6]
	01.06.15	81,355	-	619.50	-	n/a	n/a	-	n/a	81,355[5]	01.01.15-31.12.17[7]
	05.04.16	120,616	-	419.60	-	n/a	n/a	-	n/a	120,616[5]	01.01.16-31.12.18[8]
	06.04.17	-	242,309	223.50	-	n/a	n/a	-	n/a	242,309[5]	01.01.17-31.12.19[9]

[1] As at 1 September 2017, when Debbie White was appointed to the Board.
[2] As at 1 October 2017, when Mark Whiteling was appointed to the Board.
[3] As at 31 August 2017, when Adrian Ringrose stepped down from the Board.
[4] As at 30 September 2017, when Tim Haywood stepped down from the Board.
[5] As at 30 November 2017, when Bruce Melizan stepped down from the Board.
[6] As detailed in last year's Remuneration Report, the 2014 PSP award's performance conditions were not met and the awards lapsed in full.
[7] As detailed on page 89, the 2015 PSP award's performance conditions were not met and the awards will lapse in full.

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

[8] **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%

[8] **The TSR Performance Condition for the 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%

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

[9] The performance conditions applying to the 2017 awards are detailed on pages 93 and 94.

Directors' remuneration report continued

Chief Executive Officer's buy-out awards (audited information)

On 11 September 2017 Debbie White was granted a share award over the Company's shares to replace her forfeited awards from previous employment. Consistent with the Company's Remuneration Policy, the share award replicates, as far as practicable, the terms (including performance conditions where relevant and time period to vesting) and value of awards forfeited by Mrs White in agreeing to join the Company. Where forfeited awards were subject to performance conditions, these awards have been exchanged for shares in Interserve at an equivalent face value at the date she joined the Company but with the number of shares vesting remaining subject to the extent to which the performance conditions in her previous employer are ultimately met. This approach results in the new Chief Executive Officer being aligned with Interserve shareholders through holding an interest in the Company's shares but results in no personal benefit being derived from the switching of employment. Details of the performance conditions applying to Mrs White's share awards are included in the Report and Accounts of Mrs White's previous employer. Where share awards were not subject to performance conditions (i.e. shares were awarded that vested based on continued employment only), these shares were replaced by an equivalent value of Interserve shares calculated at the time of commencing employment with vesting to take place over the same time period as the awards forfeit. No consideration was paid for the grant of these awards.

The share awards (which are over 1,897,899 shares in total) will vest, subject to the rules governing the award and to Mrs White's ongoing employment with the Company, in the following tranches on the vesting dates set out below.

Tranche	Total number of shares under award granted	Vesting date	Performance condition
1	481,158	11.03.2018	No
2	267,310	27.04.2019	No
3	133,655	27.04.2019	Yes
4	133,655	27.04.2019	Yes
5	133,655	09.09.2019	No
6	66,827	09.09.2019	Yes
7	66,827	09.09.2019	Yes
8	307,406	27.04.2020	No
9	153,703	27.04.2020	Yes
10	153,703	27.04.2020	Yes

It is currently anticipated that the awards will be satisfied by market purchase shares.

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 (2016: £nil). The market price of the shares as at 31 December 2017 was 95.50p. The highest and lowest market prices of the shares during the financial year were 352.75p and 63.00p 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 up to 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:

	Date granted	Balance as at 1 January 2017	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 2017	Exercise period
Executive directors											
D J White	n/a	-[1]	-	n/a	n/a	-	n/a	-	n/a	-	n/a
M A Whiteling	n/a	-[2]	-	n/a	n/a	-	n/a	-	n/a	-	n/a
D I Sutherland	09.04.14	352	-	696.50	511.00	-	n/a	352	n/a	-	01.06.17-30.11.17
Former directors											
A M Ringrose	n/a	-	-	n/a	n/a	-	n/a	-	n/a	-[3]	n/a
T P Haywood	09.04.14	352	-	696.50	511.00	-	n/a	352	n/a	-[4]	01.06.17-30.11.17
	30.09.14	340	-	599.50	529.00	-	n/a	-	n/a	340[4]	01.12.17-31.05.18
	14.10.15	385	-	592.50	467.00	-	n/a	-	n/a	385[4]	01.12.18-31.05.19
B A Melizan	09.04.14	352	-	696.50	511.00	-	n/a	352	n/a	-[5]	01.06.17-30.11.17
	30.09.14	340	-	599.50	529.00	-	n/a	-	n/a	340[5]	01.12.17-31.05.18
	14.10.15	385	-	592.50	467.00	-	n/a	-	n/a	385[5]	01.12.18-31.05.19

1 As at 1 September 2017, when Debbie White was appointed to the Board.
2 As at 1 October 2017, when Mark Whiteling was appointed to the Board.
3 As at 31 August 2017, when Adrian Ringrose stepped down from the Board.
4 As at 30 September 2017, when Tim Haywood stepped down from the Board.
5 As at 30 November 2017, when Bruce Melizan stepped down 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 76.

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 2017		
	31 December 2017 Beneficially owned	31 December 2016 Beneficially owned	Outstanding vested PSP awards	% shareholding requirement (% of salary/fee)	% actual shareholding (% of salary/fee)[1]
Executive directors					
D J White	65,408	-[2]		200%	9%
M A Whiteling	-	-[3]	-	200%	0%
D I Sutherland	149,145	149,145	-	200%	40%
Former directors					
A M Ringrose	563,729[4]	563,325	-	n/a	n/a
T P Haywood	162,741[5]	162,164	-	n/a	n/a
B A Melizan	110,448[6]	109,551	-	n/a	n/a
Non-executive directors					
G A Barker	93,970	5,670	-	n/a	n/a
G M Edwards	21,350	-[7]	-	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 84.91p, being the three-month average to 31 December 2017.
2 As at 1 September 2017, when Debbie White was appointed to the Board.
3 As at 1 October 2017, when Mark Whiteling was appointed to the Board.
4 As at 31 August 2017, when Adrian Ringrose stepped down from the Board.
5 As at 30 September 2017, when Tim Haywood stepped down from the Board.
6 As at 30 November 2017, when Bruce Melizan stepped down from the Board.
7 As at 1 February 2017, when Gareth Edwards was appointed to 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, there have been no 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 2017 there remained headroom equivalent to 2,311,019 shares over which options may be granted under the Company's share schemes.

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 Officer (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 Officer 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 Officer). 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.

Name	Date of appointment to Committee
K L Ludeman (Committee Chairman)[1]	1 January 2011
G A Barker	1 January 2016
G M Edwards	23 June 2017
A K Fahy	1 January 2013
R J King	1 September 2014
N R Salmon	1 August 2014

[1] Appointed as Committee Chairman on 9 July 2014.

The Committee meets as often as is necessary to discharge its duties and met eight times during the year ended 31 December 2017. Members' attendance at the meetings is set out in the table on page 55. The Chief Executive Officer and Chief Financial Officer 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 former Chief Executive. The Committee also received advice from Korn Ferry and Trevor Bradbury, the former Company Secretary, which materially assisted the Committee in relation to the 2017 financial year. Executives are not present when matters affecting their own remuneration arrangements are decided.

Korn Ferry was appointed to provide independent advice to the Committee on remuneration matters 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. The fees paid to Korn Ferry in respect of its services to the Committee during the year was £58,130 excluding VAT. The advice provided included providing IFRS 2 and performance monitoring in addition to providing advice in relation to the design and implementation of incentive arrangements. The Committee is satisfied that the advice it has received from Korn Ferry has been objective and independent and the Committee reviews the performance of its advisers periodically.

Representatives from Korn Ferry meet 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.

Statement of shareholder voting at AGM

At the AGM held on 12 May 2017, 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	72,869,236	99.82	134,030	0.18	73,003,266	8,315

The directors' Remuneration Policy did not require a shareholder vote in 2017.

APPROVAL

The Directors' Remuneration Report was approved by the Board of Directors on 27 April 2018 and signed on its behalf by:

Keith Ludeman

Chairman of the Remuneration Committee
27 April 2018

Directors' report

DANIEL BUSH
COMPANY SECRETARY

The directors of Interserve Plc (the Company) present their report and the audited consolidated financial statements for the year ended 31 December 2017.

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 (the DTRs) of the Financial Conduct Authority (the 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 109, and 112 to 121, 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 pages 39 and 40 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 201 to 207.

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 is available on our website at *www.interserve.com* or 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 122 shows Group loss before taxation of £244.4 million (2016: loss of £94.1 million). The detailed results of the Group are given in the financial statements on pages 122 to 183 and further comments on divisional results are given in the Operational Review on pages 18 to 27.

On 21 March 2018 the Group announced agreement in principle on the major commercial terms of a refinancing. Under this refinancing the Group has agreed additional committed borrowing facilities, bringing aggregate committed borrowing facilities to £834 million. Of this, £249 million relates to the $350 million of US private placement. The new facilities will mature in September 2021 and all existing debt and private placement loan notes will be amended to be co-terminus with the new facilities. Additionally, as part of the proposed deal terms, the Company anticipates that it will issue warrants to the providers of the new cash and bonding facilities to buy shares at 10 pence per share (the nominal price of each share). If exercised, this would provide the warrant holders with an interest of up to 20 per cent of the post-issue share capital. As part of this refinancing the maturity date of the existing interim financing, and the date of covenant test, were extended until 30 April 2018. See note 20 to the consolidated financial statements for further details.

Further post-balance sheet events that require disclosure or adjustment in the financial statements can be found in note 20 and the Financial Review on pages 32 to 44.

DIVIDENDS

No interim dividend was paid in respect of the 2017 financial year (2016: 8.1p per ordinary share). The directors do not recommend a final dividend to be paid for 2017 (2016: nil).

Link Trustees (Jersey) 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 Link Market Services Trustees (Nominees) Limited. As no dividends were paid during the 2017 financial year, no dividends were waived over shares held by the Trust (2016: 1,497,773 shares).

DIRECTORS AND DIRECTORS' INTERESTS

The following have served as directors during the year:

Glyn Barker* (Group Chairman)
Gareth Edwards*[1]
Anne Fahy*
Tim Haywood[2]
Russell King* (Senior Independent Director)
Keith Ludeman*
Bruce Melizan[3]
Adrian Ringrose[4]
Nick Salmon*
Dougie Sutherland
Debbie White[5] (Chief Executive Officer)
Mark Whiteling[6] (Chief Financial Officer)

* Non-executive director
1 Appointed to the Board on 1 February 2017
2 Stepped down from the Board on 30 September 2017
3 Stepped down from the Board on 30 November 2017
4 Stepped down from the Board on 31 August 2017
5 Appointed to the Board on 1 September 2017
6 Appointed to the Board on 1 October 2017

The biographical details of the directors of the Company are given on pages 48 to 51.

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 93 to 98 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.

Directors' report continued

APPOINTMENT AND REPLACEMENT OF DIRECTORS

The Board must comprise of not less than three and no more than twelve directors. Directors may be appointed by shareholders (by ordinary resolution) or by the Board.

Under the Company's Articles, 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. Debbie White and Mark Whiteling will therefore be standing for election at the AGM on 12 June 2018.

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 (with the exception of Keith Ludeman who has informed the Board of his intention to stand down at the conclusion of the AGM in order to take on increased responsibilities elsewhere) 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 26 of the Strategic Report. The Group's statement with regard to its employees, including its disclosure on employee consultation, equal opportunities and diversity, is set out within the Strategic Report on pages 24 to 26.

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 reported, in addition to emissions associated with our construction sites. This has not been the case in previous years; hence we have retrospectively calculated GHG emissions arising for past years. We have not included data from our Justice division owing to a reliance on estimated data for leased buildings.

Summary table

Global GHG emissions data for 1 January 2017 to 31 December 2017, with comparable, re-stated data for 2013 to 2016, is as follows:

	Tonnes CO_2e				
	2017	2016	2015	2014	2013
Emissions from:					
- Combustion of fuel and operation of facilities	61,596	79,949[1]	61,352	64,440	61,174
- Electricity, heat, steam and cooling purchased for own use	14,476	14,366	20,133	14,331	13,045
Intensity measurement:					
- Emissions reported above, normalised to tonnes CO_2e per £m revenue	23.24	28.70	25.09	25.03	31.54

[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 (2016: £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 pages 39 and 40.

SHARE CAPITAL AND STRUCTURE

General

The Company's issued share capital as at 31 December 2017 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.

No shares were issued during the year. The Company's issued share capital at the end of the year stood at 145,714,120 (2016: 145,714,120) ordinary shares of 10p each (£14,571,412) (2016: (£14,571,412). 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).

Details of outstanding awards and options over shares in the Company as at 31 December 2017 are set out in notes 26 and 28 to the consolidated financial statements on pages 171 and 173 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 12 May 2017. Although no shares have been allotted by the Company under the authority granted at the 2017 AGM, in April 2018 the Company issued warrants over its ordinary shares representing 20 per cent of the Company's existing share capital as enlarged by the exercise of the warrants. Further details are set out in note 20 to the consolidated financial statements on page 162.

The directors propose resolution 17 set out in the Notice of AGM to renew the authority granted to them at the 2017 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.

Directors' report continued

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 2018 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 18) and an additional five per cent in connection with an acquisition or specified capital investment (resolution 19). In accordance with recommended best practice, the Company has 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 nil per cent of its issued share capital on a non-pre-emptive basis in 2017 and 1.2 per cent in the period 2015 to 2017 (calculated by reference to the Company's closing issued share capital at 31 December 2017).

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 17, 18 and 19 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 2017 AGM to repurchase up to 14,571,412 of the Company's ordinary shares in the market. This authority expires at the conclusion of the forthcoming AGM on 12 June 2018. No shares have been repurchased by the Company under the authority granted at the 2017 AGM.

Resolution 20 set out in the Notice of AGM will be proposed as a special resolution in order to renew this authority. Although the directors have no immediate plans to do so, they believe it is prudent to seek general authority from shareholders to be able to act if circumstances were to arise in which they considered such purchases to be desirable. This power will only be exercised if and when, in the light of market conditions prevailing at that time, the directors believe that such purchases would increase 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 2018 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 2018 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 a Regulatory News Service and on the Company's website at *www.interserve.com*.

General meetings

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

An AGM must be called on at least 21 days' clear notice. All other general meetings are also required to be held on at least 21 days' clear notice unless the Company offers shareholders an electronic voting facility and a special resolution reducing the period of notice to not less than 14 days has been passed. The directors are proposing resolution 22 set out in the Notice of AGM to renew the authority obtained at last year's AGM to reduce the notice period for general meetings (other than AGMs) to at least 14 days. It is intended that this shorter notice period will only be used for non-routine business and where merited in the interests of shareholders as a whole.

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

Providing that notice is given to the Company no later than six weeks before an AGM or no later than the date on which the notice of an AGM is given, shareholders representing at least 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.

Directors' report continued

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 2017 the Company had been notified, pursuant to paragraph 5 of the DTRs, of the following notifiable voting rights in its ordinary share capital:

Name of holder	Number of ordinary shares	Percentage of total voting rights[1]	Nature of holding
Coltrane Asset Management, LP	36,485,528	25.0	Indirect
Farringdon Capital Management[2]	17,597,634	12.1	Indirect
The Goldman Sachs Group, Inc	14,836,801	10.2	Indirect
Farringdon Capital Management: Fund I – SICAV[2]	8,872,902	6.1	Direct
Deutsche Bank AG	8,550,819	5.9	Direct
Standard Life Aberdeen plc	7,112,247	4.9	Indirect
Farringdon Capital Management: Fund II – SICAV[2]	4,504,514	3.1	Direct

[1] Calculated according to the number of total voting rights as at 31 December 2017.

[2] Farringdon's two direct holdings are included within its larger indirect holding.

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), the Company has been notified that the interests in the voting rights have changed as follows:

- Farringdon Capital Management[2] – decrease to 14,432,204 shares (9.9 per cent).
- The Goldman Sachs Group, Inc – decrease to 14,759,848 shares (10.1 per cent).
- Farringdon Capital Management: Fund I – SICAV[2] – decrease to 8,491,285 shares (5.8 per cent).
- Farringdon Capital Management: Fund II - SICAV[2] – decrease to 3,759,408 shares (2.6 per cent).
- J.P. Morgan Securities Plc (indirect holding) – increase to 7,774,644 shares (5.3 per cent) and subsequent decrease to below the minimum threshold.
- Old Mutual Plc (indirect holding) – increase to 7,549,196 shares (5.2 per cent) and subsequent decrease to 7,184,490 shares (4.9 per cent).

No further 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 debt documents detailed on pages 39 and 40 of the Strategic Report, if any person, or group of persons acting in concert, gains control of the Company, all facilities will be cancelled and all outstanding loans or instruments or notes under the debt documents, together with accrued interest and all other amounts payable under the debt documents, shall become immediately due and payable.
- 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 pages 79 and 80 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 June 2018, 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 27 April 2018 and signed on its behalf by:

Daniel Bush

Company Secretary

27 April 2018

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, give 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

D J White
Chief Executive Officer
27 April 2018

M A Whiteling
Chief Financial Officer

MANAGING SERVICES ACROSS THE BBC'S UK ESTATE

We won a £140 million contract with the BBC to continue providing facilities services across its UK estate until 2023.

This latest four-year extension to the account, which was first awarded in 2014, will see us provide total facilities management services across the broadcaster's UK estate. In total the contract covers 150 sites and 560,000 square metres of floorspace, including the corporation's major offices and production facilities at MediaCityUK in Salford, Broadcasting House in Portland Place, London and Pacific Quay in Glasgow.

The partnership covers 26 separate service lines reflecting the diversity of the BBC's operations across its estate and the need to deliver a coordinated and positive workplace experience for employees across the organisation's sites. Services ranging from critical broadcast engineering, energy and utilities management through to cleaning, portering and security are tailored to specific building requirements, including the need for 24-hour operations at several locations.

In addition to this contract, Interserve currently delivers security guarding and building contractor services for the broadcaster under separate frameworks.

Financial Statements

Independent auditor's report

to the members of Interserve Plc

Our opinion on the financial statements is unmodified

We have audited the financial statements of Interserve Plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Statement of Changes in Equity, the Consolidated Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced disclosure framework* (United Kingdom Generally Accepted Accounting Practice).

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 2017 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 United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public-interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to principal risks, going concern and viability statement

The ISAs (UK) require us to report to you whether we have anything material to add or draw attention to in respect of:

- the disclosures in the annual report set out on pages 28 to 31 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation, set out on page 109 of 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 directors' statement, set out on page 44 of the financial statements, about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation, set out on pages 40 to 44 of 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.

We draw attention to the viability statement disclosures in the Annual Report on pages 40 to 44, which reference a number of key risks and uncertainties which could impact on the conditions associated with the banking covenants. Other than this matter, we have nothing to report in respect of the above.

Overview of our audit approach

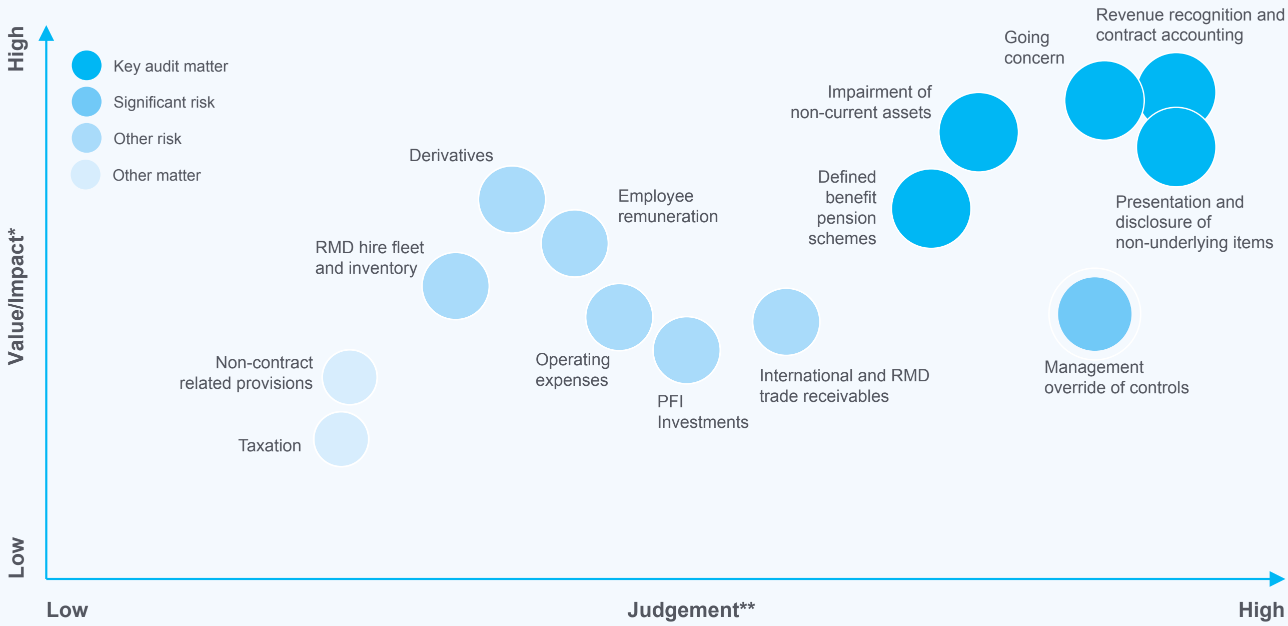
Key audit matters were identified as going concern, revenue recognition and contract accounting, the presentation and disclosure of non-underlying items, impairment of non-current assets and defined benefit pension schemes.

Overall Group materiality: is £3.3 million which represents approximately 1.35 per cent of the Group's loss before tax.

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

Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.



* 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

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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 key audit matters:

Key audit matter

Going concern (Group and parent)

See the Group statement on going concern on page 44 and the Group's viability statement on pages 40 to 44.

The Group first announced to the market on 13 December 2017 that it had secured additional short-term committed funding, providing a platform for continued discussions with the Group's lenders, with a view to securing longer-term funding. A further update was given to the market on 21 March 2018, indicating that short-term facilities had been extended for a further month to 30 April 2018. The Group announced that it had concluded refinancing negotiations and had arranged access to committed borrowing facilities of £834 million on 27 April 2018.

How the matter was addressed in the audit

We responded to the risk by adding a team of restructuring specialists as auditor's experts on our team so as to provide relevant expertise, working alongside the core audit team.

Our work included, but was not restricted to:

- evaluating the assumptions and judgements made in the Group's debt-free cash flow forecast, for the three-year period ending 31 December 2020 ('the Adjusted Cash Flow Forecast');
- assessing the Group's future borrowing requirements, liquidity headroom and ongoing covenant obligations as set out within the Adjusted Cash Flow Forecast;
- assessing the appropriateness of sensitivities applied to the Adjusted Cash Flow Forecast to evaluate whether liquidity headroom and covenant compliance had been subjected to appropriate stress tests;
- assessing the appropriateness of risk factors disclosed in the viability statement, and their impact on the profit, working capital and balance sheet forecasts;
- reading term loan documentation to assess the accuracy of the calculation of proposed financial covenants within the Adjusted Cash Flow Forecast;
- analysing the Board's viability analysis to understand the key risk factors, the resultant scenarios modelled therefrom and the outcome of stress testing over the period covered; and
- challenging the sufficiency of management's disclosures over going concern and viability.

Key observations

As a result of our work, we concluded that there were no matters in relation to going concern to which the ISAs (UK) require us to report to you.

Key audit matter

How the matter was addressed in the audit

Revenue recognition and contract accounting (Group)

Revenue £3,666.9 million (2016: £3,685.2 million)

Trade receivables, accrued income and amounts due from construction contract customers £610.3 million (2016: £606.4 million)

See note 1 on page 135 and page 66 of the Audit Committee report.

Revenue is recognised in the Group financial statements as the fair value of consideration received or receivable in respect of provision of service and construction contracts. Provision is made for expected contract losses as soon as they are foreseen.

Determining the amount of revenue to be recognised in respect of construction and service contracts 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, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- 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), and on each selected contract carrying out the following procedures:
  - 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 purchase invoice or other 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 per the Group financial statements to the contracted amounts and reconciling differences to variations that were submitted during the period, or where amounts were not fixed in the contract, agreeing the revenue recognised to internal contract reporting;
  - testing a sample of revenue items for non-contract revenue, covering both hire and sale revenue, agreeing items selected for testing through to documented supporting existence;
  - evaluating management's assessment of forward loss provisions recorded on long-term contracts, including challenging management on the judgements inherent within the forecast revenue and profit on the contract, understanding the basis for projected claims income and cost savings, consideration of historical experience, comparing against expected outcomes, and considering a third party's contract review;
  - investigating the extent of historic recovery of work-in-progress balances held by the Group, with reference to certifications and correspondence from customers; and
  - testing key controls within the Construction division over contract execution, certification, invoicing, collections, cost approvals and cost allocations, to confirm they were executed as designed.

Key observations

As a result of our work, we concluded that revenue recognition and contract accounting was acceptable.

Independent auditor's report continued

to the members of Interserve Plc

Key audit matter	How the matter was addressed in the audit

Presentation and disclosure of non-underlying items (Group)

Non-underlying items £(298.7) million losses (2016, as restated: £(226.7) million)

See note 5 on page 144 and page 65 of the Audit Committee report, and the accounting policies.

The Group has presented separately certain items on the face of the Consolidated Income Statement as non-underlying. The directors believe that the resulting 'underlying' income statement reflects better the Group's trading performance during the year.

In the Group's reported results, significant adjustments have been made to statutory loss before tax of £244.4 million to derive underlying profit before tax of £52.4 million, and to statutory loss after tax of £254.4 million to derive underlying profit after tax of £44.3 million. The most significant of these are discussed in detail in note 5.

Non-underlying items are not defined by IFRSs as adopted by the European Union. Consequently, management have written an accounting policy to define non-underlying 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 a non-underlying transaction. In making this assessment, management has identified significant non-recurring transactions that by their size or nature require separate presentation. As such, there is a risk of management bias in the selection of the items identified as non-underlying.

Alternative performance measures can provide shareholders with appropriate additional information and understanding of a company's financial performance and strategy. However, when improperly used and presented, such measures might prevent the Annual Report being fair, balanced and understandable by confusing the real financial position and results or by making the results of the reporting entity seem more attractive. Failure to disclose clearly the nature and impact of material non-underlying earnings may distort the reader's view of the financial result in the year.

Our audit work included, but was not restricted to:

Classification

- inspecting and challenging the nature of the items included within non-underlying items as follows:
  - for contract-related items, agreeing the revenue and cost in the current and prior year to our work on that contract;
  - in each case, as these contracts represented a material judgement in their own right, we performed a detailed contract review which is commented on under the previous Key Audit Matter;
  - for non-contract items, obtaining a detailed breakdown of these items and obtaining an understanding of the nature of each cost; substantively testing a sample of items to invoice or other supporting evidence, confirming that the specific project or activity is one identified as non-underlying by management; and
- challenging the completeness of contracts identified as non-underlying to identify if any other contracts would meet the criteria set out by management.

Presentation

- challenging management's rationale for the basis for inclusion of certain classes of items within the Consolidated Income Statement as non-underlying, particularly around the areas of higher judgement, to determine whether the items recognised as non-underlying meet the criteria of the accounting policy for such items defined by the Group;
- challenging the appropriateness of restatements to comparative information; and
- evaluating the appropriateness of the inclusion of items, both individually and in aggregate, within non-underlying items, including ensuring adherence to IFRS requirements and latest FRC guidance, and benchmarking them against market practice, including, but not limited to, the ICAEW's statement of principles, guidance issued by the FRC in their thematic review, and guidance issued by the European Securities and Markets Authority (ESMA).

Key audit matter

How the matter was addressed in the audit

Presentation and disclosure of non-underlying items (Group) continued

We therefore identified the following significant risks in respect of non-underlying items in the Consolidated Income Statement, which was one of the most significant assessed risks of material misstatement:

Classification of non-underlying items and whether they meet the definition set out in the policy;

Presentation of non-underlying items as a separate column in the income statement, and whether the presentation of the 'underlying' financial information is fair, balanced, and understandable in its representation of underlying trading, or whether undue prominence has been given to this information over the GAAP information; and

Disclosure of information in respect of the non-underlying items in respect of its appropriateness and quality, including associated critical judgements and estimates.

Disclosure

We also assessed the disclosures made, and considered:

- the extent to which the prominence given to the 'underlying' financial information and related commentary in the Annual Report compared to the statutory financial information and related commentary could be misleading;
- whether the statutory and 'underlying' financial information are reconciled with sufficient prominence given to that reconciliation; and
- whether the basis of the 'underlying' financial information is clearly and accurately described and consistently applied; and
- whether the 'underlying' financial information is not otherwise misleading in the form and context in which it appears in the Annual Report.

Key observations

As a result of our work, we concluded that the classification, presentation and disclosure of non-underlying items was acceptable.

Impairment of non-current assets (Group)

Goodwill: £372.9 million (2016: £437.0 million)
Acquired intangibles: £30.3 million (2016: £51.9 million)

See note 13 on page 154 and page 66 of the Audit Committee report.

Under International Accounting Standard 36 *Impairment of assets*, the directors are required to make an annual assessment to determine whether the Group's goodwill and intangible assets, which stand at £372.9 million and £30.3 million, respectively, are impaired.

The process for assessing whether impairment exists under IAS 36 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 impairment of non-current assets as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- obtaining management's assessment of the relevant cash generating units, which has been revisited in the year, used in the impairment calculation and comparing those to our understanding of the business units and operating structure of the Group;
- determining the arithmetical accuracy of those calculations including the associated sensitivity analyses;
- challenging management assessment of impairment indicators relating to intangible assets;
- testing the assumptions utilised in the impairment models, including growth rates and discount rates;
- ensuring these assumptions are consistent across the business, and that where different assumptions are used based on the profile of different divisions, that these are consistent with our knowledge of the business and our detailed work performed on the forecasts used for going concern; and
- testing the accuracy of management's forecasting through a comparison of budget to actual data and historical variance trends and inspecting the cash flows for non-underlying or unusual items or assumptions.

Key observations

As a result of our work, we concluded that the carrying value of goodwill and acquired intangibles was acceptable.

Independent auditor's report continued

to the members of Interserve Plc

Key audit matter	How the matter was addressed in the audit

Defined benefit pension schemes (Group and parent)

Retirement benefit obligation: Group £48.0 million (2016: £52.4 million); parent £38.5 million (2016: £39.5 million)
Fair value of scheme's assets: Group £1,016.1 million (2016: £992.2 million); parent £928.7 million (2016: £911.3 million)
Present value of defined benefit obligation: Group £1,064.1 million (2016: £1,044.6 million); parent £967.2 million (Group £950.8 million)

See note 29 on page 176 and page 66 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.

The measurement of the defined benefit pension scheme liability 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, specifically their valuation, as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- reviewing the model and assumptions to ensure that they are reasonable and consistent, and in line with IAS 19;
- utilising the expertise of our in-house actuarial specialists to assess and challenge the assumptions used for reasonableness and the methods employed in the calculation of the obligation; and
- testing the accuracy of membership data provided to the Group's actuaries for the purpose of calculating the scheme liabilities by agreeing a sample of employee data to underlying records.

Key observations

As a result of our work, we concluded that the carrying value of the retirement benefit obligation was acceptable.

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 £3.3 million, which was set at 4.5 per cent of Group loss before tax at the planning stage of our audit, based upon an estimate of the full-year result. This reflects approximately 1.35 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 have chosen a different benchmark to the prior year as, given our focus on presentation and disclosure of non-underlying items as a key audit matter, we felt it most appropriate to select a statutory benchmark and not an alternative performance measure. We chose not to revise our materiality threshold during the course of the audit once the final loss before tax was known, as using 4.5 per cent of the year-end loss before tax would have resulted in a higher level of materiality to the level set at the planning stage, which we did not feel was appropriate. In the prior year we used a benchmark of profit before tax, amortisation, and exceptionals (as defined in the prior year's financial statements): this resulted in a materiality of £5.0 million.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 70 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.

Materiality for the parent company was calculated based on total assets of the Company, but was capped at performance materiality for the Group. Its individual performance materiality was set at 70 per cent of its financial statement materiality.

We determined 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 £165,000. In addition we communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Overview of the scope of our audit

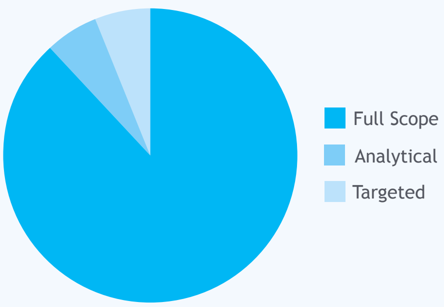
Our audit approach was based on a thorough understanding of the Group's business and is risk-based. An interim visit was conducted before the year end at all significant components of the Group to complete advance substantive audit procedures and to evaluate the Group's internal controls environment 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 and certain Group entities in the United Arab Emirates (UAE). The operations that were subject to full-scope audit procedures made up 89 per cent of consolidated revenues and 84 per cent of loss before tax. Statutory audits of subsidiaries, where required by local laws, were performed to lower materiality where applicable.

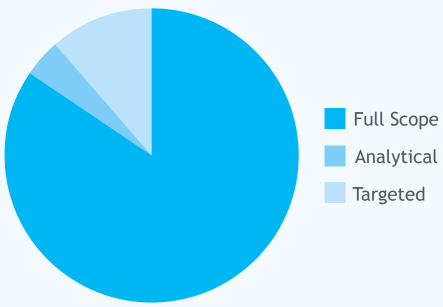
While the majority of the operations are located within the United Kingdom, the Group has material operations spanning the globe, particularly in their Equipment Services and Construction divisions. Through an analysis of these operations we determined that targeted audit procedures were to be carried out in 14 entities located in Guernsey, Oman, Qatar, the UAE, Saudi Arabia, Australia, Hong Kong, the Philippines and the United States of America. These targeted procedures addressed the key audit matters described above, where relevant to the entity. Those components subjected to targeted audit procedures comprise 5 per cent of total revenues and 6 per cent of total loss before tax of the Group. The joint ventures and associates which were subjected to targeted audit procedures contributed 7 per cent of total loss before tax of the Group. All of the items that are presented as non-underlying have been tested under a comprehensive approach, even if the related entity was subject to a targeted or analytical approach.

The following charts represent the proportion of revenue and headline profit before tax that has been subject to each approach.

Revenue



Headline profit before tax



The remaining operations of the Group were subject to analytical procedures over the balance sheet and income statements of the related entities with a focus on the Key Audit Matters 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 needed 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 an assessment of the supporting 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.

Independent auditor's report continued

to the members of Interserve Plc

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report set out on pages 1 to 110 and 208 to 209, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 109 – the statement given by the directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- The Audit Committee report set out on pages 62 to 69 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- The directors' statement of compliance with the UK Corporate Governance Code set out on page 53 – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Our opinions on other matters prescribed by the Companies Act 2006 are 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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the Directors' Responsibility Statement set out on page 109, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). Our audit approach is a risk-based approach and is explained more fully in the 'An overview of the scope of our audit' section of our audit report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: *www.frc.org.uk/auditorsresponsibilities*. This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by the Audit Committee on 13 June 2014. Our total uninterrupted period of engagement is four years, covering the periods ending 31 December 2014 to 31 December 2017.

During the year ended 31 December 2017, Grant Thornton S.A. Luxembourg, a member firm of the Grant Thornton International Limited network, provided a payroll processing service (which has now ceased) to a subsidiary of the group during 2017, for which non-audit fees totalled €1,939 in 2017. This was subsequently identified as a prohibited non-audit service in the Financial Reporting Council's Ethical Standard. We have notified the Audit Committee of this breach. The breach is considered minor by both Grant Thornton UK and the Audit Committee on the basis that the related payroll expense, which is recognised in the financial statements, is inconsequential. We therefore consider this to be a minor breach of the Ethical Standard and we do not consider our independence to be impaired.

Other than the service noted above, the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting our audit.

Our audit opinion is consistent with our report to the Audit Committee.

Simon Lowe
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
27 April 2018

Consolidated income statement

for the year ended 31 December 2017

	Notes	Year ended 31 December 2017			Year ended 31 December 2016		
		Before non-underlying items and amortisation of acquired intangible assets £million	Non-underlying items and amortisation of acquired intangible assets (note 5) £million	Total £million	Before non-underlying items and amortisation of acquired intangible assets # £million	Non-underlying items and amortisation of acquired intangible assets # (note 5) £million	Total £million
Continuing operations							
Revenue including share of associates and joint ventures	2	3,529.2	137.7	3,666.9	3,409.0	276.2	3,685.2
Less: Share of associates and joint ventures		(416.1)	-	(416.1)	(440.6)	-	(440.6)
Consolidated revenue	2	3,113.1	137.7	3,250.8	2,968.4	276.2	3,244.6
Cost of sales		(2,717.1)	(246.1)	(2,963.2)	(2,543.1)	(423.7)	(2,966.8)
Gross profit		396.0	(108.4)	287.6	425.3	(147.5)	277.8
Administration expenses		(346.6)	(79.1)	(425.7)	(296.1)	(50.8)	(346.9)
Amortisation of acquired intangible assets		-	(21.5)	(21.5)	-	(29.8)	(29.8)
Impairment of goodwill		-	(60.0)	(60.0)	-	-	-
Total administration expenses		(346.6)	(160.6)	(507.2)	(296.1)	(80.6)	(376.7)
Operating profit/(loss)		49.4	(269.0)	(219.6)	129.2	(228.1)	(98.9)
Share of result of associates and joint ventures	15	25.5	(30.6)	(5.1)	25.8	(3.2)	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		25.5	(30.7)	(5.2)	25.8	(3.3)	22.5
Total operating profit/(loss)		74.9	(299.7)	(224.8)	155.0	(231.4)	(76.4)
Investment revenue	7	5.9	2.9	8.8	5.6	-	5.6
Finance costs	8	(28.4)	-	(28.4)	(23.3)	-	(23.3)
Profit/(loss) before tax		52.4	(296.8)	(244.4)	137.3	(231.4)	(94.1)
Tax (charge)/credit	9	(8.1)	(1.9)	(10.0)	(12.2)	4.7	(7.5)
Profit/(loss) for the year		44.3	(298.7)	(254.4)	125.1	(226.7)	(101.6)
Attributable to:							
Equity holders of the parent		42.3	(298.7)	(256.4)	123.0	(226.7)	(103.7)
Non-controlling interests		2.0	-	2.0	2.1	-	2.1
		44.3	(298.7)	(254.4)	125.1	(226.7)	(101.6)
Earnings per share	11						
Basic				(176.0p)			(71.2p)
Diluted				(176.0p)			(71.2p)

restated (note 1)

Consolidated statement of comprehensive income

for the year ended 31 December 2017

	Notes	Year ended 31 December 2017 £million	Year ended 31 December 2016 £million
Profit/(loss) for the year		**(254.4)**	(101.6)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (losses)/gains on defined benefit pension schemes	29	**(10.4)**	(90.2)
Deferred tax on above items taken directly to equity	9	**1.8**	15.3
		(8.6)	(74.9)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(34.8)**	67.7
(Losses)/gains on cash flow hedging instruments (excluding joint ventures)		**(23.0)**	42.0
Recycling of cash flow hedge reserve to profit and loss account		**22.7**	(48.4)
Deferred tax on above items taken directly to equity	9	**0.2**	0.9
Net impact of Items relating to joint-venture entities		**3.0**	(5.3)
		(31.9)	56.9
Other comprehensive income/(loss) net of tax		**(40.5)**	(18.0)
Total comprehensive income/(loss)		**(294.9)**	(119.6)
Attributable to:			
Equity holders of the parent		**(297.3)**	(122.0)
Non-controlling interests		**2.4**	2.4
		(294.9)	(119.6)

Consolidated balance sheet

at 31 December 2017

	Notes	31 December 2017 £million	31 December 2016 £million	31 December 2015 £million
Non-current assets				
Goodwill	12	372.9	437.0	428.6
Other intangible assets	13	54.5	77.0	91.6
Property, plant and equipment	14	228.6	250.4	218.1
Interests in joint-venture entities	15/31	46.5	41.6	40.9
Interests in associated undertakings	15	78.4	85.3	91.0
Retirement benefit surplus	29	-	-	17.2
Deferred tax asset	16	23.4	18.6	1.3
		804.3	909.9	888.7
Current assets				
Inventories	17	34.0	36.5	40.1
Trade and other receivables	19	722.0	724.4	774.9
Derivative financial instruments	21	-	67.1	25.1
Cash and deposits	20	155.1	113.3	86.1
		911.1	941.3	926.2
Total assets		1,715.4	1,851.2	1,814.9
Current liabilities				
Bank overdrafts	20	(6.8)	(11.1)	(15.5)
Trade and other payables	22	(798.6)	(899.3)	(788.0)
Current tax liabilities		(7.2)	(2.6)	(6.1)
Short-term provisions	25	(50.2)	(21.8)	(27.4)
		(862.8)	(934.8)	(837.0)
Net current assets		48.3	6.5	89.2
Non-current liabilities				
Borrowings	20	(647.5)	(449.4)	(406.1)
Trade and other payables	23	(14.5)	(16.6)	(15.9)
Long-term provisions	25	(80.0)	(42.9)	(43.3)
Retirement benefit obligation	29	(48.0)	(52.4)	-
		(790.0)	(561.3)	(465.3)
Total liabilities		(1,652.8)	(1,496.1)	(1,302.3)
Net assets		62.6	355.1	512.6
Equity				
Share capital	26	14.6	14.6	14.5
Share premium account		116.5	116.5	116.5
Capital redemption reserve		0.1	0.1	0.1
Merger reserve		121.4	121.4	121.4
Hedging and revaluation reserve		(5.9)	(8.8)	2.0
Translation reserve		74.5	109.7	42.3
Investment in own shares		(1.9)	(1.9)	(1.5)
Retained earnings		(272.0)	(9.4)	205.2
Equity attributable to equity holders of the parent		47.3	342.2	500.5
Non-controlling interests		15.3	12.9	12.1
Total equity		62.6	355.1	512.6

These financial statements were approved by the Board of Directors on 27 April 2018.

Signed on behalf of the Board of Directors

D J White
Director

M A Whiteling
Director

Consolidated statement of changes in equity

for the year ended 31 December 2017

	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 2016	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
Profit/(loss) for the year	-	-	-	-	-	-	-	(256.4)	(256.4)	2.0	(254.4)
Other comprehensive income	-	-	-	-	2.9	(35.2)	-	(8.6)	(40.9)	0.4	(40.5)
Total comprehensive income	-	-	-	-	2.9	(35.2)	-	(265.0)	(297.3)	2.4	(294.9)
Dividends paid	-	-	-	-	-	-	-	-	-	-	-
Shares issued	-	-	-	-	-	-	-	-	-	-	-
Purchase of Company shares	-	-	-	-	-	-	-	-	-	-	-
Company shares used to settle share-based payment obligations	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	2.4	2.4	-	2.4
Transactions with owners	-	-	-	-	-	-	-	2.4	2.4	-	2.4
Balance at 31 December 2017	14.6	116.5	0.1	121.4	(5.9)	74.5	(1.9)	(272.0)	47.3	15.3	62.6

[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 £16.0 million relating to the revaluation of available-for-sale financial assets within the joint ventures (2016: £19.9 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 2017 was 466,909 (2016: 473,920), with the market value of these shares at 31 December 2017 being £0.4 million (2016: £1.6 million).

Consolidated cash flow statement

for the year ended 31 December 2017

	Notes	Year ended 31 December 2017 £million	Year ended 31 December 2016 £million
Operating activities			
Total operating profit/(loss)		(224.8)	(76.4)
Adjustments for:			
Amortisation of acquired intangible assets	13	21.5	29.8
Impairment of goodwill	12	60.0	-
Amortisation of capitalised software development	13	1.6	1.4
Impairment of capitalised software development	13	6.3	-
Depreciation of property, plant and equipment	14	39.5	37.6
Impairment of capitalised IT development	14	9.4	-
(Profit)/loss on disposal of investments in joint ventures	15	(7.5)	(2.9)
Proceeds on disposal of investments		12.3	7.5
Other non-current asset non-cash impairment items	5	1.4	-
Pension contributions in excess of the income statement charge		(15.9)	(19.5)
Share of results of associates and joint ventures		5.2	(22.5)
Charge relating to share-based payments	28	2.1	(0.2)
Gain on disposal of plant and equipment - hire fleet		(22.2)	(16.0)
Gain on disposal of plant and equipment - other		(0.2)	-
Operating cash flows before movements in working capital		(111.3)	(61.2)
(Increase)/decrease in inventories		0.5	9.4
(Increase)/decrease in receivables		(11.1)	80.8
Increase/(decrease) in payables		(77.3)	83.8
Increase/(decrease) in provisions		50.9	(8.2)
Capital expenditure - hire fleet	14	(17.8)	(30.9)
Proceeds on disposal of plant and equipment - hire fleet		30.2	21.6
Cash generated by operations		(135.9)	95.3
Cash used by operations - Energy from Waste exited business		(95.9)	(116.9)
Cash used by operations - other non-underlying		(64.7)	(17.8)
Cash generated by operations - ongoing business		24.7	230.0
Taxes paid		(8.6)	(10.2)
Net cash from operating activities		(144.5)	85.1
Investing activities			
Interest received		5.9	4.5
Dividends received from associates and joint ventures	15a	17.2	34.1
Proceeds on disposal of plant and equipment - non-hire fleet		1.6	8.6
Capital expenditure - non-hire fleet	13/14	(39.3)	(38.3)
Investment in joint-venture entities	15b	(32.7)	(9.8)
Receipt of loan repayment - investments	15b	0.7	-
Net cash from/(used in) investing activities		(46.6)	(0.9)

	Notes	Year ended 31 December 2017 £million	Year ended 31 December 2016 £million
Financing activities			
Interest paid		(27.3)	(23.3)
Dividends paid to equity shareholders	10	-	(35.5)
Dividends paid to non-controlling interests		-	(1.6)
Proceeds from issue of shares and exercise of share options		-	0.1
Purchase of own shares		-	(0.4)
Proceeds from disposal of derivatives	21	44.1	-
Increase in bank loans		223.6	(5.0)
Movement in obligations under finance leases		(1.0)	2.2
Net cash from financing activities		239.4	(63.5)
Net increase/(decrease) in cash and cash equivalents		48.3	20.7
Cash and cash equivalents at beginning of period		102.2	70.6
Effect of foreign exchange rate changes		(2.2)	10.9
Cash and cash equivalents at end of period		148.3	102.2
Cash and cash equivalents comprise			
Cash and deposits		155.1	113.3
Bank overdrafts		(6.8)	(11.1)
		148.3	102.2

Reconciliation of net cash flow to movement in net debt			
Net increase/(decrease) in cash and cash equivalents		48.3	20.7
Increase in bank loans		(223.6)	5.0
Movement in obligations under finance leases		1.0	(2.2)
Change in net debt resulting from cash flows		(174.3)	23.5
Effect of foreign exchange rate changes		(53.9)	10.9
Movement in net debt during the period		(228.2)	34.4
Net cash/(debt) - opening		(274.4)	(308.8)
Net cash/(debt) - closing	20	(502.6)	(274.4)

Notes to the consolidated financial statements
for the year ended 31 December 2017

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 directors have completed the impact assessment of IFRS 9 *Financial instruments* and have concluded that under the new standard, which will be adopted for the financial year ending 31 December 2018, the Group will be able to continue to record movements in its financial assets held within its PFI joint ventures through other comprehensive income (OCI) using the fair value through OCI category. This is because these financial assets are held within a business model whose objective at Group level is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset meet the “solely payments of principal and interest on the principal outstanding” criterion. Therefore, there will be no quantitative impact on the Group upon adoption of IFRS 9 at 1 January 2018.

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.

The Group has conducted a thorough review of its approach to revenue recognition on all material areas of contract income from customers. It has concluded that in respect of the significant majority of revenues in the Group the adoption of IFRS 15 will have no impact on the approach to revenue recognition relative to the approaches already adopted under IAS 11 and IAS 18 as currently adopted. As such the impact of adoption is expected to be immaterial and no significant changes to accounting policy are currently anticipated. There will, however, be additional disclosure requirements going forward. The review has included consultation with Divisional Finance Directors, Group Legal, Commercial and Business Development functions.

The central principles of IFRS 15 revolve around identifying “separate performance obligations” to the customer and recognising the identified consideration for those obligations as they are delivered to the customer. These are very much the principles that have always driven our approach to revenue recognition which can be seen from an overview of the various revenue streams of the Group with the possible exceptions, and reasons why they are not, considered below this table:

Business segment	Types of revenue	Performance obligations	Transaction price and allocation to performance obligations	When are performance obligations met	Recognition under IFRS 15	Differences from IAS 18 and IAS 11
Services (UK and International) eg: Cleaning Catering Training Healthcare Security Total FM Maintenance	Single service with a fixed monthly fee subject to non-performance deductions	To provide the service (eg cleaning) for a period of time to a specified performance level (eg KPIs)	Contract identifies a periodic fee (eg monthly) and calculations for performance deductions for performance. Appropriate allocation is fee less performance deductions	As the service is provided (ie over time) (“The customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs” - IFRS 15 Para 35(a))	Recognise over time - contracted monthly fee less actual or expected KPI deductions recognised in the month the service is provided	No difference
	Bundled services with a fixed monthly fee subject to non-performance deductions	Services are sufficiently integrated to be considered as one overall performance obligation (even if all were separated and recognised separately it would come to the same answer)	As above	As above	As above	No difference
	Service at schedule of rates (hours or tasks)	To provide the task or service (eg hour of security, change a light bulb)	Contract will identify a schedule of rates (eg per hour or per task delivered) for each performance obligation	As the hour of service is delivered or the task performed (ie at a point in time)	Recognise as the service/task is delivered at the contracted rate	No difference

Business segment	Types of revenue	Performance obligations	Transaction price and allocation to performance obligations	When are performance obligations met	Recognition under IFRS 15	Differences from IAS 18 and IAS 11
Construction (UK and International)	Construction contract with single completion	To construct an asset (as lead contractor this will necessitate the procuring of multiple sub-contract services but the offering to the customer is fully integrated with one overall performance obligation)	Contract sum will be specified in the contract for the overall performance obligation	Performance obligation is delivered over time as the asset is constructed on land owned by the customer ("The entity's performance creates or enhances an asset that the customer controls" - IFRS 15 Para 35 (b))	Contract sum is recognised over time in line with the delivery of the constructed asset proportional to its stage of completion based on a measure of input or outputs (surveys of work performed by quantity surveyors)	No difference
	Construction contract with variations and claims	As above	Contract specifies original price but contract price now expected to be different as a result of agreed or unagreed variations and/or claims. Revenue recognition should be based on expected price but capped to ensure that it is "highly probable that a significant reversal of revenue will not occur once the uncertainty is resolved"	As above	Contract sum plus additional consideration considered to be highly probable is recognised over time in line with the delivery of the constructed asset proportional to its stage of completion based on a measure of input or outputs (surveys of work performed by quantity surveyors)	No difference (but arguable that evidential standard for recognition of claims and unagreed variations is higher - highly probable now required (see below)
	Construction contract with sectional completions or material variation to original contract resulting in separate obligations	Constructed asset is considered to consist of multiple performance obligations (eg contract to build six schools is six contracts to build a school)	Overall price identified in contract with sub-completions possibly allocated. If not allocated a reasonable basis of apportionment used (eg tendered costs)	As above	Contract sum on each sectional completion is recognised over time in line with the delivery of the constructed asset proportional to its stage of completion based on a measure of input or outputs (surveys of work performed by quantity surveyors)	No difference
Equipment Services	Equipment sale	Delivery of specified equipment to the customer	Identified in contract or purchase order	At point of delivery and acceptance by customer	At a point in time on delivery at the contracted price	No difference
	Equipment rental	Availability of specified equipment for a period of time	As above	Over time across the rental period ("The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs" - IFRS 15 Para 35(a))	Recognise contracted price straight-line over the rental period	No difference

As can be seen, by far the majority of our revenue is already recognised on principles consistent with IFRS 15 with service revenues discretely identifiable as amounts paid, or to be paid, for specific time periods of service delivery or on a schedule of rates for specific services. The revenue for these services has always been accounted for in the period that the service, or performance obligation, is delivered. In respect of construction contracts, revenue will continue to be recognised on a basis proportional to stage of completion and where contracts, either from the start or by subsequent variation, include separable obligations they are accounted for on a sectional completion basis (effectively treating each obligation as its own contract for revenue recognition purposes with revenue recognised proportional to delivery for each obligation separately). Revenue in the Equipment Services business is accounted for at the point of delivery for sales or straight-line over the period that the customer retains the equipment if on a rental basis.

The review identified the following possible exceptions where a more detailed review of potential implications of IFRS 15 was conducted:

- Long-term service contracts with declining fixed-fee income. The Group has a handful of contracts where the fixed-fee element of income reduces over the lifetime of the contract. A closer inspection of the arrangements confirmed that in these instances the customer is also receiving an agreed reduced service over this time as opportunities are identified, and mutually agreed, to "value engineer" the service to a reduced level in line with the reducing revenue. If the customer does not agree to the service reductions, the income is not reduced. The contract income is therefore invoiced in proportion to the performance obligation delivered and it is appropriate to recognise revenue in line with invoiced income.

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

1. Basis of preparation and accounting policies continued

(a) Adoption of new and revised standards continued

- Long-term service contracts with variable or performance-related income. A small number of our contracts see a transition over their lifetime from predominantly fixed-fee income to a mixture of fixed-fee and performance-related income in the latter parts of the contract. We have reviewed expected whole-life contract income relative to weighted volume deliverables and are satisfied that cumulative contract revenue recognised to date is materially proportional to the extent of the obligations delivered and that no material adjustment is necessary on the adoption of IFRS 15. This assessment includes an extrapolation from current volume and performance metrics.
- Recognition of claims on construction contracts. As noted above, IFRS 15 introduces a new criterion for recognition of variable income and such revenue should only be recognised to the "extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved". The Group has performed a thorough accounting review in the period, with the support of PwC, and the directors are satisfied that, in their judgement at this time, values recognised to date already materially meet this criterion under existing accounting standards. That is not to say that there is not judgement or estimates involved, and associated risk, but that the amounts recognised are felt to be the expected, or in some instances the most likely, amount to be recovered.
- Mobilisation costs. Such costs are expensed as incurred unless they relate to property, plant and equipment or there is a contractual right of recovery from the customer.
- Design costs on equipment rental projects. The design element of projects is not considered to be a separable performance obligation but rather an integrated obligation along with the availability of the physical equipment. We do not provide designs for other suppliers' equipment and others do not provide designs for our equipment and the design is not therefore capable of being separated.

In summary, we have concluded that the adoption of IFRS 15 is not expected to have a material impact on our approach to revenue recognition and that we do not currently anticipate any material adjustments on adoption to either the income statement or net assets. The Group is still, however, considering the implications of some of its more complex contracts.

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, including those currently recognised as operating leases, with corresponding assets being created. The existing operating lease commitments of the Group are disclosed in note 24(b). The Group is conducting a systematic review to quantify the exact impact of adoption of the standard.

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 and estimates are continually reviewed the facts and circumstances underlying them may change and that could impact the results of the Group. In particular:

Judgements

Glasgow Energy from Waste (EfW) plant – significant judgements

In July 2012 Interserve was appointed by Viridor as the EPC contractor for the construction of the Glasgow EfW plant. In December 2016 this contract was terminated by the client.

The Company has made a number of key judgements on the out-turn of various issues arising from the Glasgow EfW contract, the principal ones being:

- The Company will make further significant recoveries from professional indemnity insurers.
  - The Company is currently engaged in negotiating a number of professional indemnity (PI) claims with our insurers. The claims relate to design failures by the key sub-contractors responsible for the odour-control system and the power plant. These failures gave rise to additional costs and delays and were the greatest cause of both the losses recorded on this project and the termination of the contract by the client.

  - Glasgow EfW has been a significantly loss-making contract for Interserve and, as required under IAS 11, a forward loss provision was recognised in 2016. This forward loss provision assumes significant insurance recoveries under these PI claims. Failure to achieve this will result in an increased loss on the contract. A significant cash receipt, in excess of £20 million, which was allocated as a series of part payments against a number of the aspects of these claims, was received in December 2017.
  - The directors have prepared the 2017 accounts on the basis of the judgement that these further significant PI insurance receipts will be received. The majority of the events have been accepted in principle by the insurers and the claims are robust, well supported and well developed. Some payments have already been received and positive discussions are continuing.
- Final account settlement will crystallise within current expected parameters.
  - The judgements in this regard have been based upon appropriate legal and technical advice and the directors regard them as appropriate. The directors are hopeful of achieving a negotiated settlement with the client but, failing this, arbitration is likely which carries further uncertainty.

Derby EfW plant – significant judgements
Interserve is currently involved in the construction of an EfW plant on behalf of Derby City and County Councils. The contract for the construction and operation of this plant was awarded to a special-purpose vehicle (SPV), formed as a 50:50 joint venture between Interserve and Renewi, in August 2014. This SPV subsequently awarded an Engineer Procure Construct (EPC) contract to Interserve Construction for the construction of the Derby EfW plant.

The Company has taken a number of key judgements on the contractual out-turn on the Derby EfW plant, the principal ones being:

- The contract will complete within the current projected timescale and current allowances around contractual cost to complete, exposure to liquidated damages and required levels of warranty provision are adequate.
  - Construction and commissioning at Derby are expected to complete by H1 2018 with the contract having incurred >90% of the total cost to complete as at the end of February 2018. Failure to meet this timeframe will result in increased labour and sub-contractor costs and an increased exposure to liquidated damages (LDs).
  - Post the completion of commissioning Interserve will retain a defects liability for up to two years. The current cost to complete estimate for Derby waste includes an allowance for maintenance costs over this period, representing the best estimate by management of the future liability.
- The Company has, as yet, not recognised any material value for PI insurance claims relating to the construction of the Derby EfW plant.
  - This contract has been significantly loss-making and, as required under IAS 11, a forward loss provision has been taken. This forward loss provision does not assume significant insurance recoveries from PI insurance claims. Interserve considers that, as for Glasgow EfW, there will ultimately be significant PI recoveries on Derby Waste. A notification has been made to the PI insurer of claims. These centre around alleged design negligence of key sub-contractors and are conceptually similar to those on Glasgow. The majority of the PI claims by value are expected to focus on design deficiencies around the Advanced Conversion Facility (ACF) power plant.
  - Although the directors believe these claims will ultimately be successful they have not included the benefit of any material recoveries from these claims in their estimation of the net loss on the project. The PI claims on Derby Waste are at an earlier stage of development than those on Glasgow. Additionally, unlike Glasgow, no cash has yet been received from the PI insurers. As such the directors do not consider the claims are yet sufficiently well progressed to recognise material value. The directors will revisit this judgement in 2018 as the claims continue to progress.

Dunbar, Margam and Rotherham EfW plants – ongoing viability of joint-venture partner
Interserve is currently constructing EfW plants at three other sites (Dunbar, Margam and Rotherham) in joint venture with Babcock & Wilcox Volund (BWV). Both Interserve and BWV are jointly and severally liable under the terms of these contracts. For each plant the JV partners have an agreement in place cross indemnifying each other against different aspects of the risks of construction, the substance of which is to transfer engineering process risk onto BWV and risk around the civil engineering aspects of construction onto Interserve. The obligations of BWV are guaranteed by their ultimate parent, Babcock & Wilcox Enterprises Inc (BW).

A financial failure of BW could result in the negation of these cross-indemnity agreements, with Interserve required to assume full responsibility for all aspects of construction. This would include the engineering process risk and all associated accrued liabilities and costs.

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

1. Basis of preparation and accounting policies continued

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

Judgements continued

In March 2018 BW released Q4 2017 results prepared on a going concern basis. These results noted uncertainties relating to the ongoing financing of BW but also contained details of the steps in place, including an underwritten share issue and asset disposals, to remedy these uncertainties. Although noting the signs of financial strain on BW the directors of Interserve continue to believe it is an appropriate judgement to assume they will remain a solvent counterparty.

Future losses on the Ministry of Justice CRC contracts will fall within provided levels

Interserve is involved in providing probation and rehabilitation services to the Ministry of Justice (MoJ). These services are provided via five community rehabilitation companies (CRCs) each of which holds a contract to provide services in a given geographic area. These contracts provide a number of ways to measure the level of services provided by Interserve, chief among which is the Weighted Annual Volume (WAV) level.

The historic WAV level of services provided by two of the CRCs are at a level that triggers a contractual right for those CRCs to renegotiate the contract price payable for April 2018 onwards. Interserve has accordingly opened discussions with the MoJ. In addition, various other commercial issues associated with all five of the contracts are currently under discussion with the MoJ.

The 2017 financial statements have been prepared in the expectation that the commercial issues currently under discussion with the MoJ will be resolved by reaching a settlement with the MoJ or determined by means of the dispute resolution procedure. This judgement results in four of the five contracts being loss-making, and the remaining one being marginally profitable, over the remaining life of the contracts. A forward loss provision has accordingly been booked in the 2017 financial statements for the loss-making contracts.

The directors consider this judgement to be appropriate, based on their expectations of reaching a suitable settlement with the MoJ or, if necessary, obtaining a determination under the dispute resolution procedure. It is difficult to predict with accuracy what the final value will be of the matters being discussed with the MoJ as negotiations remain at an early stage and the range of potential outcomes remains wide.

Future losses on the US Forces Prime contract will fall within provided levels

Interserve is involved in providing facilities management and other services to the US Forces Prime via a contract with the UK Ministry of Defence. Currently this contract is loss-making and as part of the contract review carried out in 2017, a significant forward loss provision was taken. The measurement of potential future liability is complicated with negotiations underway to potentially de-scope certain services and contractual claims by Interserve also underway. The forward loss provision recognised is based on the mostly likely final outcome, and is considered appropriate by the directors, but negotiations remain at an early stage and the range of potential outcomes remains wide.

The Group will make asset disposals in 2018

This judgement applies principally to the assessments of viability and going concern, see the Financial Review for further details.

The strategic plan assumes a level of asset disposals in 2018; these are discussed in more detail in the viability statement. These disposals reflect the ongoing Group strategic priorities around reduction in overall net debt and disposal of non-core activities and assets. In the light of prior-year asset disposals, including fixed-asset disposals, achieved, the directors consider this judgement appropriate. The Group remains in constructive negotiations around disposals of a number of non-core assets.

Retirement benefit obligations

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, which represented 97% of the Group's total defined benefit obligations at 31 December 2017, 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.

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.

Non-underlying item presentation
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' or 'non-underlying' 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).

Estimates and uncertainty

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 estimates 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 estimates 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 EfW 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.

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.

These estimates have been used in the year to calculate a £60.0 million impairment against the goodwill held in respect of Support Services but are judgemental in nature.

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.

(c) Restatement of comparatives

The new management team, with the approval of the Audit Committee, commissioned a comprehensive Contract Review, with the independent support of PwC, which reviewed the most material balance sheet judgements in relation to long-term contract accounting, accrued income, work-in-progress and mobilisation. This Contract Review identified the need for additional balance sheet writedowns principally in relation to work-in-progress and receivables. In the main these adjustments relate to contracts that were substantially complete at the end of last year but where additional information has come to light since last year's financial statements were signed. The Contract Review also identified the need for additional provisions in respect of loss-making or onerous contracts. The impact of the Contract Review is presented as non-underlying items (see note 5) and is 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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

1. Basis of preparation and accounting policies continued

Accounting policies

Interserve Plc (the Company) is a company incorporated in the United Kingdom under 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 44 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. Expected losses are recognised immediately.
- Equipment sales – at the time of delivery.
- Equipment hire – on a straight-line basis over the hire period in accordance with contractual arrangements.

(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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

1. Basis of preparation and accounting policies continued

(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

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.

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).

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

1. Basis of preparation and accounting policies continued

(o) Financial instruments continued

Derivative financial instruments and hedge accounting *continued*

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 share option plans and the Sharesave Scheme. A stochastic model has been used to value the Performance Share Plan.

(q) PFI projects

Treatment on consolidation

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

Treatment in the underlying joint-venture entity

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

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

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

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in 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) Non-underlying items

Non-underlying items are those that the Group considers to be non-recurring and significant in size or nature where it would aid the reader for such items to be presented separately. Non-underlying items include, but are not limited to: transaction and integration costs relating to the acquisition of businesses, material restructuring and professional adviser costs, non-recurring results of exited businesses and costs associated with significant strategic or contract reviews.

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	
	2017 £million	2016 £million	2017 £million	2016 £million
Continuing operations				
Provision of services	**2,028.2**	2,045.9	**1,924.1**	1,957.2
Revenue from construction contracts	**1,379.6**	1,384.6	**1,067.6**	1,032.7
Equipment sales and rental income	**259.1**	254.7	**259.1**	254.7
	3,666.9	3,685.2	**3,250.8**	3,244.6

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".

Notes to the consolidated financial statements continued
for the year ended 31 December 2017

3. Business and geographical segments continued
(a) Business segments continued

	Revenue including share of associates and joint ventures		Consolidated revenue		Result	
	2017 £million	2016 # £million	2017 £million	2016 # £million	2017 £million	2016 # £million
Support Services - UK	1,687.5	1,718.1	1,670.7	1,694.7	38.9	80.1
Support Services - International	193.9	267.9	142.2	211.9	2.8	9.4
Support Services	1,881.4	1,986.0	1,812.9	1,906.6	41.7	89.5
Construction - UK	1,048.2	870.8	1,048.2	870.8	(19.4)	25.2
Construction - International	290.5	296.9	-	-	19.2	16.9
Construction	1,338.7	1,167.7	1,048.2	870.8	(0.2)	42.1
Equipment Services	229.0	224.1	229.0	224.1	54.4	48.6
Group Services	92.1	81.3	35.0	17.0	(21.0)	(25.2)
Inter-segment elimination	(12.0)	(50.1)	(12.0)	(50.1)	-	-
	3,529.2	3,409.0	3,113.1	2,968.4	74.9	155.0
Non-underlying items and amortisation of acquired intangible assets (note 5)	137.7	276.2	137.7	276.2	(299.7)	(231.4)
Revenue/total operating profit/(loss)	3,666.9	3,685.2	3,250.8	3,244.6	(224.8)	(76.4)
Investment revenue					8.8	5.6
Finance costs					(28.4)	(23.3)
Profit/(loss) before tax					(244.4)	(94.1)
Tax					(10.0)	(7.5)
Profit/(loss) for the year					(254.4)	(101.6)

restated (note 1)

	Segment assets		Segment liabilities		Net assets/(liabilities)	
	2017 £million	2016 £million	2017 £million	2016 £million	2017 £million	2016 £million
Support Services - UK	423.1	372.4	(382.8)	(383.5)	40.3	(11.1)
Support Services - International	109.4	128.6	(51.4)	(73.4)	58.0	55.2
Support Services	532.5	501.0	(434.2)	(456.9)	98.3	44.1
Construction - UK	231.5	255.4	(350.4)	(434.6)	(118.9)	(179.2)
Construction - International	55.9	63.6	-	-	55.9	63.6
Construction	287.4	319.0	(350.4)	(434.6)	(63.0)	(115.6)
Equipment Services	255.1	290.8	(56.2)	(64.4)	198.9	226.4
	1,075.0	1,110.8	(840.8)	(955.9)	234.2	154.9
Group Services, goodwill and acquired intangible assets	484.0	553.9	(168.3)	(92.2)	315.7	461.7
	1,559.0	1,664.7	(1,009.1)	(1,048.1)	549.9	616.6
Net debt					(502.6)	(274.4)
Net assets (excluding non-controlling interests)					47.3	342.2

	Depreciation and amortisation		Additions to property, plant and equipment and intangible assets	
	2017 £million	2016 £million	2017 £million	2016 £million
Support Services - UK	13.5	12.4	23.3	29.5
Support Services - International	3.9	4.5	1.1	2.1
Support Services	17.4	16.9	24.4	31.6
Construction - UK	3.0	3.1	0.7	3.7
Construction - International	-	-	-	-
Construction	3.0	3.1	0.7	3.7
Equipment Services	17.6	17.8	16.3	28.4
	38.0	37.8	41.4	63.7
Group Services	24.7	31.1	15.7	5.5
	62.7	68.9	57.1	69.2

(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	
	2017 £million	2016 # £million	2017 £million	2016 # £million	2017 £million	2016 # £million
United Kingdom	2,672.7	2,557.1	2,655.9	2,533.7	27.4	108.2
Rest of Europe	63.4	54.1	63.4	54.1	2.7	3.1
Middle East & Africa	627.5	675.4	285.3	322.5	52.7	48.8
Australasia	31.1	29.4	31.1	29.4	6.3	6.4
Far East	16.8	26.0	16.8	26.0	4.6	11.7
Americas	37.6	35.8	37.6	35.8	2.2	2.0
Group Services	92.1	81.3	35.0	17.0	(21.0)	(25.2)
Inter-segment elimination	(12.0)	(50.1)	(12.0)	(50.1)	-	-
	3,529.2	3,409.0	3,113.1	2,968.4	74.9	155.0
Non-underlying items and amortisation of acquired intangible assets (note 5)	137.7	276.2	137.7	276.2	(299.7)	(231.4)
	3,666.9	3,685.2	3,250.8	3,244.6	(224.8)	(76.4)

restated (note 1)

Notes to the consolidated financial statements continued
for the year ended 31 December 2017

3. Business and geographical segments continued
(b) Geographical segments continued

	Non-current assets	
	2017 £million	2016 £million
United Kingdom	137.9	124.8
Rest of Europe	6.1	4.9
Middle East & Africa	177.7	186.6
Australasia	16.4	17.9
Far East	13.3	17.8
Americas	30.8	34.1
Group Services, goodwill and acquired intangible assets	398.7	505.2
	780.9	891.3
Deferred tax asset	23.4	18.6
	804.3	909.9

Included in consolidated revenue above are revenues of approximately £90 million (2016: £106 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	2017 £million	2016 £million
Depreciation of property, plant and equipment:			
On owned assets	14	38.6	36.8
On assets held under finance leases	14	1.0	0.8
Amortisation of capitalised software development	13	1.6	1.4
Impairment of capitalised software development	13	6.3	-
Impairment of capitalised IT development costs	14	9.4	-
Gain on disposal of plant and equipment - hire fleet		(22.2)	(16.0)
Gain on disposal of plant and equipment - other		(0.2)	-
Amortisation of acquired intangible assets (subsidiary undertakings)	13	21.5	29.8
Amortisation of acquired intangible assets (associated undertakings)	15	0.1	0.1
Rentals under operating leases:			
Hire of plant and machinery		33.6	43.5
Other lease rentals		49.4	44.4
Cost of inventories recognised in cost of sales		27.0	36.3
Staff costs	6	1,147.0	1,153.7
Auditors' remuneration for audit services (see overleaf)		1.1	1.1

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

	2017 £million	2016 £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	0.9
Total audit fees	1.1	1.1
Audit-related assurance services	0.1	0.1
Other services	-	0.1
Total non-audit fees	0.1	0.2
Total fees paid to the Company's auditors	1.2	1.3

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 67.

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

5. Non-underlying items and amortisation of acquired intangible assets

	2017									
	Exited businesses[1]									
	Energy from Waste £million	Strategic review of Equipment Services £million	Property development £million	Restructuring costs £million	Professional adviser fees £million	Contract Review £million	Asset impairments £million	Foreign exchange gain/(loss) on retranslation of loan notes £million	Amortisation of acquired intangible assets £million	Total £million
Consolidated revenue	48.6	4.5	-	-	-	84.6	-	-	-	137.7
Cost of sales	(81.6)	(7.2)	-	(0.4)	-	(156.9)	-	-	-	(246.1)
Gross profit/(loss)	(33.0)	(2.7)	-	(0.4)	-	(72.3)	-	-	-	(108.4)
Administration expenses	(2.1)	(4.4)	-	(32.8)	(13.9)	(9.2)	(16.7)	-	-	(79.1)
Amortisation of acquired intangible assets	-	-	-	-	-	-	-	-	(21.5)	(21.5)
Impairment of goodwill	-	-	-	-	-	-	(60.0)	-	-	(60.0)
Total administration expenses	(2.1)	(4.4)	-	(32.8)	(13.9)	(9.2)	(76.7)	-	(21.5)	(160.6)
Operating profit/(loss)	(35.1)	(7.1)	-	(33.2)	(13.9)	(81.5)	(76.7)	-	(21.5)	(269.0)
Share of results of associates and joint ventures	-	-	(26.0)	-	-	(4.6)	-	-	-	(30.6)
Amortisation of acquired intangible assets of associates	-	-	-	-	-	-	-	-	(0.1)	(0.1)
Total operating profit/(loss)	(35.1)	(7.1)	(26.0)	(33.2)	(13.9)	(86.1)	(76.7)	-	(21.6)	(299.7)
Net finance costs	-	-	-	-	-	-	-	2.9	-	2.9
Total profit/(loss)	(35.1)	(7.1)	(26.0)	(33.2)	(13.9)	(86.1)	(76.7)	2.9	(21.6)	(296.8)
Tax on non-underlying items										
Prior period adjustments	-	-	-	-	-	-	(5.5)	-	-	(5.5)
Amortisation of acquired intangible assets	-	-	-	-	-	-	-	-	3.6	3.6
Tax on non-underlying items	-	-	-	-	-	-	(5.5)	-	3.6	(1.9)
Profit/(loss) after taxation	(35.1)	(7.1)	(26.0)	(33.2)	(13.9)	(86.1)	(82.2)	2.9	(18.0)	(298.7)

	2016 #									
	Exited businesses[1]									
	Energy from Waste £million	Strategic review of Equipment Services £million	Property development £million	Restructuring costs £million	Professional adviser fees £million	Contract Review £million	Asset impairments £million	Foreign exchange gain/(loss) on retranslation of loan notes £million	Amortisation of acquired intangible assets £million	Total £million
Consolidated revenue	91.0	4.3	-	-	-	180.9	-	-	-	276.2
Cost of sales	(251.0)	(2.1)	-	-	-	(170.6)	-	-	-	(423.7)
Gross profit/(loss)	(160.0)	2.2	-	-	-	10.3	-	-	-	(147.5)
Administration expenses	-	(12.9)	-	-	-	(37.9)	-	-	-	(50.8)
Amortisation of acquired intangible assets	-	-	-	-	-	-	-	-	(29.8)	(29.8)
Impairment of goodwill	-	-	-	-	-	-	-	-	-	-
Total administration expenses	-	(12.9)	-	-	-	(37.9)	-	-	(29.8)	(80.6)
Operating profit/(loss)	(160.0)	(10.7)	-	-	-	(27.6)	-	-	(29.8)	(228.1)
Share of results of associates and joint ventures	-	-	-	-	-	(3.2)	-	-	-	(3.2)
Amortisation of acquired intangible assets of associates	-	-	-	-	-	-	-	-	(0.1)	(0.1)
Total operating profit/(loss)	(160.0)	(10.7)	-	-	-	(30.8)	-	-	(29.9)	(231.4)
Net finance costs	-	-	-	-	-	-	-	-	-	-
Total profit/(loss)	(160.0)	(10.7)	-	-	-	(30.8)	-	-	(29.9)	(231.4)
Tax on non-underlying items										
Prior period adjustments	-	-	-	-	-	-	-	-	-	-
Amortisation of acquired intangible assets	-	-	-	-	-	-	-	-	4.7	4.7
Tax on non-underlying items	-	-	-	-	-	-	-	-	4.7	4.7
Profit/(loss) after taxation	(160.0)	(10.7)	-	-	-	(30.8)	-	-	(25.2)	(226.7)

[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 and the decision to exit property development, along with directly associated costs, are considered to be Exited Businesses. Exited Businesses are presented as non-underlying 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 non-underlying items differ from those applicable for discontinued operations.

restated (note 1)

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

5. Non-underlying items and amortisation of acquired intangible assets continued

Exit from Energy from Waste

During 2016 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. 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. During 2016 we recognised a non-underlying loss of £160 million and restated 2015 comparatives to show a gross loss of £21.5 million. These losses reflected costs incurred to that date, estimates of costs to complete, and damages. This was 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.

During 2017 a further £35.1 million of losses have been recognised on these contracts, taking the aggregate 2015-17 losses to £216.6 million. As previously stated, these losses reflect costs incurred to date, estimates of costs to complete, and damages. This 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. During 2017 significant insurance payments were received in respect of claims on the Glasgow project. The receipt of further insurance income remains a key judgement for the Group, see note 1 to the financial statements for further details on key judgements. The increase in loss from 2016 is predominantly due to an acceleration of certain projects to achieve key milestone dates.

We continue to expect to complete substantially all of our works during 2018 and that the impact of these contracts will be contained within the non-underlying losses recognised to date. We expect cash flow during 2018 to be broadly neutral over the full year. There is likely to be a substantial cash outflow in the first half of the year, as construction continues on these projects, which is expected to be offset by insurance and other recoveries in the second half of the year. These amounts 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 2018.

Strategic review of Equipment Services

Consistent with the disclosure at last year end, further closure costs of £7.1 million (2016: £10.7 million) in the year resulted from the strategic review of Equipment Services and the decision to exit a number of smaller less attractive markets. This brings total costs to just over the £17.0 million that was announced at the time of the review.

Property development

During the year, as part of a review of assets held, we took the decision to exit the business of property development. As a result of that decision, and a review of carrying value of property assets, it has become necessary to impair those carrying values by £26.0 million to bring them into line with estimated net recoverable amounts.

Restructuring costs

The Group has embarked on a three-year plan, “Fit For Growth”, to increase the Group’s organisational efficiency, improve Group-wide procurement processes and ensure greater standardisation and simplification across the business. During the year it incurred termination costs of £16.5 million (2016: £nil) in respect of former employees and directors along with recruitment costs for the new management team. In addition to this, £16.7 million (2016: £nil) of cost has been incurred in respect of a property consolidation exercise based mainly around a new Midlands hub office but also in the consolidation of regional networks. These costs include provisions for the remainder of onerous lease terms and dilapidations costs in respect of exited properties as we seek to right size and appropriately locate our operations to meet future needs.

Professional adviser fees

Professional fees incurred in connection with the strategic review and the short-term refinancing secured towards the end of the year totalled £13.9 million in the year (2016: £nil).

Contract Review

The new management team, with the approval of the Audit Committee, commissioned a comprehensive Contract Review, with the independent support of PwC, which reviewed the most material balance sheet judgements in relation to long-term contract accounting, accrued income, work-in-progress and mobilisation. This Contract Review identified the need for an additional £42.4 million of balance sheet write-downs principally in relation to work-in-progress and receivables. In the main these adjustments relate to contracts that were substantially complete at the end of last year but where additional information has come to light since the signing of the prior-year financial statements. These provisions and write-downs relate to 18 individual contract issues. Of these, as at the date of the signing of these financial statements, nine are regarded as financially complete. Financially complete is defined as the point at which Interserve is no longer providing significant services to the client and final account negotiations have been concluded. A further seven are regarded as operationally complete. Operationally complete is defined as the point at which Interserve has ceased to provide significant services to the client but final account negotiations have not concluded. The remaining two contracts are regarded as neither operationally nor financially complete. These same contracts contributed a loss of £33.2 million in 2016. The Contract Review also identified the need for £43.7 million of additional provisions in respect of loss-making or onerous contracts (these same contracts contributed a profit of £2.4 million in 2016). For the avoidance of doubt, the discrete contracts included here had results in previous periods and, where relevant, will continue to report results in future periods. Any such results will be presented consistently with the treatment here.

Asset impairments

As part of the Contract Review, management also reassessed the valuation of other intangible assets and a total impairment of £60.0 million has been recognised against goodwill in the period. This follows a reassessment of the relevant cash generation units and the separate identification of delivery of support services to the private sector and its associated intangible assets that principally relate to the acquisition of Initial Facilities in 2014.

A further £16.7 million write-down has been taken with regard to capitalised IT development costs. During 2017 the associated programmes were cancelled with no future benefit expected to be derived from the work carried out to date, as such the assets have been fully written off. £6.3 million has been written off Other Intangible Assets (note 13), £9.4 million has been written off Property, Plant and Equipment (note 14), with £1.0 million written off working capital.

A further £5.5 million of deferred tax assets relating to losses have been impaired in the period following a review of likely utilisation timescales.

Foreign exchange gain/(loss) on retranslation of loan notes

From 13 December 2017, the Group’s US$ 350 million US Private Placement loan notes are retranslated at current exchange rates, with profit or loss on translation being taken to profit or loss. Up to that date, these loans were swapped to a fixed sterling equivalent, using derivatives that were designated as cash flow hedges (see notes 20 and 21).

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

6. Staff costs

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

	2017 Number	2016 Number
Support Services	40,247	41,825
Construction	2,599	2,587
Equipment Services	1,459	1,444
Group Services	406	390
	44,711	46,246

Their aggregate remuneration comprised:

	2017 £million	2016 £million
Wages and salaries	1,025.3	1,038.6
Social security costs	91.5	88.3
Share-based payments	2.1	(0.4)
Other pension costs (see below)	28.1	27.2
	1,147.0	1,153.7

	2017	2016
Defined benefit scheme current service costs (note 29)	5.2	5.7
Other UK - defined contribution	20.9	20.2
Other overseas - defined contribution	2.0	1.3
Pension costs	28.1	27.2

Detailed disclosures of directors' aggregate and individual remuneration and share-based payments are given in the Directors' Remuneration Report on pages 70 to 99 and should be regarded as an integral part of this note.

7. Investment revenue

	2017 £million	2016 £million
Bank interest	3.0	3.1
Interest income from joint-venture investments	2.2	0.7
Net return on defined benefit pension assets (note 29)	-	1.1
Foreign exchange gain on US private placement loan (note 20)	2.9	-
Other interest	0.7	0.7
	8.8	5.6

8. Finance costs

	2017 £million	2016 £million
Borrowings and overdrafts	(27.3)	(23.3)
Net interest cost on pension obligations (note 29)	(1.1)	-
	(28.4)	(23.3)

9. Tax

	2017 £million	2016 £million
Current tax - UK	5.8	2.1
Current tax - overseas	6.9	6.4
Deferred tax (note 16)	(2.7)	(1.0)
Tax charge for the year	10.0	7.5
Tax charge before prior period adjustments	2.9	7.2
Prior period adjustments - charges/(credits)	7.1	0.3
	10.0	7.5

	2017			2016		
	Profit £million	Tax £million	Effective rate %	Profit £million	Tax £million	Effective rate %
Subsidiary undertakings' profit before tax, excluding one-offs	26.9	8.1	30.1%	111.5	12.2	10.9%
Group share of profit after tax of associates and joint ventures	25.5	-	-	25.8	-	-
	52.4	8.1	15.5%	137.3	12.2	8.9%
Other non-underlying items	(215.2)	5.5	(2.6%)	(201.5)	-	-
Goodwill impairment	(60.0)	-	-	-	-	-
Amortisation	(21.6)	(3.6)	16.7%	(29.9)	(4.7)	15.7%
Profit/(loss) before tax	(244.4)	10.0	(4.1%)	(94.1)	7.5	(8.0%)

UK corporation tax is calculated at 19.25% (2016: 20%) 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:

	2017		2016	
	£million	%	£million	%
Profit/(loss) before tax	(244.4)		(94.1)	
Tax at the UK income tax rate of 19.25% (2016: 20%)	(47.0)	19.2%	(18.8)	20.0%
Tax effect of expenses not deductible in determining taxable profit	(1.5)	0.6%	1.2	(1.3%)
Non-tax-effected non-underlying items	33.4	(13.7%)	34.1	(36.2%)
Tax effect of share of results of associates	1.0	(0.4%)	(4.5)	4.8%
Effect of overseas tax rates and unrelieved losses	16.3	(6.7%)	(4.2)	4.5%
Effect of change in rate of deferred tax	0.7	(0.3%)	(0.6)	0.6%
Prior period adjustments	7.1	(2.9%)	0.3	(0.3%)
Tax charge and effective tax rate for the year	10.0	(4.1%)	7.5	(8.0%)

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

9. Tax continued

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:

	2017 £million	2016 £million
Tax on actuarial losses/gains on pension liability	(1.8)	(15.3)
Tax on movements in cash flow hedging instruments	(4.0)	6.4
Tax on exchange movements on hedged financial instruments	3.8	(7.3)
Tax on the intrinsic value of share-based payments	-	0.1
	(2.0)	(16.1)

10. Dividends

	Dividend per share pence	2017 £million	2016 £million
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

11. Earnings per share

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

Earnings	2017 £million	2016 # £million
Net profit attributable to equity holders of the parent (for basic and diluted basic earnings per share)	(256.4)	(103.7)
Adjustments:		
Non-underlying items and amortisation of acquired intangible assets (note 5)	298.7	226.7
Headline earnings (for headline and diluted headline earnings per share)	42.3	123.0

restated (note 1)

Number of shares	2017 Number	2016 Number
Weighted average number of ordinary shares for the purposes of basic and headline earnings per share	145,714,120	145,606,147
Effect of dilutive potential ordinary shares:		
Share options and awards[1]	6,781,433	291,221
Weighted average number of ordinary shares for the purposes of diluted basic[1] and diluted headline earnings per share	152,495,553	145,897,368

Earnings per share	2017 pence	2016 # pence
Basic earnings per share	(176.0)	(71.2)
Diluted basic earnings per share	(176.0)	(71.2)
Headline earnings per share	29.0	84.5
Diluted headline earnings per share	27.7	84.3

restated (note 1)

[1] Due to basic earnings per share being a loss in 2016 and 2017 these adjustments are anti-dilutive and are therefore ignored in calculating diluted basic earnings per share for 2016 and 2017.

12. Goodwill

	2017 £million	2016 £million
Cost		
At 1 January	497.0	488.6
Exchange movements	(4.1)	8.4
At 31 December	492.9	497.0
Accumulated impairment		
At 1 January	60.0	60.0
Impairment losses for the year	60.0	-
At 31 December	120.0	60.0
Carrying amount		
At 31 December	372.9	437.0

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

12. Goodwill continued

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 and are summarised as follows:

	Construction £million	Support Services £million	Equipment Services £million	Total £million
At 1 January 2016	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
Impairment losses for the year	-	(60.0)	-	(60.0)
Exchange movements	-	(4.0)	(0.1)	(4.1)
At 31 December 2017	11.9	360.1	0.9	372.9

Goodwill impairment testing

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

Key assumptions

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.

Discount rates

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 rates used to discount the future cash flows range from 10.3% for Support Services (2016: 8.4%) to 11.3% for Construction and Equipment Services (2016: 9.4%) and are based on the Group's pre-tax weighted average cost of capital. The increases reflect the shifting risk profile of the Group.

Growth rates and terminal values

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 2.0%, followed by a terminal value based on a perpetuity calculated at a nominal 2.0% growth which does not exceed current market growth rates.

Sensitivity analysis

As part of this annual review a sensitivity analysis was performed on the impairment test of each CGU, including an increase in the discount rate of up to 2.0% or a 1.0% reduction in the terminal growth rate and a reduction in assumed profitability. No further impairment in the carrying value of the goodwill in Support Services, Equipment Services or Construction would occur as a result of adopting these sensitivities other than the review and impairment relating to Support Services discussed below.

Review of the carrying value of goodwill in the Support Services CGU

Recent acquisitions, principally Initial Facilities in 2014, have focused on the delivery of support services to the private sector and performance in this sector has not been in line with previous projections. During the year the Group reviewed and updated the sub-analysis of the overall Support Services CGU into a number of the component parts, the most significant of which are public and private-sector Support Services. These changes are felt to better reflect the way the business is managed and a better matching of cash generation. These are then summarised into one overall CGU as reported here. As part of its annual review of impairment, the Group has updated its estimate of the recoverable amount of the CGU that relates to the delivery of support services to the private sector, which has resulted in an impairment of £60.0 million being recognised against goodwill in Support Services.

Key assumptions
The key assumptions underpinning the calculations of the net present value of future cash flows in respect of private-sector delivered support services include:

- the calculations are based on a three-year plan approved by the Board;
- revenue of £690.4 million in 2017 and compound annual nominal growth rate of 5% over the plan period in line with the approved detailed plan;
- an average operating margin of 2.7% after management charges;
- a terminal nominal growth rate of 2.0%; and
- a pre-tax discount rate for the CGU of 10.3% which has been adjusted for the risks specific to the market in which the CGU operates.

In reviewing the carrying value, the following factors have also been considered:

- macro pressures in the support services sector;
- a renewed focus on cost control under the Fit For Growth programme; and
- management resource to deliver the budget.

Sensitivity analysis
The value in use calculations are reliant on the accuracy of management's forecast and the assumptions that underlie them as well as the discount rate and growth rates applied. Sensitivity analysis was performed on the forecasts to consider the impact of certain trading scenarios and changes in assumptions both individually and in combination.

A combination of these sensitivities concluded that an impairment of £60.0 million represented the Audit Committee's best estimate. A 1% change in the discount rate would result in a further £29.6 million impairment (2%: £59.2 million). A £1.0 million change in operating profit would result in a further £12.0 million impairment.

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

13. Other intangible assets

		Acquired		
	Computer software £million	Customer relationships £million	Other £million	Total £million
Cost				
At 1 January 2016	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
Additions	7.7	-	-	7.7
Disposals	(6.4)	-	-	(6.4)
Exchange movements	-	(1.1)	(0.2)	(1.3)
At 31 December 2017	39.1	176.9	3.2	219.2
Accumulated amortisation				
At 1 January 2016	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
Charge for the year	1.6	21.1	0.4	23.1
Impairments (note 5)	6.3	-	-	6.3
Eliminated on disposals	(5.7)	-	-	(5.7)
Exchange movements	-	(1.0)	(0.2)	(1.2)
At 31 December 2017	14.9	146.9	2.9	164.7
Carrying amount				
At 31 December 2017	24.2	30.0	0.3	54.5
At 31 December 2016	25.1	51.2	0.7	77.0
At 1 January 2016	10.3	80.4	0.9	91.6
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 2016	36.6	270.3	123.1	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	34.3	315.4	146.4	496.1
Additions	**10.3**	**17.8**	**21.5**	**49.6**
Impairments (note 5)	**-**	**-**	**(9.4)**	**(9.4)**
Disposals	**(2.8)**	**(29.0)**	**(8.7)**	**(40.5)**
Exchange differences	**(1.4)**	**(13.9)**	**(8.4)**	**(23.7)**
At 31 December 2017	**40.4**	**290.3**	**141.4**	**472.1**
Accumulated depreciation				
At 1 January 2016	15.3	117.6	79.0	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	18.2	129.6	97.9	245.7
Charge for the year	**2.2**	**18.2**	**19.2**	**39.6**
Eliminated on disposals	**(0.6)**	**(21.0)**	**(8.6)**	**(30.2)**
Exchange differences	**(1.0)**	**(3.8)**	**(6.8)**	**(11.6)**
At 31 December 2017	**18.8**	**123.0**	**101.7**	**243.5**
Carrying amount				
At 31 December 2017	**21.6**	**167.3**	**39.7**	**228.6**
At 31 December 2016	16.1	185.8	48.5	250.4
At 1 January 2016	21.3	152.7	44.1	218.1

The carrying amount of the Group's plant and equipment includes an amount of £3.6 million (2016: £4.6 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 2017

14. Property, plant and equipment continued

(b) Carrying amount of land and buildings

	31 December 2017 £million	31 December 2016 £million
Freehold:		
Land at cost	2.5	2.6
Buildings at cost less depreciation	1.2	2.9
	3.7	5.5
Leaseholds under 50 years at cost less depreciation	17.9	10.6
	21.6	16.1

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

	31 December 2017 £million	31 December 2016 £million
Committed	0.7	0.5

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 2017			Year ended 31 December 2016		
	Joint ventures £million	Associates £million	Total £million	Joint ventures £million	Associates £million	Total £million
Revenues	134.6	770.8	905.4	157.7	794.7	952.4
Operating profit	(22.1)	49.6	27.5	2.0	44.3	46.3
Net interest receivable	(1.2)	0.5	(0.7)	1.9	0.3	2.2
Taxation	(0.7)	(3.6)	(4.3)	(1.0)	(1.5)	(2.5)
Profit after tax	(24.0)	46.5	22.5	2.9	43.1	46.0
Less: Profit after tax attributable to non-Group interests	(1.3)	(26.3)	(27.6)	(1.7)	(21.7)	(23.4)
Profit after tax attributable to the Group	(25.3)	20.2	(5.1)	1.2	21.4	22.6
Group amortisation of acquired intangible assets	-	(0.1)	(0.1)	-	(0.1)	(0.1)
Contribution to Group total operating profit	(25.3)	20.1	(5.2)	1.2	21.3	22.5
Dividends paid to the Group	(0.3)	(16.9)	(17.2)	(0.4)	(33.7)	(34.1)
Retained result for the period attributable to the Group	(25.6)	3.2	(22.4)	0.8	(12.4)	(11.6)

(b) Joint-venture entities

(i) Results and net assets

The aggregate results of joint ventures were as follows:

	Year ended 31 December 2017			Year ended 31 December 2016		
	Support Services £million	Group Services £million	Total £million	Support Services £million	Group Services £million	Total £million
Revenues	7.5	127.1	134.6	13.7	144.0	157.7
Operating profit	0.4	(22.5)	(22.1)	0.6	1.4	2.0
Net interest receivable	-	(1.2)	(1.2)	-	1.9	1.9
Taxation	-	(0.7)	(0.7)	-	(1.0)	(1.0)
Profit after tax	0.4	(24.4)	(24.0)	0.6	2.3	2.9
Less: Profit after tax attributable to non-Group interests	(0.2)	(1.1)	(1.3)	(0.3)	(1.4)	(1.7)
Profit after tax attributable to the Group	0.2	(25.5)	(25.3)	0.3	0.9	1.2
Group amortisation of acquired intangible assets	-	-	-	-	-	-
Contribution to Group total operating profit	0.2	(25.5)	(25.3)	0.3	0.9	1.2
Dividends paid to the Group	(0.1)	(0.2)	(0.3)	(0.3)	(0.1)	(0.4)
Retained result for the period attributable to the Group	0.1	(25.7)	(25.6)	-	0.8	0.8

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 2017			Year ended 31 December 2016		
	Support Services £million	Group Services £million	Total £million	Support Services £million	Group Services £million	Total £million
Non-current assets	-	206.4	206.4	-	225.0	225.0
Current assets	1.7	386.6	388.3	2.3	300.3	302.6
Current liabilities	(1.6)	(44.8)	(46.4)	(2.3)	(23.5)	(25.8)
Non-current liabilities	-	(480.7)	(480.7)	-	(409.8)	(409.8)
Net assets	0.1	67.5	67.6	-	92.0	92.0
Less: Net assets attributable to non-Group interests	(0.1)	(21.0)	(21.1)	-	(50.4)	(50.4)
Net assets attributable to the Group	-	46.5	46.5	-	41.6	41.6
Goodwill	-	-	-	-	-	-
Acquired intangible assets	-	-	-	-	-	-
Carrying value of net assets and goodwill	-	46.5	46.5	-	41.6	41.6

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 2017

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 2016	0.1	34.5	6.3	40.9
Acquisitions and advances	-	9.8	-	9.8
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
Acquisitions and advances	-	33.1	-	33.1
Repayments to the Group	-	(0.7)	-	(0.7)
Disposals	-	(3.2)	(4.0)	(7.2)
Fair value adjustment to financial instruments and derivatives	-	-	5.3	5.3
Share of retained profits	-	-	(25.6)	(25.6)
At 31 December 2017	0.1	69.5	(23.1)	46.5

Further details of the Group's investment in PPP/PFI schemes are included in note 31.

During the year the Group disposed of its investment in the Addiewell Prison special-purpose vehicle.

At 31 December 2017 the Group had no commitments for additional investment in joint-venture entities (2016: £32.7 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 2017			Year ended 31 December 2016		
	Construction £million	Support Services £million	Total £million	Construction £million	Support Services £million	Total £million
Revenues	628.9	141.9	770.8	636.2	158.5	794.7
Operating profit	43.4	6.2	49.6	39.3	5.0	44.3
Net interest receivable	0.7	(0.2)	0.5	0.3	-	0.3
Taxation	(3.1)	(0.5)	(3.6)	(1.1)	(0.4)	(1.5)
Profit after tax	41.0	5.5	46.5	38.5	4.6	43.1
Less: Profit after tax attributable to non-Group interests	(21.5)	(4.8)	(26.3)	(19.4)	(2.3)	(21.7)
Profit after tax attributable to the Group	19.5	0.7	20.2	19.1	2.3	21.4
Group amortisation of acquired intangible assets	-	(0.1)	(0.1)	-	(0.1)	(0.1)
Contribution to Group total operating profit	19.5	0.6	20.1	19.1	2.2	21.3
Dividends paid to the Group	(15.7)	(1.2)	(16.9)	(31.0)	(2.7)	(33.7)
Retained result for the period attributable to the Group	3.8	(0.6)	3.2	(11.9)	(0.5)	(12.4)

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 2017			Year ended 31 December 2016		
	Construction £million	Support Services £million	Total £million	Construction £million	Support Services £million	Total £million
Non-current assets	55.7	2.7	58.4	57.1	3.3	60.4
Current assets	453.9	67.4	521.3	518.7	79.7	598.4
Current liabilities	(333.5)	(32.9)	(366.4)	(388.3)	(45.8)	(434.1)
Non-current liabilities	(39.6)	(3.9)	(43.5)	(44.8)	(4.8)	(49.6)
Net assets	136.5	33.3	169.8	142.7	32.4	175.1
Less: Net assets attributable to non-Group interests	(81.7)	(14.4)	(96.1)	(80.2)	(14.3)	(94.5)
Net assets attributable to the Group	54.8	18.9	73.7	62.5	18.1	80.6
Goodwill	1.2	3.5	4.7	1.2	3.5	4.7
Acquired intangible assets	-	-	-	-	-	-
Carrying value of net assets and goodwill	56.0	22.4	78.4	63.7	21.6	85.3

(ii) Movements in the year

	Shares £million	Loans £million	Share of reserves £million	Total £million
At 1 January 2016	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
Share of retained profits net of amortisation	-	-	3.2	3.2
Exchange differences	-	-	(10.1)	(10.1)
At 31 December 2017	5.9	8.9	63.6	78.4

Notes to the consolidated financial statements continued
for the year ended 31 December 2017

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 2016	(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
(Charge)/credit to income	(2.5)	3.5	6.3	(1.6)	(3.0)	2.7
(Charge)/credit to equity	1.8	-	-	-	0.2	2.0
Exchange differences	-	-	0.4	(0.1)	(0.2)	0.1
At 31 December 2017	8.1	(5.5)	12.5	2.3	6.0	23.4

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

	31 December 2017 £million	31 December 2016 £million
Deferred tax liabilities	(5.5)	(0.2)
Deferred tax assets	28.9	18.8
	23.4	18.6

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 £80.0 million (2016: £41.5 million) on gross losses of £460.0 million (2016: £244.2 million).

17. Inventories

	31 December 2017 £million	31 December 2016 £million	31 December 2015 £million
Goods held for resale	22.7	28.7	32.1
Materials	11.3	7.8	8.0
	34.0	36.5	40.1

18. Construction contracts

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

	31 December 2017 £million	31 December 2016 £million	31 December 2015 £million
Amounts due from contract customers included in trade and other receivables (note 19)	95.1	116.9	127.3
Amounts due to contract customers included in trade and other payables (note 22)	(29.5)	(41.6)	(35.5)
	65.6	75.3	91.8
Contract costs incurred plus recognised profits less recognised losses to date	2,105.9	2,176.4	1,529.6
Less: progress billings	(2,040.3)	(2,101.1)	(1,437.8)
	65.6	75.3	91.8

At 31 December 2017, retentions held by customers for contract work amounted to £39.8 million (2016: £44.6 million) of which £7.2 million (2016: £10.7 million) is receivable after one year. Advances received were £29.5 million (2016: £41.6 million) of which £nil is repayable after one year (2016: £nil).

19. Trade and other receivables

	31 December 2017 £million	31 December 2016 £million	31 December 2015 £million
Amounts recoverable from the sale of goods and services	384.4	380.7	444.5
Allowances for doubtful debts	(47.5)	(54.3)	(46.3)
	336.9	326.4	398.2
Amounts due from construction contract customers	95.1	116.9	127.3
Retentions	39.8	44.6	38.4
Other receivables	39.8	43.2	27.2
Prepayments	32.1	30.2	34.9
Accrued income	178.3	163.1	148.9
	722.0	724.4	774.9

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

	31 December 2017 £million	31 December 2016 £million	31 December 2015 £million
Retentions	7.2	10.7	6.1

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 (2016: 32 days). Allowances for doubtful debt are provided for on a specific basis, based on estimates of irrecoverability determined by market knowledge and past experience.

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

19. Trade and other receivables continued

Ageing of trade receivables, not impaired but net of allowances for doubtful debt, is as follows:

	31 December 2017 £million	31 December 2016 £million	31 December 2015 £million
Not more than one month past due	50.4	49.0	76.9
Between one and three months past due	34.5	19.6	23.4
Between three and six months past due	34.1	23.3	22.5
Greater than six months	12.7	21.9	24.0
Total past due but not impaired	131.7	113.8	146.8
Not past due	205.2	212.6	251.4
Total net receivables	336.9	326.4	398.2

The average age of the receivables past due but not impaired is 83 days (2016: 96 days).

Movement in allowance for doubtful debt is as follows:

	2017 £million	2016 £million
Balance at 1 January	54.3	46.3
Amounts written off as uncollectable	(14.9)	(26.8)
Impairment losses recognised in the year	18.8	34.4
Amounts recovered during the year	(7.1)	(7.7)
Exchange differences	(3.6)	8.1
Balance at 31 December	47.5	54.3

20. Cash, deposits and borrowings

(a) Cash, deposits and borrowings

		31 December 2017 £million	31 December 2016 £million	31 December 2015 £million
Cash and deposits	A	155.1	113.3	86.1
Bank overdrafts		(6.8)	(11.1)	(15.5)
Bank loans		(388.6)	(165.0)	(170.0)
US Private Placement loan notes[1]		(258.9)	(284.4)	(236.1)
		(654.3)	(460.5)	(421.6)
Finance leases (note 24)		(3.4)	(4.4)	(2.2)
Total borrowings	B	(657.7)	(464.9)	(423.8)
Per balance sheet	A+B	(502.6)	(351.6)	(337.7)
less: Impact of hedges on US Private Placement loan notes[1]		-	77.2	28.9
Net debt		(502.6)	(274.4)	(308.8)

[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, until 13 December 2017, these loan balances were swapped into the fixed sterling equivalent of £207.2 million and this adjustment was to pro forma the statutory borrowing number back to this balance which the directors believed best represented the commercial substance of the liability. On 13 December 2017 these exchange rate swaps were terminated in exchange for consideration equal to their fair value of £44.4 million in the form of cancelled bank loans. Following the end of the swap arrangement, the 2017 net debt figure agrees to the balance sheet. 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 £31.0 million (2016: £38.6 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 2017 £million	31 December 2016 £million	31 December 2015 £million
On demand or within one year	7.7	12.1	16.1
In the second year	389.4	0.9	0.4
In the third to fifth years inclusive	64.6	167.0	171.0
After more than five years	196.0	284.9	236.3
	657.7	464.9	423.8
Less: Amount due for settlement within 12 months	(7.7)	(12.1)	(16.1)
Amount due for settlement after 12 months	650.0	452.8	407.7

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 £1.4 million and is all due for payment within one year (2016: £0.7 million within one year).

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

	31 December 2017 £million	31 December 2016 £million	31 December 2015 £million
Drawn facilities:			
US Private Placement loan notes	258.9	284.4	236.1
Bank loans	388.6	165.0	170.0
Undrawn facilities maturing in less than one year	37.5	-	-
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
Total committed borrowing facilities	685.0	584.4	536.1

(b) Committed borrowing facilities

	31 December 2017 £million	31 December 2016 £million	31 December 2015 £million
US Private Placement loan notes	258.9	284.4	236.1
Bank facilities	426.1	300.0	300.0
Total committed borrowing facilities	685.0	584.4	536.1

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

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 6.5 years. The loan notes attract differing fixed rates of interest depending on their tenor. Until 13 December 2017, when the swap arrangements were terminated, this was swapped to a fixed sterling equivalent of £207.2 million, along with the associated interest payments, with the use of derivatives that were designated as cash flow hedges that were held at fair value (see note 21(b)). From 13 December 2017 onwards the loan notes are not subject to any exchange rate hedging and we discontinued hedge accounting for the swaps and the associated loan notes (see note 21).

The loan notes are in addition to £426.1 million of committed bank facilities as at the year end. This includes the £433.0 million of facilities referred to last year, which mature in 2019, less £44.4 million that was cancelled on termination of the exchange rate swaps referred to above and an additional £37.5 million of short-term committed facilities that were agreed in December 2017 and ran until 30 March 2018 (extended to 30 April 2018).

Following the successful conclusion of our bank negotiations in April 2018, and expiry of the £37.5 million of short-term facilities, the Group has arranged access to committed borrowing facilities of £834 million.

These committed borrowing facilities consist of a renewal of existing revolving credit facilities of £388.6 million, $350 million of US loan notes, £175 million new term loan and £21.5 million of money market lines. The term loan is repayable in instalments with £150.0 million of repayments (including from disposals) due before or during 2019 and £60.0 million in 2020. The balance of funding is committed until September 2021 and is subject to a covenant to reduce gross borrowings to below £450 million by June 2020.

These facilities are subject to interest at the following rates:

	Cash payment	Payment in kind	Total
Revolving credit facility	LIBOR + 3.00%	1.43% + 2.00% until September 2019 if net leverage is above 3.0x and then subject to a ratchet increase	LIBOR + 6.43%
US$ loan notes	Weighted average of 5.61%	2.00% until September 2019 if net leverage is above 3.0x and then subject to a ratchet increase	Weighted average of 7.61%
New term loan	LIBOR + 3.25%	5.50%	LIBOR + 8.75%

As part of the refinancing the Company will issue warrants to the providers of the new term loan and bonding facilities to buy shares at 10 pence per share (the nominal price of each share). If exercised, this would provide the warrant holders with an interest of up to 20% of the post-issue share capital. The issue of these warrants will result in a charge to the income statement over the life of the new money equivalent to their fair value.

The Group also secured additional bonding facilities of up to £95 million as part of the arrangements which attract a cash margin of 2.00% with payment in kind charges of 5.50% whilst net leverage exceeds 3.0x. Existing bonding also attracts a 0.50% uplift on existing pricing and 2.00% payment in kind charges until September 2019 or net leverage falls below 3.0x and then subject to a ratchet. Payment in kind charges are capitalised to the balance sheet as a liability and become payable on a subsequent re-financing.

It is anticipated that the total interest expense in 2018 will be approximately £67 million (including the amortisation of costs associated with the warrants) of which circa £34 million will be cash interest. The increased cost of bonding instruments already issued will be circa £3.2 million, of which the cash impact is less than £1 million.

The borrowings are subject to a number of financial covenants including absolute EBITDA and cash flow available for debt servicing along with net leverage and cash interest cover. The calculation of EBITDA is subject to a cap on the level of non-underlying items that are excluded for covenant calculation purposes. Net leverage requirements for net debt relative to EBITDA start at a maximum of 6.5x and trend downwards to below 4.0x over the duration of the funding. Interest cover requirement is broadly for EBIT to cover interest by at least 3.5x. These covenants are measured quarterly on a rolling 12-month basis. There is also a minimum net worth covenant that is effective from December 2019.

The Group has granted security in respect of the new, and some of the existing debt, in the form of share pledges over material subsidiaries and floating charges over various intercompany funding arrangements.

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 2017			31 December 2016		
	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	155.1	-	155.1	113.3	-	113.3
Trade and other receivables (excluding construction contracts, prepaid and accrued income)	376.7	-	376.7	369.6	-	369.6
Currency exchange rate hedge	-	-	-	-	67.6	67.6
Total financial assets	531.8	-	531.8	482.9	67.6	550.5

	31 December 2017			31 December 2016		
	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	398.8	-	398.8	180.5	-	180.5
Loan notes	258.9	-	258.9	284.4	-	284.4
Trade and other payables (excluding construction contracts, accruals, deferred income and other tax and social security)	276.1	-	276.1	368.5	-	368.5
Interest rate hedge (non-PFI investments)	-	-	-	-	0.5	0.5
Total financial liabilities	933.8	-	933.8	833.4	0.5	833.9

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 2017 £million	31 December 2016 £million
Level 2	-	67.1

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

21. Financial risk management continued

The Group's hedging derivatives were terminated for consideration at fair value on 13 December 2017 and at 31 December 2017 had no such arrangements (see below under exchange rate hedges and interest rate hedges).

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 2017				31 December 2016			
	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	102.5	-	251.3	353.8	60.6	-	250.2	310.8
US dollar	17.7	-	35.4	53.1	14.6	-	38.9	53.5
Euro	12.7	-	15.2	27.9	3.7	-	12.4	16.1
Australian dollar	1.5	-	4.7	6.2	3.4	-	4.8	8.2
Dirham	5.4	-	19.8	25.2	6.8	-	24.6	31.4
Other	15.3	-	50.3	65.6	24.2	-	38.7	62.9
	155.1	-	376.7	531.8	113.3	-	369.6	482.9

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

	31 December 2017				31 December 2016			
	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	388.6	3.4	229.9	621.9	174.0	4.4	299.1	477.5
US dollar	-	258.9	22.3	281.2	-	284.4	38.5	322.9
Euro	4.2	-	2.0	6.2	-	-	2.0	2.0
Australian dollar	-	-	1.5	1.5	-	-	1.6	1.6
Dirham	-	-	10.7	10.7	-	-	10.9	10.9
Other	2.6	-	9.7	12.3	2.1	-	16.4	18.5
	395.4	262.3	276.1	933.8	176.1	288.8	368.5	833.4
Weighted average interest rates excluding amortisation of arrangement fees and bank margin	0.5%	5.3%			0.3%	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 2017.

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 2017 £million	31 December 2016 £million
A 1% change in exchange rates results in:		
Change in profit	0.5	0.4
Change in reserves/net assets	2.3	2.2

A 1% change in the Qatari rial exchange rate would result in a £0.2 million change in profit and a £0.7 million change in reserves/net assets.

(b) Market price risk - currency exchange rate hedges

Prior to 13 December 2017, when they were terminated, the Group used foreign exchange rate swaps to control its exposure to changes in foreign currency rates and limit the impact of any changes on both the balance sheet and the income statement. It had no foreign exchange rate hedges in place at the year end but had the following arrangements in place in the comparative year:

	31 December 2017			31 December 2016		
	Nominal value US$ million	Maturity	Exchange rate	Nominal value US$ million	Maturity	Exchange rate
Currency exchange rate hedges	-	-	-	85.0	2021	1.69
	-	-	-	155.0	2024	1.69
	-	-	-	110.0	2026	1.69
	-			350.0		

The fair value of currency exchange rate hedges at 31 December 2017 was £nil (2016: £67.6 million). The contracts were designated as cash flow hedges prior to their termination and, to the extent that the hedges were effective hedges, changes in their fair value were recognised directly in other comprehensive income (no charges have gone through the income statement in the year (2016: £nil) in respect of changes in the fair values of the hedges). A loss of £23.2 million (2016: gain £42.0 million) was booked to other comprehensive income in the year in respect of changes in the fair value of the hedges prior to their termination bringing the total cumulative gain recognised in equity at the point of termination to £44.4 million. At the point of termination the cumulative losses on the hedged loan notes, also recognised in equity under the hedging relationship, totalled £54.6 million and therefore a net £10.2 million loss previously recognised in equity will be recycled to the income statement over the remaining life of the originally hedged instruments (the loan notes). The Group received £44.4 million of consideration, in the form of cancelled bank loans, for the termination of the foreign exchange swaps.

The fair values of the hedge instruments were calculated and provided by the respective counterparty banks.

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

21. Financial risk management continued

(c) Market price risk - interest rate hedges

Prior to 13 December 2017, when they were terminated, the Group used interest rate swaps to control its exposure to changes in interest rates and limit the impact of any changes on the income statement. It had no interest rate hedges in place at the year end but had the following arrangements in place in the comparative year:

	31 December 2017				31 December 2016			
		Nominal value £million	Maturity	Strike price		Nominal value £million	Maturity	Strike price
Interest rate swaps	-	-	-	-	Current	20.0	2017	1.09%
	-	-	-	-	Current	20.0	2019	1.54%

The fair value of the interest rate hedges at 31 December 2017 was £nil (2016: (£0.5 million). The contracts were designated as cash flow hedges and, to the extent they were effective hedges, changes in their fair value were recognised directly in other comprehensive income (no charges have gone through the income statement in the year (2016: £nil) in respect of changes in the fair values of the hedges). Gains of £0.2 million (2016: loss £0.4 million) was booked to other comprehensive income in the year in respect of changes in the fair value of the hedges prior to their termination bringing the total cumulative loss recognised in equity at the point of termination to £0.3 million. This loss will be recycled to the income statement over the remaining life of the originally hedged instruments (the bank loans). The Group paid consideration of £0.3 million for the termination of the interest rate swaps.

The fair values of the hedge instruments were calculated using computer valuation models operated by counterparty banks.

The use of fixed rate borrowings, 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 2017 £million	31 December 2016 £million
A 1% change in interest rates results in:		
Change in profit	3.9	1.4

(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 non-underlying items.

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 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 2017 £million	31 December 2016 £million	31 December 2015 £million
Obligations under finance leases (note 24)	**0.9**	1.0	0.6
Trade payables	**206.9**	290.7	166.5
Advances received	**29.5**	41.6	35.5
Other taxation and social security	**75.4**	45.4	85.3
Other payables	**57.2**	64.6	68.5
Accruals	**377.1**	422.5	388.0
Deferred income	**51.6**	33.5	43.6
	798.6	899.3	788.0

23. Trade and other payables - amounts falling due after more than one year

	31 December 2017 £million	31 December 2016 £million	31 December 2015 £million
Obligations under finance leases (note 24)	**2.5**	3.4	1.6
Trade payables	**0.3**	0.6	0.2
Other payables	**11.7**	12.6	14.1
	14.5	16.6	15.9

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

The average credit period taken for trade purchases is 41 days (2016: 50 days).

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

	31 December 2017 £million	31 December 2016 £million	31 December 2015 £million
Less than one year	**339.5**	400.7	320.3
Between one and two years	**12.0**	13.2	14.3
	351.5	413.9	334.6

Notes to the consolidated financial statements continued
for the year ended 31 December 2017

24. Obligations under finance and operating leases

(a) Finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2017 £million	2016 £million	2017 £million	2016 £million
Amounts payable under finance leases:				
Within one year	1.0	1.1	0.9	1.0
In the second to fifth years inclusive	2.5	3.0	2.5	2.9
After five years	0.2	0.6	-	0.5
	3.7	4.7	3.4	4.4
Less: future finance charges	(0.3)	(0.3)	n/a	n/a
Present value of lease obligations	3.4	4.4	3.4	4.4

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 2017 the average effective borrowing rate was 1.8% (2016: 1.8%). 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 2017			31 December 2016		
	Land and buildings £million	Other £million	Total £million	Land and buildings £million	Other £million	Total £million
Within one year	13.0	16.0	29.0	20.9	16.4	37.3
In the second to fifth years inclusive	30.3	18.0	48.3	34.9	17.8	52.7
After five years	104.5	-	104.5	8.5	-	8.5
	147.8	34.0	181.8	64.3	34.2	98.5

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 2016	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
Additional provision in the year	47.2	39.8	87.0
Release	(8.0)	-	(8.0)
Utilisation of provision	(7.7)	(4.9)	(12.6)
Exchange differences	-	(0.9)	(0.9)
At 31 December 2017	60.3	69.9	130.2

	31 December 2017 £million	31 December 2016 £million	31 December 2015 £million
Included in current liabilities	50.2	21.8	27.4
Included in non-current liabilities	80.0	42.9	43.3
	130.2	64.7	70.7

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 along with property and restructuring provisions (note 5).

26. Share capital

	31 December 2017 £million	31 December 2016 £million	31 December 2015 £million
Issued and fully paid:			
145,714,120 ordinary shares of 10p each (2016: 145,714,120 ordinary shares of 10p each)	14.6	14.6	14.5

	Shares thousands	Share capital £million
At 1 January 2016	145,207.5	14.5
Share awards issued in 2016	506.6	0.1
At 31 December 2016	145,714.1	14.6
Share awards issued in 2017	-	-
At 31 December 2017	145,714.1	14.6

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

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 70 to 99. Outstanding options and awards over shares in the Company at 31 December 2017 were as follows:

			31 December 2017		31 December 2016	
	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
	9 April 2013	Nil	7	15,382	17	40,117
	13 May 2014	Nil	-	-	114	1,385,104
	27 May 2014	Nil	-	-	2	15,828
	1 June 2015	Nil	120	1,695,314	134	1,775,036
	5 April 2016	Nil	123	2,079,878	136	2,162,868
	6 April 2017	Nil	112	4,006,741	-	-
	11 September 2017	Nil	8	996,143	-	-
	2 October 2017	Nil	1	526,840	-	-
				9,320,298		5,387,106
(b) Restricted Stock Award	11 September 2017	Nil	1	1,897,899	-	-
				1,897,899		
(c) Sharesave Scheme	4 April 2013	398.0p	-	-	11	2,124
	9 April 2014	511.0p	7	5,737	1,319	410,635
	30 September 2014	529.0p	736	216,164	1,217	361,139
	14 October 2015	467.0p	1,278	430,003	2,034	688,291
	12 October 2016	317.0p	1,231	1,033,942	1,995	1,696,073
	11 October 2017	91.0p	2,955	9,540,599	-	-
				11,226,445		3,158,262

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	
	2017 £million	2016 £million	2017 £million	2016 £million
Joint ventures and associates				
Borrowings	18.9	17.7	1.7	-
Bonds and guarantees	226.0	284.2	138.3	172.2
	244.9	301.9	140.0	172.2

28. Share-based payments

Under the Group's share-based incentive schemes the following expense was charged/(credited):

	31 December 2017 £million	31 December 2016 £million
Performance Share Plan	(1.3)	(0.6)
Restricted Stock Award	3.1	-
Sharesave Scheme	0.3	0.4
Total charge/(credit)	2.1	(0.2)
Cash settled	(0.3)	0.2
Equity settled	2.4	(0.4)
Total charge/(credit)	2.1	(0.2)

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 all participants in the 2017 awards, one-third of their award is subject to a Total Shareholder Return (TSR) performance condition with performance compared to a comparator group. For all previous awards, this applied only to certain participants. 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 70 to 99. Awards are normally forfeited if the employee leaves the Group before the awards vest.

	2017 Awards number	2016 Awards number
Outstanding at beginning of period	5,387,106	4,778,037
Granted during the period	5,616,649	2,162,868
Exercised during the period	(26,562)	(535,171)
Lapsed during the period	(1,656,895)	(1,018,628)
Outstanding at the end of the period	9,320,298	5,387,106
Exercisable at the end of the period	15,382	48,270

The remaining weighted average contractual life is 3.8 years (2016: 3.5 years).

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

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:

	2017 grants	2016 grants	2015 grants
Weighted average share price	202.4p	419.6p	619.5p
Weighted average exercise price	0p	0p	0p
Expected volatility	44.7%	26.2%	24.4%
Expected life	3 years	3 years	3 years
Risk-free rate	0.3%	0.5%	0.7%
Expected dividend yield	0.0%	0.0%	0.0%
Average fair value of award per share	27.9p	134.6p	303.0p

(b) Restricted Stock Award

On 11 September 2017 the Chief Executive Officer, Debbie White, received Restricted Stock Awards in order to compensate her for forfeited awards from her previous employment. The awards replicate, as far as practicable, the terms (including performance conditions where relevant) and values of awards forfeited by Mrs White in agreeing to join the Group. The award is a “free” share award with an effective exercise price of £nil. The vesting dates of awards vary from March 2018 to April 2020. Awards are normally forfeited if the employee leaves the Group before the awards vest. Further details of the awards are set out in the Directors’ Remuneration Report on pages 70 to 99.

	2017 Awards number
Outstanding at beginning of period	-
Granted during the period	1,897,899
Exercised during the period	-
Lapsed during the period	-
Outstanding at the end of the period	1,897,899
Exercisable at the end of the period	-

The remaining weighted average contractual life is 1.5 years (2016: n/a).

The fair value of the awards granted under this plan is 161.5p per share, which is based on the closing share price of the Company on the grant date of 11 September 2017.

(c) 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.

	2017		2016	
	Options number	Weighted average exercise price £	Options number	Weighted average exercise price £
Outstanding at beginning of period	**3,158,262**	**3.99**	2,222,000	4.85
Granted during the period	**9,861,819**	**0.96**	1,709,574	3.17
Exercised during the period	**-**	**-**	(13,951)	3.64
Lapsed during the period	**(1,793,636)**	**3.60**	(759,361)	4.64
Outstanding at the end of the period	**11,226,445**	**1.39**	3,158,262	3.99
Exercisable at the end of the period	**-**	-	2,124	3.98

The outstanding options at the end of the period had a weighted average exercise price of £1.39 (2016: £3.99) and had a remaining weighted average contractual life of 3.2 years (2016: 2.6 years).

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

	2017 grants	2016 grants	2015 grants
Share price at date of grant	**113.5p**	348.0p	592.5p
Exercise price	**91.0p**	317.0p	467.0p
Expected volatility	**41.3%**	30.0%	23.3%
Expected life	**3 years**	3 years	3 years
Risk-free rate	**0.5%**	0.8%	0.8%
Expected dividend yield	**3.7%**	4.1%	4.3%
Fair value of award per share	**33.0p**	62.3p	114.7p

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Notes to the consolidated financial statements continued
for the year ended 31 December 2017

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 2017.

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 Interserve Pension Scheme comprises two segregated sections (referred to as the Interserve and Landmarc sections), with assets and liabilities ring-fenced. The Group operates a defined contribution plan for new hires, with membership of the defined benefit arrangements only permitted when specific contract terms require defined benefit provision. Contributions to the defined contribution arrangements are in addition to those set out below and are charged directly to profit and loss.

The current funding target for the Group’s defined benefit schemes is to maintain assets equal to the value of the accrued benefits based on projected salaries (where relevant). The regulatory framework in the UK requires the Trustees and Group to agree upon the assumptions underlying the funding target, and then to agree upon the necessary contributions required to recover any deficit at the valuation date. There is a risk to the Group that adverse experience could lead to a requirement for the Group to make considerable contributions to recover any deficit.

The following table sets out the key IAS 19 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.

	2017	2016	2015
Significant actuarial assumptions			
Retail price inflation (pa)	**3.2%**	3.3%	3.1%
Discount rate (pa)	**2.5%**	2.8%	3.8%
Post-retirement mortality (expectancy of life in years)			
Male currently aged 65	**87.7**	87.6	87.6
Female currently aged 65	**89.6**	89.5	89.4
Male aged 65 in 20 years' time	**89.5**	89.4	89.3
Female aged 65 in 20 years' time	**91.0**	91.0	90.9
Other related actuarial assumptions			
Consumer price index price inflation (pa)	**2.2%**	2.3%	2.1%
Pension increase assumptions (pa)			
LPI/RPI	**3.1%/3.2%**	3.1%/3.3%	3.0%/3.1%
Fixed 5%	**5.0%**	5.0%	5.0%
3% or RPI if higher (capped at 5%)	**3.7%**	3.7%	3.6%
General salary increases (pa)	**2.7%**	2.8%	2.6%

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

	2017 £million	2016 £million	2015 £million
Present value of defined benefit obligation	1,064.1	1,044.6	880.9
Fair value of schemes' assets	(1,016.1)	(992.2)	(898.1)
(Asset)/liability recognised in the balance sheet	48.0	52.4	(17.2)

The change in the net liabilities recognised in the balance sheet is comprised as follows:

	2017 £million	2016 £million
Opening net (asset)/liability	52.4	(17.2)
Expense charges to profit and loss	7.9	2.8
Amount recognised in other comprehensive income	10.4	90.2
Employer contributions	(22.7)	(23.4)
Closing net (asset)/liability	48.0	52.4

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 2017, 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	2017 £million	2016 £million
Sensitivity to significant actuarial assumptions			
Price inflation	+0.5% pa	+64	+65
Discount rate	+0.5% pa	-85	-85
Post-retirement mortality (expectancy of life in years)	1 year increase	+35	+34

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:

	2017 £million	2016 £million
Employer's part of current service cost	5.2	5.7
Net interest on the net pension liability/(asset)	1.1	(1.1)
Administration costs	1.6	0.9
Past service cost/(credit)	-	(2.6)
Losses/(gains) on settlements	-	(0.1)
Total expense recognised in the income statement	7.9	2.8

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

29. Defined benefit retirement schemes continued

The current service cost and administration costs are included within operating profit. The interest cost is included within financing costs.

At the balance sheet date, the current allocation of the schemes' assets is as follows:

	31 December 2017		31 December 2016		31 December 2015	
	Current allocation	Fair value £million	Current allocation	Fair value £million	Current allocation	Fair value £million
Equities (quoted)	28%	286.1	28%	271.7	23%	207.4
Alternative investments (primarily unquoted)	19%	192.5	17%	168.6	16%	144.9
Property (unquoted)	0%	3.9	0%	3.1	2%	22.5
Liability Driven Investment ("LDI") (unquoted)	13%	132.7	12%	117.7	0%	-
Insurance policies (unquoted)	34%	342.7	37%	368.7	39%	347.9
Government bonds (quoted)	0%	-	0%	2.1	13%	115.8
Corporate bonds (quoted)	0%	2.8	0%	2.7	0%	2.3
Infrastructure (unquoted)	5%	49.0	5%	52.0	6%	51.7
Cash and other (primarily unquoted)	1%	6.4	1%	5.6	1%	5.6
	100%	1016.1	100%	992.2	100%	898.1

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 31% 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 circa £292 million of the defined benefit obligation at 31 December 2017. The policy covers a further circa £9 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 schemes have not directly invested in any of the Group's other financial instruments nor in other assets or properties used by the Group.

A reconciliation of the present value of the defined benefit obligation is as follows:

	2017 £million	2016 £million
Opening defined benefit obligation	1,044.6	880.9
Employer's part of current service cost	5.2	5.7
Interest on defined benefit obligation	28.6	32.7
Contributions by schemes' participants	0.3	0.4
Actuarial loss/(gain) due to:		
Changes in financial assumptions	39.7	176.0
Changes in demographic assumptions	(1.2)	-
Experience on defined benefit obligations	(8.4)	(8.6)
Benefits paid	(44.7)	(39.1)
Past service cost/(credit)	-	(2.6)
Curtailments and settlements	-	(0.8)
Bulk transfers	-	-
Closing defined benefit obligation	1,064.1	1,044.6

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

	2017 £million	2016 £million
Opening fair value of the schemes' assets	992.2	898.1
Interest on schemes' assets	27.5	33.8
Actual return on schemes' assets less interest on schemes' assets	19.7	77.2
Contributions by the employers	22.7	23.4
Contributions by schemes' participants	0.3	0.4
Administrative expenses	(1.6)	(0.9)
Benefits paid	(44.7)	(39.1)
Curtailments and settlements	-	(0.7)
Bulk transfers	-	-
Closing fair value of the schemes' assets	1,016.1	992.2

A triennial actuarial valuation of the Interserve Pension Scheme is underway, with an effective date of 31 December 2017. The future contribution rates will be determined in the light of this actuarial valuation. Based on current contribution rates and payroll, the Group expects to contribute £17.9 million to the various defined benefit arrangements during 2018 (including deficit contributions to the Interserve section of the Interserve Pension Scheme of £14.1 million).

Notes to the consolidated financial statements continued
for the year ended 31 December 2017

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	
	2017 £million	2016 £million	2017 £million	2016 £million	2017 £million	2016 £million	2017 £million	2016 £million
Joint-venture entities	43.7	118.1	-	-	14.5	7.8	-	-
Associates	7.6	11.6	2.2	1.2	4.8	4.6	0.7	0.5

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. No dividends were paid in the year (2016: £0.3 million) 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 70 to 99.

31. Investments in joint ventures - arrangements

PFI/PPP arrangements that have reached financial close at 31 December 2017 include:

	Interserve services				Dates			Share of equity/sub-debt		
Contract	Design/build	Operate	Whole-life value £million	Status	Awarded	Fully operational	Contract end	%	£million	Total capital required £million
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	3.3	200.0
Scottish National Blood Transfusion	yes	yes	43	construction	Q4 2014	Q1 2017	2042	50	1.6	43.0
Education										
Hertford, Luton and Reading Schools	yes	yes	160	construction	Q1 2015	Q1 2017	2042	45	6.1	147.0
									28.5	
Invested to date										
Shares									0.1	
Loans									28.4	
Remaining commitment									-	
									28.5	

Interserve's share of the capital commitments of the joint ventures above amounts to £11.2 million (2016: £25.8 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

	2017 £million	2016 £million	2015 £million
Profit/(loss) before tax	(244.4)	(94.1)	79.5
Adjusted for:			
Amortisation of acquired intangible assets	21.5	29.8	31.0
Share of associates amortisation of acquired intangible assets	0.1	0.1	0.1
Non-underlying items - exited business - Energy from Waste	35.1	160.0	10.6
Non-underlying items - exited business - strategic review of Equipment Services	7.1	10.7	2.6
Non-underlying items - exited business - property development	26.0	-	-
Non-underlying items - restructuring costs	33.2	-	-
Non-underlying items - professional adviser fees	13.9	-	-
Non-underlying items - contract review	86.1	30.8	-
Non-underlying items - asset impairments	76.7	-	-
Non-underlying items - transaction and integration costs	-	-	4.8
Non-underlying items - exchange gain/loss on retranslation of loan notes	(2.9)	-	-
Headline pre-tax profit	52.4	137.3	128.6

(b) Operating cash flow

	2017 £million	2016 £million	2015 £million
Cash generated by operations	(135.9)	95.3	38.7
Adjusted for:			
Cash used by operations - exited business - Energy from Waste	95.9	116.9	10.4
Cash used by operations - other non-underlying	64.7	17.8	5.6
Pension contributions in excess of income statement charge	15.9	19.5	16.1
Proceeds on disposal of plant and equipment - non-hire fleet	1.6	8.6	1.6
Capital expenditure - non-hire fleet	(39.3)	(38.3)	(31.2)
Operating cash flow	2.9	219.8	41.2

(c) Free cash flow

	2017 £million	2016 £million	2015 £million
Operating cash flow	2.9	219.8	41.2
Adjusted for:			
Pension contributions in excess of income statement charge	(15.9)	(19.5)	(16.1)
Taxes paid	(8.6)	(10.2)	(6.8)
Dividends received from associates and joint ventures	17.2	34.1	13.6
Interest received	5.9	4.5	4.4
Interest paid	(27.3)	(23.3)	(21.1)
Effect of foreign exchange rate change	(2.2)	10.9	0.1
Free cash flow	(28.0)	216.3	15.3

Notes to the consolidated financial statements continued
for the year ended 31 December 2017

32. Reconciliation of non-statutory measures continued

(d) Operating cash conversion

	2017 £million	2016 £million	2015 £million
Operating cash flow	2.9	219.8	41.2
Operating profit, before non-underlying items and amortisation of acquired intangible assets	49.4	129.2	122.4
Full-year operating cash conversion	5.9%	170.1%	33.7%

(e) Gross operating cash conversion

	2017 £million	2016 £million	2015 £million
Operating cash flow	2.9	219.8	41.2
Dividends received from associates and joint ventures	17.2	34.1	13.6
Gross operating cash flow	20.1	253.9	54.8
Operating profit, before non-underlying items and amortisation of acquired intangible assets	49.4	129.2	122.4
Share of results of associates and joint ventures, before non-underlying items and amortisation of acquired intangible assets	25.5	25.8	22.6
Total operating profit, before non-underlying items and amortisation of acquired intangible assets	74.9	155.0	145.0
Full-year gross operating cash conversion	26.8%	163.8%	37.8%

(f) Gross revenue

	2017 £million	2016 £million	2015 £million
Consolidated revenue	3,250.8	3,244.6	3,204.6
Share of revenues of associates and joint ventures	416.1	440.6	424.3
Gross revenue	3,666.9	3,685.2	3,628.9

(g) Net debt

		2017 £million	2016 £million	2015 £million
Cash and deposits	A	155.1	113.3	86.1
Bank overdrafts		(6.8)	(11.1)	(15.5)
Bank loans		(388.6)	(165.0)	(170.0)
US Private Placement Loans		(258.9)	(284.4)	(236.1)
		(654.3)	(460.5)	(421.6)
Finance leases		(3.4)	(4.4)	(2.2)
Total borrowings	B	(657.7)	(464.9)	(423.8)
Per balance sheet	A+B	(502.6)	(351.6)	(337.7)
less: Impact of hedges on US Private Placement loan notes		-	77.2	28.9
Net debt		(502.6)	(274.4)	(308.8)

33. Events after the balance sheet date

Following the successful conclusion of our bank renegotiations in April 2018, and expiry of the £37.5 million of short-term facilities, the Group has arranged access to committed borrowing facilities of £834 million which are considered adequate to satisfy the ongoing liquidity demands of the Group (see note 20).

Company balance sheet
at 31 December 2017

	Notes	2017 £million	2016 £million
Fixed assets			
Tangible assets	E	13.7	10.2
Investments in subsidiaries	F	462.9	462.9
Investments in associates	G	2.7	2.7
Other investments	H	0.3	0.3
		479.6	476.1
Current assets			
Debtors:			
Due within one year	I	12.2	114.5
Due after one year	I	9.6	7.5
Cash at bank and in hand		166.8	5.3
		188.6	127.3
Creditors: amounts falling due within one year	J	(152.5)	(37.4)
Net current (liabilities)/assets		36.1	89.9
Total assets less current liabilities		515.7	566.0
Creditors: amounts falling due after more than one year	K	(3.9)	(4.8)
Retirement benefit obligation	L	(38.5)	(39.5)
Provisions for liabilities	M	(33.6)	(15.9)
Net assets		439.7	505.8
Capital and reserves			
Called-up share capital	O	14.6	14.6
Share premium account		116.5	116.5
Capital redemption reserve		0.1	0.1
Merger reserve		180.9	180.9
Profit and loss account		127.6	193.7
Total shareholders' funds		439.7	505.8

Interserve Plc reported a loss after taxation for the financial year ended 31 December 2017 of £69.2 million (2016: profit of £34.1 million).

The financial statements of Interserve Plc (registered number 00088456) were approved by the Board of Directors on 27 April 2018.

Signed on behalf of the Board of Directors

D J White
Director

M A Whiteling
Director

Company statement of changes in equity

for the year ended 31 December 2017

	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 2016	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	-	-	-	-	-	-
Deferred tax on items taken directly to equity	-	-	-	-	-	-
Company shares used to settle share-based payments	-	-	-	-	-	-
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
Profit for the year	-	(69.3)	-	-	-	(69.3)
Other comprehensive income for the year	-	0.8	-	-	-	0.8
Total comprehensive income for the year	-	(68.5)	-	-	-	(68.5)
Issue of share capital	-	-	-	-	-	-
Dividends	-	-	-	-	-	-
Fair value adjustment	-	-	-	-	-	-
Investment in own shares	-	-	-	-	-	-
Deferred tax on items taken directly to equity	-	-	-	-	-	-
Company shares used to settle share-based payments	-	-	-	-	-	-
Share-based payments	-	2.4	-	-	-	2.4
Transactions with owners	-	2.4	-	-	-	2.4
Balance as at 31 December 2017	14.6	127.6	116.5	0.1	180.9	439.7

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 2017

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 51 of the Group's consolidated financial statements.

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 2017. 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 Group's consolidated financial statements in notes 1 to 33.

Adoption of new and revised standards
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. A more detailed review of going concern can be found in the Group's consolidated financial statements on page 44.

(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.

(h) Impairment of investments

Investments are assessed for indicators at each balance sheet date. The investment is impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, the estimated future cash flows of the investment have been affected.

Notes to the Company financial statements continued
for the year ended 31 December 2017

A) Accounting policies continued

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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 Group's consolidated financial statements 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 2017

A) Accounting policies continued

(n) 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 (2016: £462.9 million) with £nil (2016: £nil) of impairment losses recognised in 2017.

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 loss after taxation for the financial year ended 31 December 2017 of £69.2 million (2016: profit of £34.1 million).

The auditors' remuneration for audit services to the Company was £0.4 million (2016: £0.2 million).

C) Employees

The costs incurred in respect of these employees were:

	2017 £million	2016 £million
Wages and salaries	17.4	17.0
Social security costs	2.1	1.7
Share-based payments	1.4	(0.8)
Pension costs	1.3	1.1
	22.2	19.0

	2017 £million	2016 £million
Share-based payments to employees of the Company	1.4	(0.8)
Share-based payments to employees of subsidiaries	0.7	0.6
Group share-based payment charge	2.1	(0.2)
Cash-settled	(0.3)	0.2
Equity-settled	2.4	(0.4)
Group share-based payment charge	2.1	(0.2)

The average number of persons employed, being full-time equivalents, by the Company during the year, including directors, was 345 (2016: 300).

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's consolidated financial statements on pages 173 to 175.

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 70 to 99 and should be regarded as an integral part of this note.

D) Dividends

	2017 £million	2016 £million
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2016 of nil (2015: 16.4p) per share	-	23.7
Interim dividend for the year ended 31 December 2017 of nil (2016: 8.1p) per share	-	11.8
	-	35.5

The directors do not recommend the payment of a final dividend for the year ended 31 December 2017.

Notes to the Company financial statements continued

for the year ended 31 December 2017

E) Tangible fixed assets

(a) Movement during the year

	Land and buildings £million	Computers £million	Other £million	Total £million
Cost				
At 1 January 2017	5.8	10.1	1.0	16.9
Additions	8.0	8.1	-	16.1
Impairment	(0.5)	(13.4)	-	(13.9)
Disposals	(0.7)	(0.1)	-	(0.8)
At 31 December 2017	12.6	4.7	1.0	18.3
Depreciation				
At 1 January 2017	2.7	3.4	0.6	6.7
Charge in year	0.1	2.9	0.1	3.1
Impairment	-	(4.8)	-	(4.8)
Disposals	(0.3)	(0.1)	-	(0.4)
At 31 December 2017	2.5	1.4	0.7	4.6
Net book value				
At 31 December 2017	10.1	3.3	0.3	13.7
At 31 December 2016	3.1	6.7	0.4	10.2

(b) Land and buildings

	2017 £million	2016 £million
Net book value of land and buildings		
Freehold:		
Land at cost	1.3	1.3
Buildings at cost less depreciation	0.2	1.1
	1.5	2.4
Leaseholds over 50 years at cost less depreciation	8.6	0.7
	10.1	3.1

Further information on the impairment of computers can be found in notes 5 and 14 to the Group's consolidated financial statements.

(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	
	2017 £million	2016 £million	2017 £million	2016 £million
Within one year	1.3	1.2	0.1	0.2
Between two to five years	3.7	3.6	-	0.2
After five years	3.9	5.1	-	-
	8.9	9.9	0.1	0.4

F) Investments in subsidiaries

	£million
Cost	
At 1 January 2017	477.4
Additions	-
Disposals	-
At 31 December 2017	477.4
Provisions	
At 1 January 2017	14.5
Additions	-
Disposals	-
At 31 December 2017	14.5
Carrying value	
At 31 December 2017	462.9
At 31 December 2016	462.9

Details of the Company's subsidiaries at 31 December 2017 are given on pages 201 to 205, 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 2017

G) Investments in associates

	£million
Cost	
At 1 January 2017	2.7
Additions	-
Disposals	-
At 31 December 2017	2.7
Provisions	
At 1 January 2017	-
Additions	-
Disposals	-
At 31 December 2017	-
Carrying value	
At 31 December 2017	2.7
At 31 December 2016	2.7

The Company's direct associate at 31 December 2017 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

	2017 £million	2016 £million
Bonds	0.3	0.3

I) Debtors

	2017 £million	2016 £million
Amounts falling due within one year:		
Trade debtors	0.5	0.2
Amounts owed by Group undertakings	7.6	95.7
Corporation tax	0.9	11.4
Prepayments and accrued income	3.2	7.2
	12.2	114.5
Amounts falling due after more than one year:		
Deferred taxation (note N)	9.6	7.5
	9.6	7.5

J) Creditors: amounts falling due within one year

	2017 £million	2016 £million
Bank loans and overdrafts	-	14.5
Trade creditors	2.2	2.6
Amounts owed to Group undertakings	99.7	4.6
Other taxation and social security	34.1	1.1
Other creditors	6.1	5.7
Accruals and deferred income	10.4	8.9
	152.5	37.4

K) Creditors: amounts falling due after one year

	2017 £million	2016 £million
Other creditors	3.9	4.8
Deferred tax (note N)	-	-
	3.9	4.8

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 2017.

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 Interserve Pension Scheme comprises two segregated sections (referred to as the Interserve and Landmarc sections), with assets and liabilities ring-fenced. 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.

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 2017

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.

	2017	2016	2015
Significant actuarial assumptions			
Retail price inflation (pa)	3.2%	3.3%	3.1%
Discount rate (pa)	2.5%	2.8%	3.8%
Post-retirement mortality (expectancy of life in years)			
Male currently aged 65	87.7	87.6	87.6
Female currently aged 65	89.6	89.5	89.4
Male aged 65 in 20 years' time	89.5	89.4	89.3
Female aged 65 in 20 years' time	91.0	91.0	90.9
Other related actuarial assumptions			
Consumer price index price inflation (pa)	2.2%	2.3%	2.1%
Pension increase assumptions (pa)			
Retail price inflation	3.2%	3.3%	3.1%
5% LPI	3.1%	3.1%	3.0%
Fixed 5%	5.0%	5.0%	5.0%
3% or RPI if higher (capped at 5%)	3.7%	3.7%	3.6%
General salary increases (pa)	2.7%	2.8%	2.6%

The amount included in the balance sheet arising from the Company's obligations in respect of the pension scheme is as follows:

	2017 £million	2016 £million	2015 £million
Present value of defined benefit obligation	967.2	950.8	807.2
Fair value of scheme's assets	(928.7)	(911.3)	(822.4)
Net (asset)/liability in balance sheet	38.5	39.5	(15.2)

The change in net liabilities recognised in the balance sheet is comprised as follows:

	2017 £million	2016 £million
Opening net asset	39.5	(15.2)
Expense charged to profit and loss	5.4	0.4
Amount recognised outside profit and loss	13.4	74.7
Employer contributions	(19.8)	(20.4)
Closing net (asset)/liability	38.5	39.5

	Sensitivity	Indicative change in defined benefit obligation 2017 £million	2016 £million
Price inflation	+0.5% pa	+58	+56
Discount rate	+0.5% pa	-76	-76
Post-retirement mortality (expectancy of life in years)	1 year increase	+32	+31

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:

	2017 £million	2016 £million
Employer's part of current service cost	3.0	3.1
Net interest on the net pension liability/(asset)	0.8	(0.9)
Administration costs	1.6	0.9
Past service cost/(credit)	-	(2.6)
Loss/gain on settlements	-	(0.1)
Total expense recognised in the profit and loss	5.4	0.4

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:

	2017		2016		2015	
	Current allocation	Fair value £million	Current allocation	Fair value £million	Current allocation	Fair value £million
Equities (quoted)	28%	260.2	26%	238.1	22%	178.2
Alternative investments (primarily unquoted)	19%	179.9	17%	156.3	15%	128.1
Property (unquoted)	0%	-	0%	-	2%	19.4
Liability Driven Investment ("LDI") (unquoted)	13%	124.0	13%	117.7	0%	-
Insurance policies (unquoted)	34%	317.5	37%	342.9	41%	336.0
Government bonds (quoted)	0%	-	0%	-	13%	105.3
Corporate bonds (quoted)	0%	-	0%	-	0%	-
Infrastructure (unquoted)	5%	44.2	6%	51.5	6%	50.9
Cash and other (primarily unquoted)	1%	2.9	1%	4.8	1%	4.5
Total	100%	928.7	100%	911.3	100%	822.4

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 31% 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 2017. The policy covers a further circa £9 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 2017

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.

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

	2017 £million	2016 £million
Opening defined benefit obligation	950.8	807.2
Employer's part of current service cost	3.0	3.1
Interest cost	26.0	30.0
Contributions by schemes' participants	0.2	0.3
Actuarial loss/(gain) due to:		
Changes in financial assumptions	35.8	158.8
Changes in demographic assumptions	-	-
Experience on defined benefit obligations	(7.1)	(9.4)
Benefits paid	(41.5)	(35.8)
Past service cost/(credit)	-	(2.6)
Curtailments and settlements	-	(0.8)
Bulk transfers	-	-
Closing defined benefit obligation	967.2	950.8

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

	2017 £million	2016 £million
Opening fair value of the schemes' assets	911.3	822.4
Interest on schemes' assets	25.2	30.9
Actual return on schemes' assets less interest on schemes' assets	15.3	74.7
Contributions by the employer	19.8	20.4
Contributions by schemes' participants	0.2	0.3
Benefits paid	(1.6)	(0.9)
Administration costs	(41.5)	(35.8)
Curtailments and settlements	-	(0.7)
Bulk transfers	-	-
Closing fair value of the schemes' assets	928.7	911.3

A triennial actuarial valuation of the Interserve Pension Scheme is underway, with an effective date of 31 December 2017. The future contribution rates will be determined in the light of this actuarial valuation. Based on current contribution rates and payroll, the Company expects to contribute £17.9 million to the Interserve Pension Scheme during 2018. This includes £14.1 million of deficit contributions.

M) Provisions for liabilities

	2017 £million			2016 £million		
	Insurance	Other	Total	Insurance	Other	Total
At 1 January	(15.9)	-	(15.9)	(11.6)	-	(11.6)
Charged to the profit and loss account	(1.4)	(16.3)	(17.7)	(4.3)	-	(4.3)
Charged to other comprehensive income	-	-	-	-	-	-
Released unused	-	-	-	-	-	-
Utilisation of provision	-	-	-	-	-	-
At 31 December	(17.3)	(16.3)	(33.6)	(15.9)	-	(15.9)

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.

Other includes dilapidation and onerous lease costs for exiting a number of properties. Further information on the onerous lease and dilapidation provision can be found in note 5 to the Group's consolidated financial statements.

N) Deferred taxation asset

	Accelerated tax depreciation £million	Retirement benefit obligation £million	Share-based payments £million	Other £million	Total £million
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 1 January 2017	0.5	6.7	0.1	0.2	7.5
Charge/(credit) to the profit and loss	2.1	0.9	(0.1)	0.3	3.2
Charge to other comprehensive income	-	(1.1)	-	-	(1.1)
Charge direct to equity	-	-	-	-	-
Effect of change in tax rate:					
- profit and loss	-	-	-	-	-
- equity	-	-	-	-	-
At 31 December 2017	2.6	6.5	-	0.5	9.6

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.

	2017 £million	2016 £million
Deferred tax liabilities (note K)	-	-
Deferred tax assets (note I)	9.6	7.5
	9.6	7.5

Deferred tax is calculated at 17% (2016: 17%).

Notes to the Company financial statements continued

for the year ended 31 December 2017

O) Share capital

	2017 £million	2016 £million
Authorised		
Ordinary shares of 10p each	Unlimited	Unlimited
Allotted, called-up and fully paid		
Ordinary shares of 10p each		
At 1 January	14.6	14.5
Issued on exercise of share options	-	0.1
At 31 December	14.6	14.6

Awards were granted during the year as indicated in note 26 to the Group's consolidated financial statements.

P) Contingent liabilities

At 31 December 2017, 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 2017, these amounted to £4.3 million (2016: £2.1 million). The Company has provided a guarantee to the Interserve Pension Scheme for future contributions due from subsidiary undertakings amounting to £250.0 million (2016: £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 £18.8 million (2016: £14.6 million) in respect of borrowings and £187.5 million (2016: £241.5 million) in respect of guarantees. At 31 December 2017, £1.7 million (2016: £nil) had been utilised in borrowings and £108.1 million (2016: £149.3 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 2017, 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 statements 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 Holdings Ltd	Holding company	100.0%
ESG Intermediate Holdings Ltd	Holding company	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%
ILE Corporate Services Ltd	Central support to fellow subsidiary companies	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	Operational and financial services to PFI/PPP projects	100.0%
Interserve Learning & Employment (Services) Ltd	Vocational training services	100.0%
Interserve Service Futures Holdings Ltd	Holding company	100.0%
Interserve Service Futures Ltd	Holding company	100.0%
Interserve Strategic Partnerships Ltd	Dormant 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%
Modus FM Ltd[2]	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%
Ruscombe Ltd[3]	Dormant company	100.0%
Sencia Ltd[1]	Training and employment services	100.0%
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%

Related undertakings continued

Subsidiary undertakings continued	Principal activity	Group holding
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%
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	Contract cleaning	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	Non-trading 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[10]	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 Project Services Ltd	International contracting services and supplies	100.0%
Interserve Security (Fire & Electronics) Ltd	Dormant company	100.0%
Interserve Security (First) Ltd[11]	Security manpower and associated support services	100.0%
Interserve Security (Knightsbridge) Ltd	Manned guarding security services	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	Dormant company	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[21]	Strike off requested	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%
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%
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%

Subsidiary undertakings continued	Principal activity	Group holding
England and Wales: 395 George Road, Erdington, Birmingham, West Midlands B23 7RZ (changed post-year-end to Ingenuity House, Elmdon Trading Estate, Bickenhill Lane, Birmingham B37 7HQ)		
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: Rua da Tobis Portuguesa, 8 Esc 11, 1750-292 Lisboa		
RMD Kwikform Ibérica – Cofragens e Construções Metálicas, Unipessoal, Lda[22]	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	Support services for integration of disabled people into cleaning contracts	100.0%
Spain: Calle Juan Ignacio Luca de Tena 8, Madrid 28027		
Interserve Facilities Services, SA	Holding company	100.0%
Translimp Contract Services, SA	Support services for transport sector	100.0%
Spain: Avenida de Europa, 19 – Ed 2 – 2o D, Pozuelo de Alarcon, Madrid 28224		
RMD Kwikform Ibérica, SA[22]	Equipment hire and sales	95.0%
The Indium Division Company, SL[22]	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: 407-A6, Ansal Chamber – II, Bhikaji Cama Place, New Delhi 110066		
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 26982, 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	74.9%
Mauritius: 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: Office CoWork02, 1st Floor, Al Jaidah Square, Doha		
Interserve Engineering & Construction (MENA) LLC	Holding company	76.0%
State of Qatar: Building No.148, Zone No.40, Al Muntazah Street (next to Qatar Chamber of Commerce), PO Box 405, Doha		
RMD Kwikform (Al Maha) Qatar WLL[14]	Equipment hire and sales	49.0%
Sultanate of Oman: PO Box 1639, Hay Al-Mina, Muscat, Postal Code 114		
Interserve Oman LLC[15]	Facilities management	70.0%
Sultanate of Oman: Post Box No:152, PC Code:103, Building No:308-A, Way No:48, Al Azaiba, Muscat		
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, procurement and construction works and maintenance services for oil and gas industry	49.0%

Related undertakings continued

Subsidiary undertakings continued	**Principal activity**	**Group holding**
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: Office 102-103 Khansaheb Building, Jamal Abdul Nasser Street, Al Majaz, Sharjah		
RMD Kwikform Middle East LLC[19]	Equipment hire and sales	49.0%
United Arab Emirates: Office No.W705, 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		
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		
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	Non-trading company	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: 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	Non-trading company	100.0%
Republic of Panama: Calle A, Km 1.0 desde Transitsmica, Villa Zaita, Panama City		
RMD Kwikform Panama, SA[22]	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 influence 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, redeemable ordinary and deferred shares.
[11] Ownership held in ordinary, deferred A and deferred B 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 influence 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 influence 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 influence 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 influence 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 influence and control over RMD Kwikform Oil & Gas Services LLC. It is therefore consolidated in the Group financial statements as a wholly-owned subsidiary undertaking.
[21] Dissolved post-year-end.
[22] Sold post-year-end.

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%
Kingdom of Saudi Arabia: PO Box 245555, Riyadh 11312		
Interserve Rezayat Company LLC	Building operation and maintenance, mechanical and industrial works	50.0%
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[6]	In liquidation	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%

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[3]	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[3]	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[3]	Hospital construction/operation	25.0%
Southampton CEDP Project Co Ltd	Hospital construction/operation	25.0%
Yeovil Estates Partnership LLP[3]	Hospital construction/operation	25.0%
England and Wales: Suite 2b and 2c, The Cunard Building, Water Street, Liverpool L3 1EL		
Public Services Lab LLP[3]	Public services lab to support charities, community groups and social enterprises	35.0%
England and Wales: Dunedin House, Auckland Park, Mount Farm, Milton Keynes, Buckinghamshire MK1 1BU		
Resource Recovery Solutions (Derbyshire) Holdings Ltd[5]	Holding company	50.0%
Resource Recovery Solutions (Derbyshire) Ltd	Construction/operation of new waste treatment facility	50.0%
Scotland: Interserve House, Almondview Business Park, Almondview, Livingston EH54 6SF		
Edinburgh Haymarket Developments Ltd[5]	Property development	50.0%
Seacole National Centre (Holding) Ltd[5]	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 No share capital.
4 Ownership held in ordinary A shares.
5 Ownership held in ordinary B shares.
6 Dissolved post-year-end.

Joint ventures[1]	Principal activity	Group holding
Incorporated in the United Kingdom		
England and Wales: Brunswick House, Hindley Green Business Park, Leigh Road, Hindley Green, 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 used to be part of the Group's former PFI portfolio and were transferred to the trustee of the Interserve Pension Scheme (Interserve Trustees Ltd) or Dalmore Capital. During the year, any remaining indirect interests held by Interserve Trustees Ltd in these entities were transferred to either another Group company or to 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	8.4%
Ashford Prison Services Ltd	Prison construction/operation	8.4%
Custodial Holdings (PA) Ltd[1]	Holding company	50.1%
Dudley Summit PLC	Investment company	16.7%
Falcon Support Services (Holdings) Ltd	Holding company	25.1%
Falcon Support Services Ltd	Construction/operation of MoD accommodation facilities	25.1%
ICB Holdings Ltd[2]	Holding company	10.0%
Interserve Developments No.10 Ltd	Holding company	50.1%
Interserve PFI 2003 Ltd	Holding company	50.1%
Interserve PFI Holdings Ltd[3]	Holding company	50.1%
Interserve PFI Holdings 2014 Ltd	Holding company	50.1%
Investors in the Community (Buxton) Ltd	Construction/operation of Health & Safety Laboratory	10.0%
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%
Newcastle (Healthcare Support) Ltd	Holding company	25.1%
Newcastle Holdco (Healthcare Support) Ltd[1]	Holding company	50.1%
Peterborough Prison Management Holdings Ltd	Holding company	8.4%
Peterborough Prison Management Ltd	Prison construction/operation	8.4%
PFI Custodial (Holdings) Ltd	Holding company	25.1%
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 (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%
Summit Healthcare (Dudley) Ltd	Hospital construction/operation	16.7%
Summit Holdings (Dudley) Ltd	Holding company	16.7%
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%
England and Wales: 8 White Oak Square, London Road, Swanley, Kent BR8 7AG		
Healthcare Support (Newcastle) Finance Plc	Investment company	5.0%
Healthcare Support (Newcastle) Holdings Ltd	Holding company	5.0%
Healthcare Support (Newcastle) Ltd	Hospital construction/operation	5.0%
Northern Ireland: Carnbane House, Shepherd's Way, Newry, Co Down BT35 6EE		
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%

Notes - other holdings

[1] Ownership held in ordinary A shares.

[2] Ownership held in ordinary B shares.

[3] Ownership held in an ordinary and a Special Rights share.

Five-year analysis
(unaudited)

	2017 £million	2016 £million	2015 £million	2014 £million	2013 £million
Revenue including share of associates and joint ventures					
Support Services - UK	1,687.5	1,718.1	1,881.5	1,786.0	1,292.5
Support Services - International	193.9	267.9	224.3	157.2	100.5
Support Services	1,881.4	1,986.0	2,105.8	1,943.2	1,393.0
Construction - UK	1,048.2	870.8	1,040.8	970.7	802.2
Construction - International	290.5	296.9	279.0	207.9	215.9
Construction	1,338.7	1,167.7	1,319.8	1,178.6	1,018.1
Equipment Services	229.0	224.1	211.0	195.5	169.6
Group Services	92.1	81.3	53.9	46.7	41.6
Inter-segment elimination	(12.0)	(50.1)	(61.6)	(58.7)	(40.4)
	3,529.2	3,409.0	3,628.9	3,305.3	2,581.9
Consolidated revenue					
Support Services - UK	1,670.7	1,694.7	1,834.4	1,679.9	1,196.6
Support Services - International	142.2	211.9	170.4	117.5	57.5
Support Services	1,812.9	1,906.6	2,004.8	1,797.4	1,254.1
Construction - UK	1,048.2	870.8	1,040.8	970.7	802.2
Construction - International	-	-	-	-	-
Construction	1,048.2	870.8	1,040.8	970.7	802.2
Equipment Services	229.0	224.1	211.0	195.5	169.6
Group Services	35.0	17.0	9.6	8.1	7.1
Inter-segment elimination	(12.0)	(50.1)	(61.6)	(58.7)	(40.4)
	3,113.1	2,968.4	3,204.6	2,913.0	2,192.6
Headline profit					
Support Services - UK	38.9	80.1	92.2	81.4	56.0
Support Services - International	2.8	9.4	8.2	7.4	4.1
Support Services	41.7	89.5	100.4	88.8	60.1
Construction - UK	(19.4)	25.2	10.7	15.4	14.7
Construction - International	19.2	16.9	13.0	10.8	13.1
Construction	(0.2)	42.1	23.7	26.2	27.8
Equipment Services	54.4	48.6	44.5	27.5	21.8
Group Services	(21.0)	(25.2)	(23.6)	(24.4)	(21.3)
Total operating profit	74.9	155.0	145.0	118.1	88.4
Investment revenue	5.9	5.6	4.7	5.0	3.6
Finance costs	(28.4)	(23.3)	(21.1)	(16.0)	(9.2)
	52.4	137.3	128.6	107.1	82.8
Earnings per share, pence					
Basic EPS	(176.0)	(71.2)	47.5	32.2	39.1
Headline EPS	29.0	84.5	75.6	59.4	49.1
Dividend per share, pence					
Interim	-	8.1	7.9	6.8	6.4
Final	-	-	16.4	16.4	14.1

	2017 £million	2016 £million	2015 £million	2014 £million	2013 £million
Balance sheet					
Intangible assets	427.4	514.0	520.2	544.4	286.6
Property, plant and equipment	228.6	250.4	218.1	194.7	155.9
Interests in joint ventures	46.5	41.6	40.9	42.7	20.6
Interests in associated undertakings	78.4	85.3	91.0	77.2	73.9
Retirement benefit surplus	-	-	17.2	-	-
Deferred tax asset	23.4	18.6	1.3	1.7	21.0
Non-current assets	804.3	909.9	888.7	860.7	558.0
Assets held for sale	-	-	-	-	-
Inventories	34.0	36.5	40.1	48.6	30.7
Trade and other receivables	722.0	724.4	774.9	679.4	486.1
Derivative financial instruments	-	67.1	25.1	-	-
Cash and deposits	155.1	113.3	86.1	82.1	79.7
Bank overdrafts and loans	(6.8)	(11.1)	(15.5)	(5.5)	(27.4)
Trade and other payables	(805.8)	(901.9)	(794.1)	(755.0)	(597.6)
Short-term provisions	(50.2)	(21.8)	(27.4)	(35.7)	(18.1)
Net current assets/(liabilities)	48.3	6.5	89.2	13.9	(46.6)
Bank loans	(647.5)	(449.4)	(406.1)	(362.8)	(90.0)
Trade and other payables	(14.5)	(16.6)	(15.9)	(14.8)	(13.5)
Long-term provisions	(80.0)	(42.9)	(43.3)	(33.5)	(29.9)
Retirement benefit obligation	(48.0)	(52.4)	-	(4.8)	(7.7)
Non-current liabilities	(790.0)	(561.3)	(465.3)	(415.9)	(141.1)
Net assets	62.6	355.1	512.6	458.7	370.3
Cash flow					
Operating cash flows before movements in working capital	(111.3)	(61.2)	112.0	94.5	74.7
Movement in working capital	(37.0)	165.8	(51.7)	(53.3)	(19.7)
Changes in hire fleet	12.4	(9.3)	(21.6)	(30.3)	(11.8)
Taxes paid	(8.6)	(10.2)	(6.8)	(10.2)	(5.7)
Net cash from operating activities	(144.5)	85.1	31.9	0.7	37.5
Acquisitions and investments	(32.0)	(9.8)	(6.6)	(253.8)	(59.9)
Net capital expenditure - non-hire fleet	(37.7)	(29.7)	(29.6)	(24.0)	(21.9)
Dividends from joint ventures and associates	17.2	34.1	13.6	17.8	13.7
Interest received	5.9	4.5	4.4	4.7	3.5
Net cash used in investing activities	(46.6)	(0.9)	(18.2)	(255.3)	(64.6)
Interest paid	(27.3)	(23.3)	(21.1)	(16.0)	(7.8)
Dividends paid	-	(37.1)	(34.7)	(34.4)	(29.1)
Other (including share issues)	44.1	(0.3)	2.1	73.9	0.6
Net cash used in financing activities excluding debt	16.8	(60.7)	(53.7)	23.5	(36.3)
Effect of foreign exchange	(53.9)	10.9	0.1	0.8	(1.0)
Movement in net debt	(228.2)	34.4	(39.9)	(230.3)	(64.4)
Closing net cash/(debt)	(502.6)	(274.4)	(308.8)	(268.9)	(38.6)

Shareholder information

Financial calendar 2018

Final results announcement for the year ended 31 December 2017	30 April 2018
Annual General Meeting	12 June 2018
Half-year results announcement for the six months ended 30 June 2018	August 2018

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 2017	95.50p
Lowest for the year ended 31 December 2017	63.00p
Highest for year ended 31 December 2017	352.75p

The current price of the Company's shares is available on the Company's website at *www.interserve.com*.

Analysis of registered shareholdings

	Holders		Shares	
	Number	%	Number	%
Notifiable interests	6	0.14	88,525,136	60.75
Banks, institutions and nominees	702	16.28	46,261,523	31.75
Private shareholders	3,604	83.58	10,927,461	7.50
Total as at 27 April 2018	4,312	100.00	145,714,120	100.00

Shareholder services

Link Asset Services (Link) is our Registrar. Link offer many services to make managing your shareholding easier and more efficient:

(a) Share Portal

Signal Shares 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.signalshares.com*. All you need is your investor code, which can be found on your share certificate or your dividend tax voucher.

(b) Shareholder Support Centre

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

By email: enquiries@linkgroup.co.uk
By phone: +44 (0)371 664 0300 (lines are open 9.00am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales)
By post: Shareholder Administration, Link Asset Services, 34 Beckenham Road, Beckenham, Kent BR3 4TU

(c) Sign up to electronic communications

By signing up to receive your shareholder communications by email, you will help us to save paper and receive your shareholder information quickly and securely. Registering for electronic communications is very straightforward. Just visit *www.signalshares.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 Link Asset Services Share Dealing. 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.linksharedeal.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.

Link Asset Services is a trading name of Link Market Services Limited and Link Market Services Trustees Limited. Share registration and associated services are provided by Link Market Services Limited (registered in England and Wales, No.2605568). Regulated services are provided by Link Market Services Trustees Limited (registered in England and Wales No.2729260), which is authorised and regulated by the Financial Conduct Authority. Not all share plan activity is regulated. 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, Link 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 27 April 2018, 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 *https://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

FSC
www.fsc.org
RECYCLED
Paper made from recycled material
FSC® C016486

This Annual Report was printed in the UK by CPI Colour Limited, using vegetable based inks. The printer and paper mill are accredited with ISO 14001 Environmental Management Systems and are Forest Stewardship Council® chain-of-custody registered. The paper is 100% recycled, produced from de-linked post consumer waste. The silk laminate used on the outer cover is bio-degradable.

Designed and produced by emperor
Visit us at emperor.works

REGISTERED OFFICE

Interserve Plc
Interserve House Ruscombe Park Twyford
Reading Berkshire RG10 9JU

T. +44 (0)118 932 0123 **F.** +44 (0)118 932 0206

E. info@interserve.com

www.interserve.com